Consumer Directed Health Plans

Frequently Asked Questions

What is the legal basis for this program?

This program is authorized under Section 105 of the Internal Revenue Code. The high deductible Core Plan is a partial self-funded ERISA program. The IRS has issued private letter rulings supporting the many 105 plans that currently exist, and on 6/28/03, issued a formal Letter Ruling validating the tax favored treatment of 105 plans.

What size groups can participate?

Our firm has established liberal underwriting rules to allow any employer with at least 25 full time employees to participate. There is no maximum size limit and this program may be used as a partial carve-out or a full replacement for your current health plan.

Are there any required plan designs?

No. Like most programs we offer, plan designs will vary dependent upon the unique requirements of each individual employer and their employees. However, Section 105 does specifically state that the plan must be non-discriminatory and that funds may only be used for qualified medical expenses as outlined by the IRS, or any subset of qualified medical expenses as defined by the Plan.

Do CDHC alternatives require plan modification or high deductible health plans?

HRAs are usually funded through a plan modification such as a high deductible and qualified HSAs do require a High Deductible Health Plan (HDHP) that satisfies IRS requirements.

How is each employee's account funded?

If your company offers a Health Reimbursement Account (HRA), it is pre-funded by the employer on a monthly basis.

If a Health Savings Account (HSA) is used, it may be pre-funded monthly by the employer or the employee. In either case, since the average amount paid from the account is only 50% of the allocated amount, we will require that 1/12th of the 50% be billed monthly. These funds will be maintained in a separate trust account and will be used exclusively for HRA or HSA payments. Additional funding will be required should claims exceed 50%.

If the program is partially funded monthly, what happens if a participant incurs large expenses early in the plan year?

It is unlikely that expenses incurred by employees early in a plan year will exceed the plan's pre-funded schedule. However, in the event that claims exceed the pre-funded amount, we will call upon the employer to advance additional funds to cover the filed claims.

Are HRAs and HSAs subject to COBRA?

COBRA applies to any arrangement through which an employer provides health care coverage to employees or retirees. COBRA does apply to HRA and HSA accounts.

What happens if employment is terminated before the end of the plan year?

Since the consumer directed health benefit accrues monthly, the plan may have the right to demand repayment should a participant leave the program after having spent more than has actually accrued into their account. However, the circumstances surrounding the termination may make repayment impractical or impossible. Although Section 105 does not preclude repayment, we suggest that this pre-payment risk may simply be a "cost of the plan", and is more than offset by the other plan benefits.

Should an employee terminate prior to the end of the plan year, and not take COBRA, only eligible expenses incurred while covered under the plan will be eligible for reimbursement.

How are claims processed?

Each employee receives a personal identification card that reflects the coverage under the Core Plan, as well as the coverage under their HRA or HSA. Providers or the employee will send claims to us, and if eligible, the claims will first be applied against the high deductible Core Plan. Automatically, the claims will also be processed under the HRA or HSA and checks will be issued to the provider on assignment, or the employee, if the bill has been paid. We will provide access to all claims and account data, via employer reports, at the website address shown below, plus telephonic access, subject to HIPAA.

What happens at the end of the year if all HRA or HSA funds have not been spent?

Any unspent funds will automatically be rolled over into the employee's account for the following year, to be added to any amount deposited for the following year. The amount of the rollover may vary based upon individual plan design. It is not uncommon for an employer to allow 50% rollover, and retain up to 50% of employer contributions as savings.

Is rollover of excess HRA OR HSA funds the only investment option?

The IRS Letter Ruling clearly prohibits any "cash out" options or rollover to a 401(k) plan. However, the IRS has invited public comments and may ultimately modify their rollover regulations.

eba employee benefits administrators
A Division of Tim Davis & Associates, Inc.

800 Cardinal Drive, Ste 200 • Elizabethtown, KY 42701 • 877-467-6004 • FAX 270-769-2521 • www.ebaonline.us