

QSEHRA Annual Report

Trends of the Qualified Small Employer HRA

Growing in Popularity

The Qualified Small Employer HRA (QSEHRA) has been steadily gaining traction with small employers since its inception in 2017. In just three short years, we have seen the demand for this benefit surge as small employers across the country increasingly look for ways to recruit and retain their talent without the entanglements of a traditional group plan.



This 2019 QSEHRA report analyzes the current trends in an effort to help small employers understand how other businesses are benefitting from this powerful HRA. In this report, you'll find answers to the most common questions we hear regarding QSEHRA.

In 2019 alone, our clients offered their employees nearly \$12 Million in benefits through a QSEHRA.

Questions addressed in this report

- ✓ How does QSEHRA work?
- ✓ Where are the employers using QSEHRA located?
- ✓ What types of companies use QSEHRA?
- ✓ What are the most common QSEHRA plan designs?
- ✓ What is the average employer size?
- ✓ What types of insurance do most employees choose when offered a QSEHRA?

2019 QSEHRA Annual Report

How does QSEHRA work?

Overview

QSEHRA is specifically designed for employers with fewer than 50 full-time employees who do not have a group health plan. Rather than finding a one-size-fits-all group plan, employers reimburse employees tax-free for individual health insurance plans of their choosing by setting up a QSEHRA. The employer first designs their QSEHRA plan then employees buy their own individual insurance on the open market. Afterwards, employees submit proof of insurance and claims to their employee portal through Take Command Health for reimbursement from employer.

The employer benefits from a predictable and budget-friendly solution for their employees' health insurance, and the employees benefit by choosing an individual plan that is perfect for their needs.

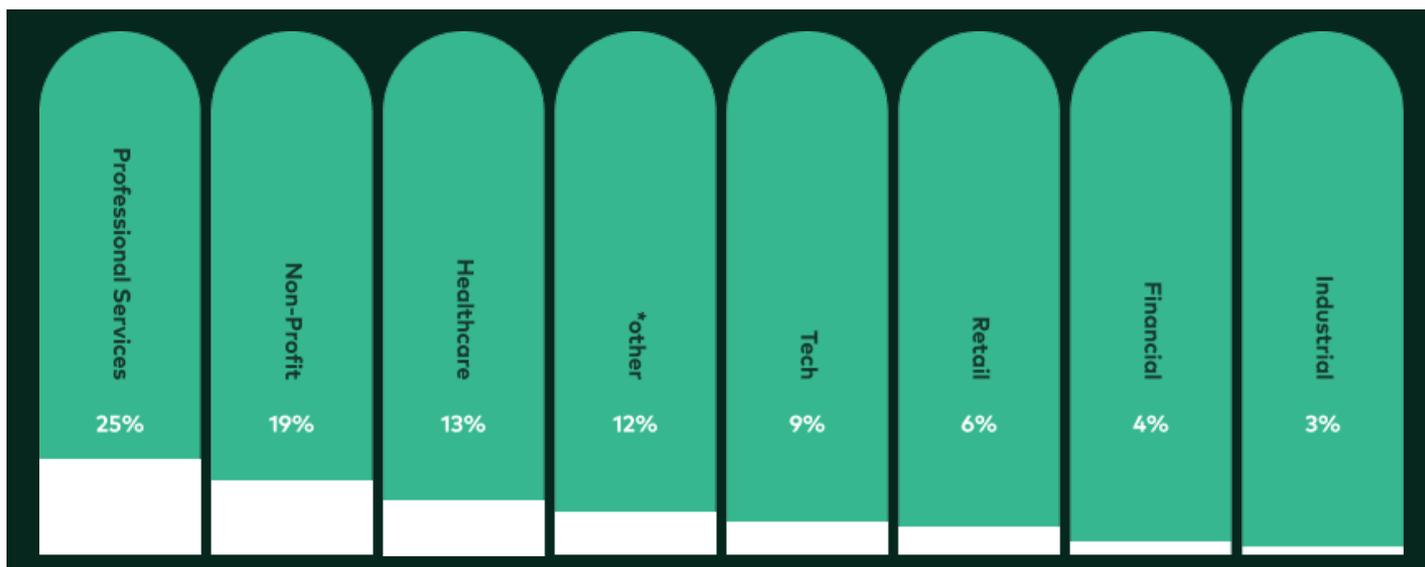
Are some industries better poised for QSEHRA?

We hear this question a lot from prospective clients. While we have seen some industries take off with QSEHRA adoption, the reality is that any industry can benefit. Several industries, however, have emerged as leaders in QSEHRA adoption as we analyze our data.

Industry Breakdown

Leading industries include: professional services, associations and nonprofits, healthcare providers and services, tech (including startups), and financial services. Here is the complete industry breakdown:

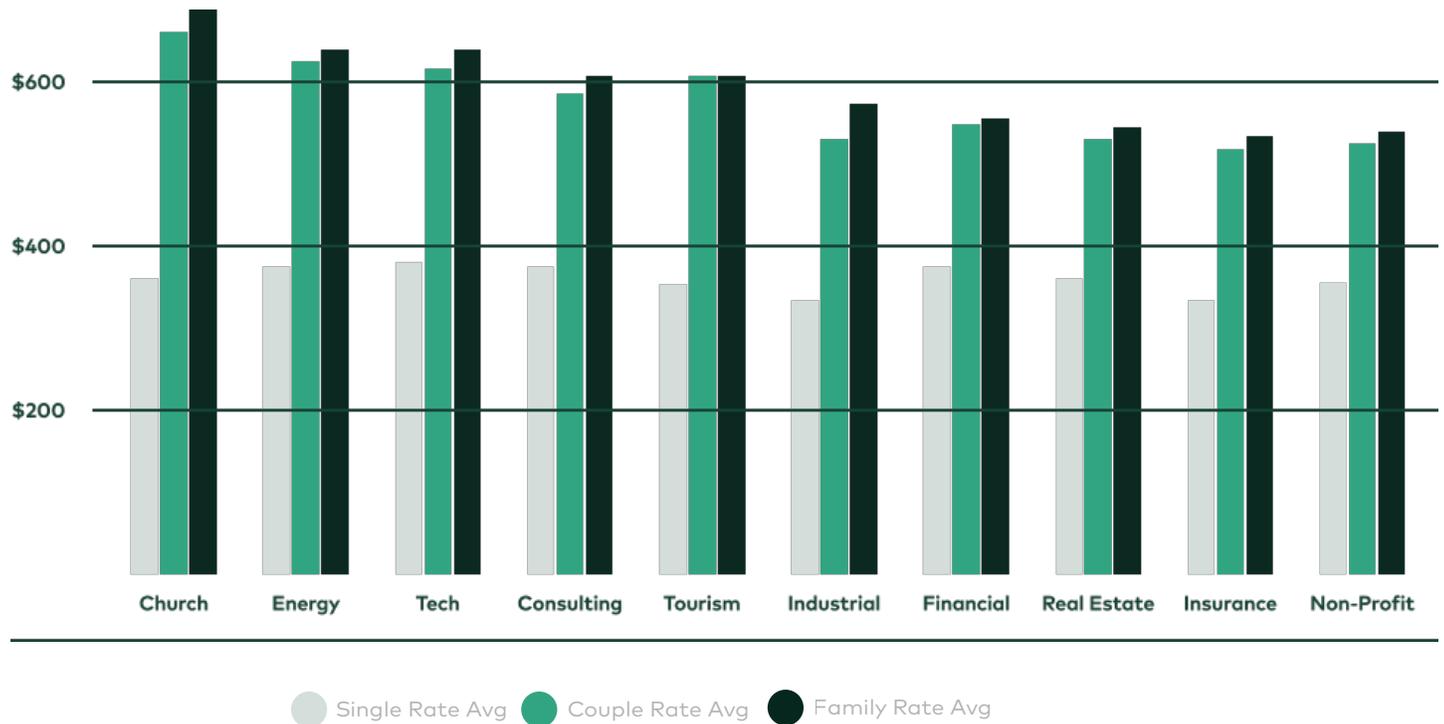
[*Includes: Other/Unknown, Veterinarian/Pet Services, Sports, Government/Municipality, Recruiting/Staffing, Energy, Insurance, Farm/Agriculture, Tourism, Education, & Beauty]



2019 QSEHRA Annual Report

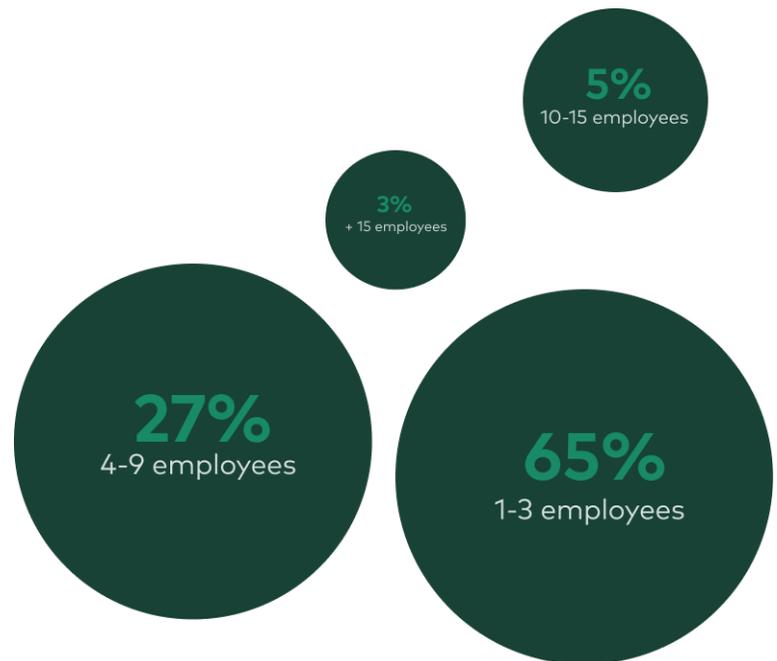
Contribution rate trends by industry

To help paint a picture of how different types of businesses are using their QSEHRA, it's important to look at how contribution rates vary across the board. Some industries are more generous than others, however, keep in mind QSEHRA has maximum contribution limits that employers must maintain annually. Here are the top 10 industries using QSEHRA:



What is the average employer size?

In 2019, our QSEHRA clients ranged in size from 1-36 employees, with the average client having 4 employees.



Pro-Tip: QSEHRAs are most successful when employers are invested in the process of introducing the new benefit to their employees.

2019 QSEHRA Annual Report

Where are employers using QSEHRA?

QSEHRA is a national benefit solution and over the years we have seen our client portfolio expand to cover the contiguous 48 states, D.C, and Alaska.

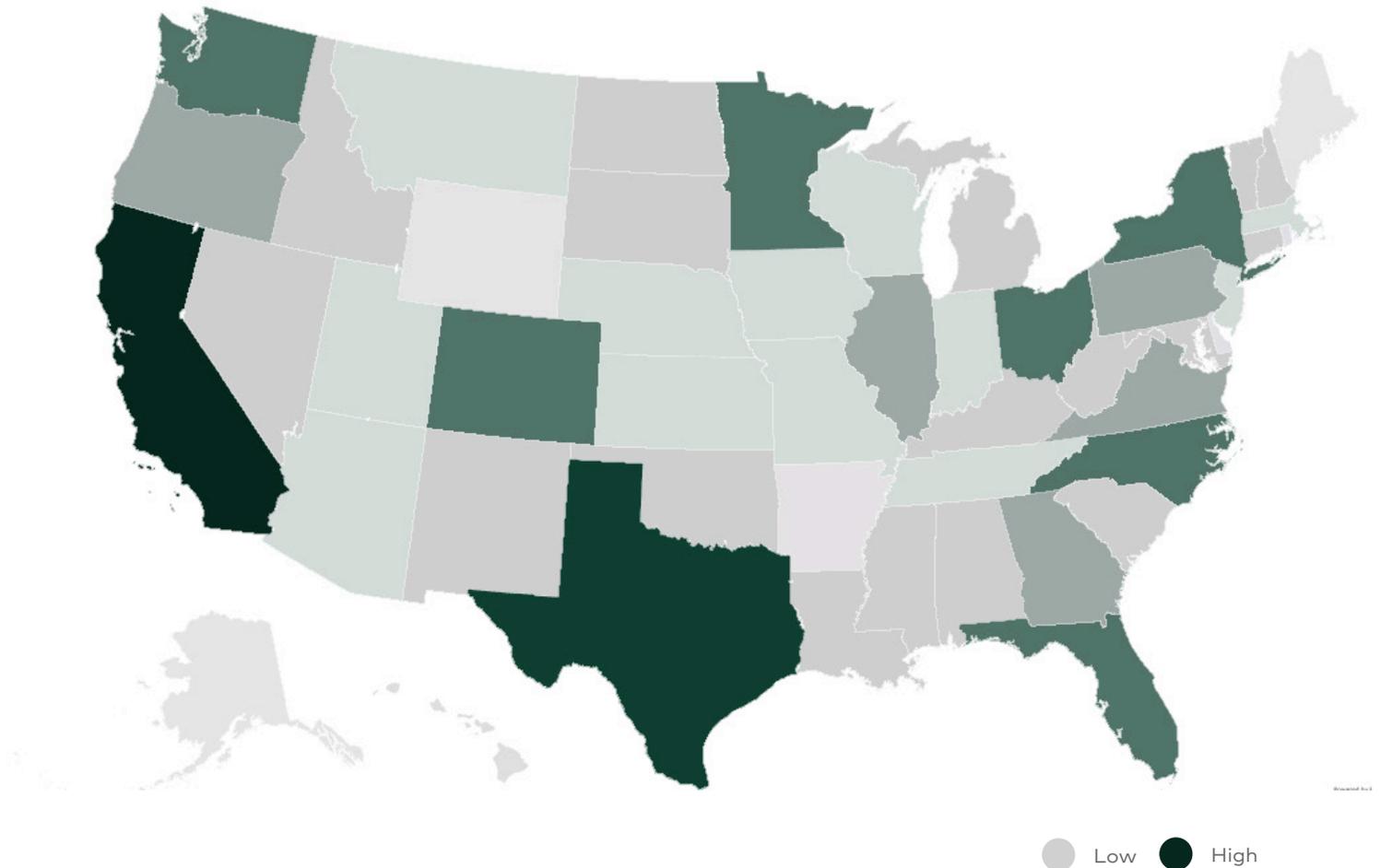
Top 5 States in 2019

1. California
2. Texas
3. North Carolina
4. New York
5. Florida



Pro-Tip: Keep in mind, employees are required to have insurance that meets Minimum Essential Coverage (MEC) to participate which can be secured in a variety of ways.

Adoption Rates Among States



What was the most common plan design?

Pro-Tip: While QSEHRA plans have to be offered fairly to all employees, there are certain levers employers can pull to control their budget, like what they choose to reimburse.

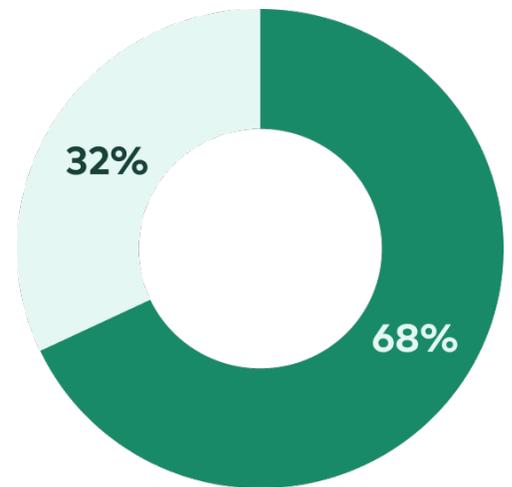
Designed for a diverse workforce, QSEHRAs allow small employers the flexibility to accommodate their unique needs and employee makeup. For example, when employers choose to implement a defined contribution style of benefits like QSEHRA, they have the option



to determine which employees will be eligible to participate as well as how much each participating employee can claim for reimbursements, as long as the benefit is offered fairly to employees. For more details on designing QSEHRA plans, read our comprehensive QSEHRA guide linked on the last page.

PREMIUMS vs. PREMIUMS + EXPENSES

When it comes to plan design, employers have two options: reimburse premiums only or reimburse premiums and additional medical expenses. 68% of QSEHRA plans reimburse premiums only. This allows the employer to have a predictable reimbursement amount each month as premiums tend to stay constant for the year unless there has been a change in family status or plans. 32% of employers have opened their plans to include eligible medical expenses or allow for post-tax reimbursements for sharing plans or spouse group plans.



● Premiums Only ● Premiums + Medical Expenses

AVERAGE ALLOWANCE

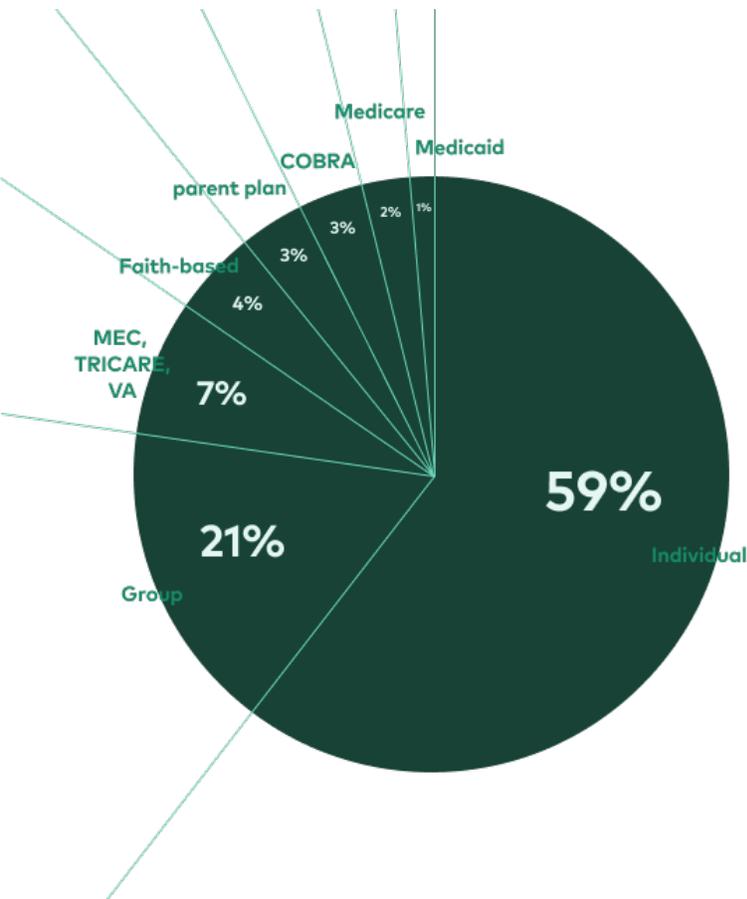
Annual contribution limits for QSEHRA have gone up each year and will continue to rise as rates are tied to inflation. Here's how our clients' average reimbursement rates compared to the limit set forth by the IRS. The average monthly reimbursement is \$332.58 for singles/ \$491.72 for couples and \$505.52 for families.

	Single	Family
IRS Maximum Limit/Mo	\$429.00	\$870.00
TCH Average Amount/Mo	\$332.58	\$505.52

2019 QSEHRA Annual Report

ADDITIONAL ALLOWANCE NOTES

There was a wide range of what employers offered; we saw one employer offer everyone \$25/month while others chose the max rates for employees. And while there is no minimum contribution amount required to set up a QSEHRA account, we do recommend employers consider setting an amount that employees will appreciate and benefit from. This is, after all, a retention strategy!



What types of insurance coverage do QSEHRA plan participants choose?

Most of the small employers that we have worked with were originally worried that if they move to a defined contribution model, their employees would not have access to major medical health insurance plans. While the fear of moving away from the traditional model of health insurance is common, employers can rest assured that employees will have access to major medical plans (in some cases, the same plan they received via group insurance) through

A note about sharing ministries...

While faith-based sharing ministry options are affordable alternatives to insurance, they actually do not qualify for reimbursement through QSEHRA as they are not classified as insurance. Employees have the option to couple their sharing ministry with a supplemental MEC (Minimum Essential Coverage) plan to meet the QSEHRA participation requirement. The sharing plan premium can then be reimbursed post-tax

the various

2019 QSEHRA Annual Report

individual marketplaces. In the past, if an individual found themselves shopping for health plans outside of open enrollment, they could be left with very few options. As of Jan 1, 2020, newly eligible QSEHRA participants qualify for a special enrollment period, giving them a 60 day window to shop for a qualified plan through the marketplace. This makes adopting a new QSEHRA plan even easier for employers.

Pro-Tip: There are proposed regulatory changes for 2021 that might affect how QSEHRAs work with sharing plans.



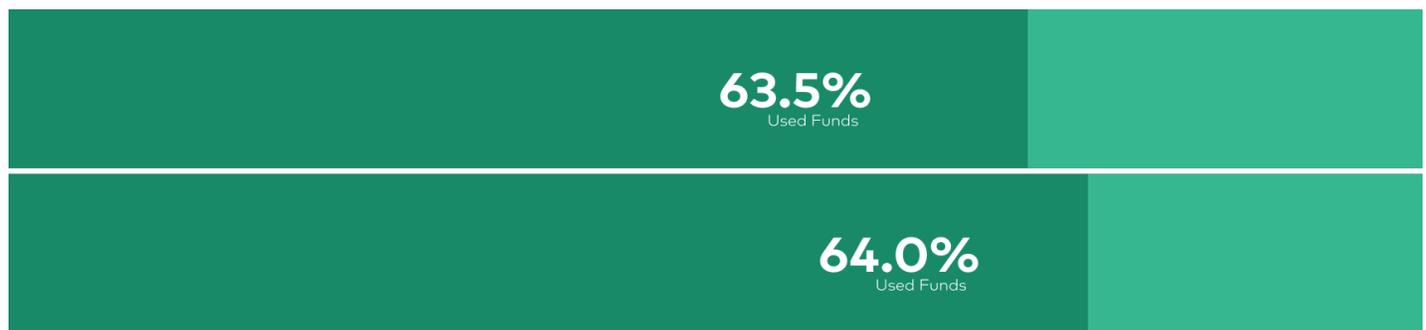
In order to be eligible for reimbursement through a QSEHRA, employees must be enrolled in a plan that meets Minimum Essential Coverage (MEC)—which the vast majority of plans qualify. This includes (but isn't limited to) individual plans purchased from the marketplace, Medicare, spouse group plans, COBRA, and even Tricare.

Utilization Rates

What did QSEHRAs actually cost employers?

The big concern for employers is how much this benefit is going to cost them. We recommend employers budget for their employees to use 100% of their QSEHRA benefit, however, in reality it is highly unlikely that that will happen. With QSEHRA, employers only reimburse employees for their actual expenses including premiums. We found in 2019 that employees on average only used about 64% of their offered benefit amount. Remember, unused funds stay with the employer. Here's how it looks broken down.

PREMIUM ONLY vs. PREMIUM + EXPENSES



2019 QSEHRA Annual Report

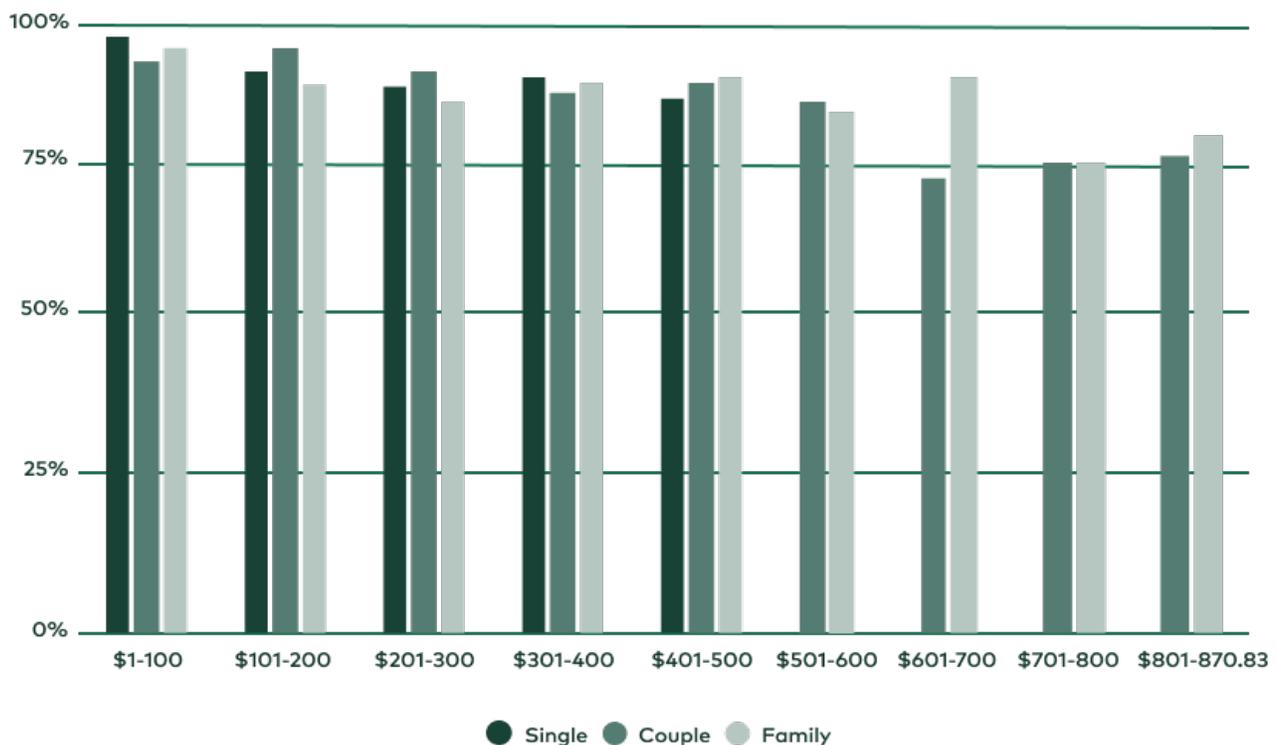
The percentage of amount claimed does depend on amount offered, age of employee, and size of family. As you can expect, claims increase as age and family size increase. We were surprised to see that the utilization rate remained constant between plan design options for our clients.

How does the utilization rate vary based on family status?

Predictably, as the monthly allowance increases, the utilization rate (amount claim) decreases.

However, there are still some fluctuations in certain groups including the family group which has great variance amongst allowances.

UTILIZATION BY CLASS



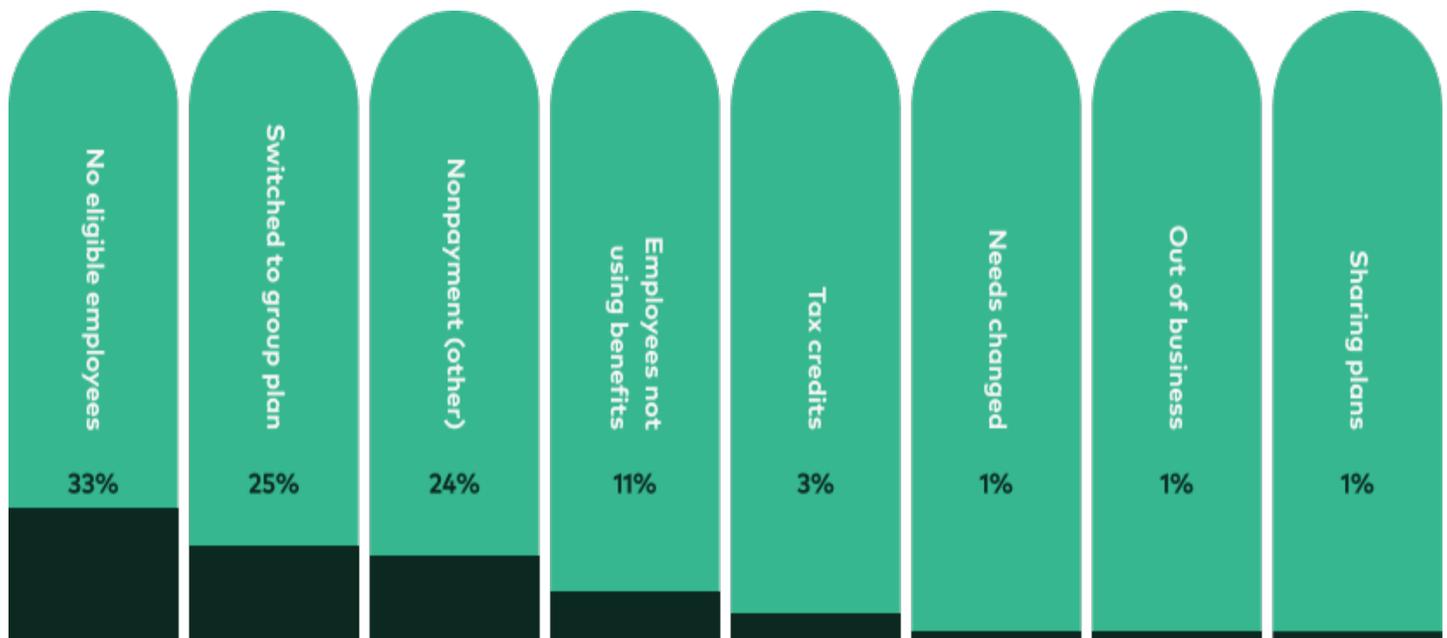
Can employers afford to offer a more generous benefit?

As you can see from the utilization rates above, most employers will end up having unclaimed QSEHRA funds at the year's end. This means most employers can safely offer a little more generous benefit to employees, realizing that on average not all of the designated health dollars will be spent.

2019 QSEHRA Annual Report

Top reasons clients cancelled their HRA

While QSEHRA works well for many small employers, there are many reasons why clients need to cancel their plans. The top reasons include: not having eligible employees to participate, switching to a small group plan, and employees not using the benefit.



Strengthening factors affecting QSEHRA

While small businesses will always have a certain degree of uncertainty, we expect a few trends to begin emerging.

The first trend is the continued stabilization of the individual market which draws more healthy individuals to join the risk pool causing individual premium prices to decline. A stabilized individual market will most likely make HRAs a more attractive option for employers. Secondarily, we anticipate further regulatory rule reforms that will likely sort out the tax credit and faith-based plan interaction issues—two things we see holding QSEHRAs back.

What we expect for 2020 & 2021 QSEHRA

As we have seen in the past, the maximum contribution rates increased for 2020 to \$5,250 for singles and \$10,600 for families annually. We expect 2021 rates to be increased slightly based on inflation.

INCREASED ADOPTION

We expect to see the adoption of QSEHRA continue to climb as more and more employers become familiar with the defined contribution model and individual insurance rates stabilize with only slight increases for this coming year. Interest in QSEHRA is expected to increase as employers hear about the new Individual Coverage HRA (ICHRA) that began Jan 1, 2020, a similar HRA that offers the benefits of QSEHRA to a larger footprint of employers and does not have a contribution limit. Small employers are eligible for both types of HRAs and employers will need to assess their team and budget before determining which is a better fit for their company.

All indications show that HRAs will continue to grow in popularity. As expected, we have seen growth during 2020 and based on early data, we expect 2021 to trend in a similar fashion.

PEACE OF MIND

In the wake of the global COVID-19 outbreak, we expect the peace of mind an HRA provides to increase their appeal. Many employers are looking to tighten their financial belts when it comes to benefits in order to mediate the financial loss and brace for further instability. Under normal circumstances, the familiarity of traditional group health plans makes them a popular choice. But in uncertain times, the predictability, portability, and flexibility of "defined contribution" health insurance models like QSEHRA and ICHRA should be closely considered by employers now and in the future.

In the midst of the crisis, we're already seeing early evidence that HRAs will prove more resilient than traditional group plans, allowing business owners to make strategic decisions quickly. With group

2019 QSEHRA Annual Report

plans, there just aren't many levers to pull—you either cancel your plan or you don't; your employees are either part of the group plan or they are not. Additionally, as we watched small employers forced to reduce headcount during the pandemic, many realized they could not maintain their group participation requirements of their health plan. Not having any participation requirements is another benefit of a QSEHRA.

It's also important to consider the risk employers are taking with traditional insurance. Self-funded plans (also called self-insured plans, when employers assume the financial risk for providing health care benefits for their employees), are on a path to destruction if many employees are infected; many of those companies should be looking for an exit strategy.

COVID-19's ongoing effects on the health system as it absorbs the costs of coronavirus treatment, testing, and waived cost-sharing and copays are unknown at this point. While elective surgeries and medical spend are down, it's unsettling and difficult to predict how health insurance costs will react. Next year, Kaiser Family Foundation reports that the vast majority of plans are only going up by 2% to 6%, with some plans claiming a 31.8% increase.

Moving forward, we believe business owners will continue to face unpredictable and uncontrollable rates in the future—both of which are challenges that the new reimbursement model of health benefits is built to withstand.

About Take Command Health

Take Command Health is on a mission to accelerate the adoption of the reimbursement model of health insurance to help create a consumer-centric healthcare system based on awareness, advocacy, and transparency. Launched in 2014 in Dallas, Take Command Health is a recognized leader in QSEHRA administration, launched the first-to-market new Individual Coverage HRA platform, and is the only HRA administrator to also offer individual enrollment support.

REFERENCED RESOURCES:

Important: 2021 health insurance reimbursement rates - <https://www.takecommandhealth.com/blog/2021-health-insurance-reimbursement>

Top markets for the new Individual Coverage HRA (ICHRA) - <https://www.takecommandhealth.com/blog/individual-coverage-health-reimbursement-arrangement-ichra>

QSEHRA Guide - <https://www.takecommandhealth.com/qsehra-guide>

What proposed IRS update means for sharing ministries and HRAs - <https://www.takecommandhealth.com/blog/hra-sharing-ministries-irs-update>