

The QSEHRA: Annual Report 2018

How small businesses are using this
personalized health benefit to hire
and keep employees



Our story

Offering traditional group benefits sucks. Why? They're too expensive, too complex, and too one-size-fits-all. PeopleKeep is a new way to offer benefits called personalized benefits. Most people believe benefits are the services a company offers, such as a health insurance plan or 401k. With personalized benefits, it's the opposite. Companies give people tax-free money to spend on the consumer services they find most valuable. It's as simple as wages. For small businesses that think offering traditional group benefits sucks, PeopleKeep is personalized benefits automation software that makes offering benefits simple, painless, and personal for everyone.

Today more than 3,000 companies use PeopleKeep to hire and keep their people across the United States. PeopleKeep is based in Salt Lake City, Utah.

To learn more about PeopleKeep, visit www.peoplekeep.com.



Ready to see how PeopleKeep can work for your company?

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Introduction

Small businesses looking to offer health benefits face many challenges.

Traditional options, like group health insurance, have grown out of reach. They're too expensive, too complex, and too one-size-fits-all.

As a result, the number of small businesses offering traditional group health benefits has fallen. Today, less than half of businesses with fewer than 50 employees offer group health insurance.¹

Neither small businesses nor their employees are happy with this trend. Health is still the number-one benefit employees want from their company, which means offering quality health benefits is crucial for small businesses that want to hire and keep talented workers.²

There's a new way to offer health benefits—one that's gaining traction among small businesses. This new way is called personalized benefits, and it allows companies to give employees tax-free money to spend on the consumer services they find most valuable.

1 Holly Wade, *Small Business Problems and Priorities*, NFIB, August 2016, 8.

2 Kerry Jones, "The Most Desirable Employee Benefits," *Harvard Business Review*, February 15, 2017.

Today, less than half of businesses with fewer than 50 employees offer group health insurance.

The move toward personalized benefits across all benefits categories has been taking place for many years. Most recently, personalized health benefits scored a major victory with the passage of the 21st Century Cures Act in December 2016. The legislation created a new vehicle for personalized health benefits: the qualified small employer health reimbursement arrangement (QSEHRA).

With the QSEHRA, businesses offer employees a monthly allowance. Employees then choose and pay for health care, including insurance policies, and the business reimburses them up to their allowance limit.

Here's how it works:

Step 1: Businesses set the allowance. First, businesses must set a monthly allowance to reimburse health care expenses for employees and their families. There are no minimum contribution requirements, and small businesses can offer different allowances to employees based on whether they're single or have a family. In 2017, businesses could provide up to \$4,950 a year (\$412.50 a month) to single employees and \$10,000 a year

(\$833.33 a month) to employees with a family.

All full-time employees and their families are eligible for the benefit, though the company can choose to extend eligibility to part-time employees as well.

Step 2: Employees make purchases.

Employees with a QSEHRA can purchase and receive reimbursement for many expenses, including: individual health insurance premiums; individual dental, vision, or long-term care insurance premiums; copays;

Step 1: Set allowances.

Step 2: Make purchases.

Step 3: Submit expenses.

Step 4: Review documentation.

deductibles; and prescription and nonprescription drugs (with a note from a doctor).³

Step 3: Employees submit proof of expenses. After making an eligible purchase, employees must submit documents that show a description of the product or service, the cost of the expense, and the date they incurred the expense.

Step 4: Businesses review and reimburse employees' expenses. Following HIPAA privacy guidelines, the business reviews employees' submitted documentation. All approved requests are reimbursed tax-free up to the employees' allowance limit.⁴

Reimbursements made through a QSEHRA are free of payroll tax for the business and its employees. Reimbursements can be free of income tax for employees, too, if the employee has minimum essential coverage (MEC).

Personalized health benefits like the QSEHRA help small businesses find the right balance between cost savings and value to the employee. This study examines the use of the QSEHRA in 2017, the year following the passage of the 21st Century Cures Act. The study will examine how businesses administer the benefit, how employees use it, and the value of the QSEHRA compared with traditional group health insurance.

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³ Find the full list on [our website](#) or in IRS Publication 502.

⁴ To make this step easier, many businesses choose to work with a [personalized benefits automation software](#) like PeopleKeep.

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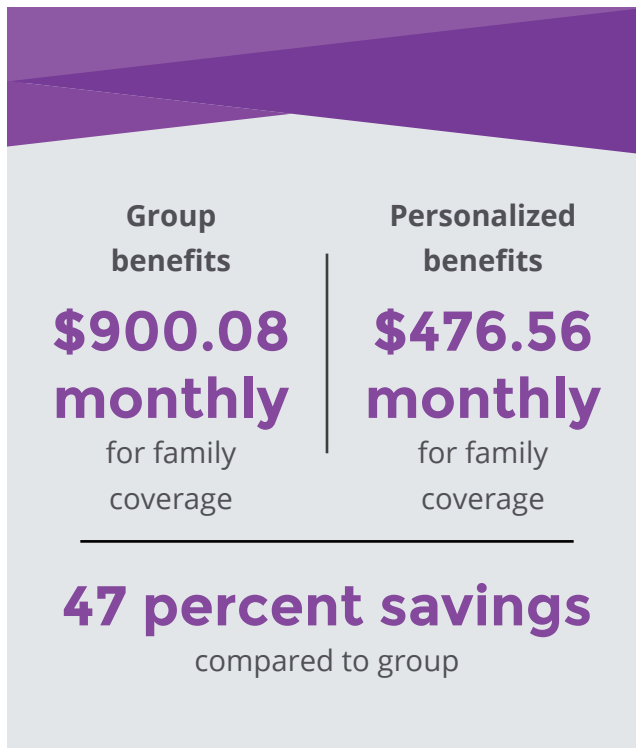
EXECUTIVE SUMMARY

The PeopleKeep 2018 Annual Report is based on a sample of 612 businesses and 3,493 eligible employees using PeopleKeep personalized benefits automation software to administer a QSEHRA during the 2017 calendar year. This is the third annual report released by PeopleKeep, Inc., and the first to examine the QSEHRA specifically.

Five primary conclusions from the report shed light on how companies are using the benefit to save money while providing value to employees.

1. Small businesses used the QSEHRA to better control their benefits budget.

There are many reasons small businesses choose to offer personalized health benefits like the QSEHRA, but one of the biggest reasons is cost.



Small businesses that offered a group health insurance policy spent an average \$454.67 per employee per month for single coverage and an average \$900.08 per employee per month for family coverage.¹ Those businesses that offered a QSEHRA spent less.

¹ "Percentage of Firms Offering Health Benefits, by Firm Size, 1999-2017 9060," *2017 Employer Health Benefits Survey*, The Kaiser Family Foundation, September 19, 2017, Figure G.

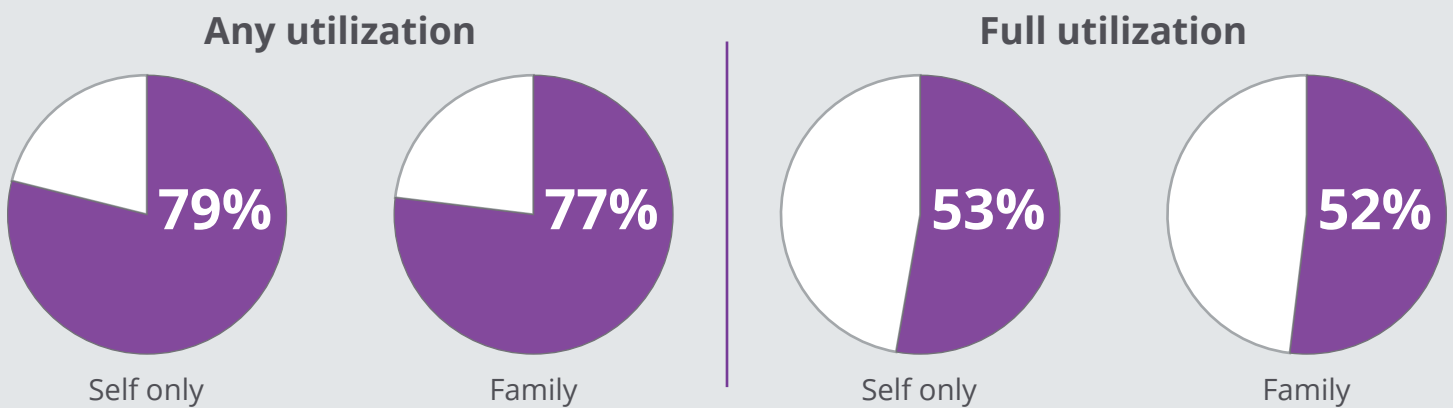
These businesses committed to paying up to an average \$280.20 per month per self-only employee and \$476.56 per month per employee with a family through a QSEHRA. That's a cost difference of 38 percent and 47 percent, respectively, compared to group.

This suggests that businesses using the QSEHRA do so to have greater control over their budget, which often doesn't stretch to the demands of a group policy.

2. Employees received significant—and in many cases, maximum—value from the QSEHRA.

In 2017, small businesses offered average monthly allowances of \$280.20 for self-only employees and \$476.56 for employees with a family. Though not everyone eligible for a QSEHRA used it, those who did collected an average of 77 percent of their total allowance (79 percent for self-only employees and 77 percent for employees with a family).

What's more, more than half of eligible employees who used their QSEHRA allowance in 2017 used all of it. Fifty-three percent of self-only employees



collected their full allowance. Fifty-two percent of employees with a family did the same.

3. Employees bought policies with better coverage when they had higher allowances.

Employees using a QSEHRA can have any number of individual insurance premiums reimbursed. Roughly 41 percent of self-only employees and 39 percent of employees with a family submitted at least one premium for reimbursement.

However, there is a correlation between monthly allowances and premium submission. Nearly half of self-only employees who received between \$301 and \$412.50 a month submitted at least one premium for reimbursement, as compared to just 25 percent of self-only employees who received \$100 or less. Similarly, 57 percent of employees with a family who received between \$701 and \$833.33 a month submitted a premium, while just 20 percent who received \$100 or less did the same.

Employees were also more likely to increase their premium spending as their allowance increased. The average total premium submitted for self-only employees was just \$190.19 for employees receiving \$100 or less a month, but increased to \$419.65 for employees receiving between \$301 and \$412.50 a month. For employees with a family, average spending increased from \$454.93 for those receiving \$100 or less to \$1,047.52 for those receiving between \$701 and \$833.33.

Higher allowances helped employees purchase better coverage.

This data suggests employees buy higher-tier insurance policies when they have higher QSEHRA allowances.

4. Employees primarily used the QSEHRA to pay for individual insurance policies.

Although a QSEHRA can reimburse employees for both premium and medical expenses, premiums absorbed much of employees' allowance in 2017.

Among employees who submitted at least one premium expense, the premium costs claimed an average 84 percent of their allowance. In fact, 61 percent of employees who submitted a premium for reimbursement used their entire allowance on it.

Because insurance policies are often the first resource individuals use to manage medical costs—and because of individual insurance policies' increasing cost—this usage is expected.

5. Employees used their QSEHRA on behalf of their entire family.

The QSEHRA was designed not only for employees, but also for their families. Besides submitting family premiums, employees can also submit out-of-pocket, nonpremium expenses on their families' behalf.

The QSEHRA was designed not only for employees, but also for their families.

And the data suggests they do. Employees with a family were more likely to submit nonpremium expenses for reimbursement than were self-only employees. Their expenses were also greater. Of those who submitted a nonpremium expense, the average total sum of expenses reached \$1,549.14 for employees with a family, compared to just \$787.33 for self-only employees.

The average of nonpremium expenses also increased with family size. Employees with just one dependent submitted nonpremium expenses totaling \$1,312.89, compared with an average \$1,633.36 for employees with two dependents, and an average \$1,800.59 for employees with three dependents. The trend continued all the way up to \$5,822.44 for employees with eight dependents.

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ELIGIBLE EMPLOYEE PROFILE

Who is using the QSEHRA?

After the 21st Century Cures Act passed, small businesses nationwide began adopting the QSEHRA as a vehicle for personalized health benefits. Though the benefit is available to all businesses with fewer than 50 employees, the PeopleKeep data identifies clear trends within this group.

First, businesses using the QSEHRA are quite small, with an average six employees each.

Second, businesses using the QSEHRA are overwhelmingly located in the West and the South, representing 34 percent and 31 percent of the total sample, respectively. Businesses in the Midwest make up 19 percent of the sample, followed by businesses in the Northeast at 16 percent.

As to individual eligible employees, roughly half have families while 40 percent are self only.² Most eligible employees (64 percent) don't have dependents. Among those who do, the median number of dependents is two.

A small number of eligible employees (7 percent) live outside the state their company is in, and 5 percent of eligible employees contribute to a health savings account (HSA).

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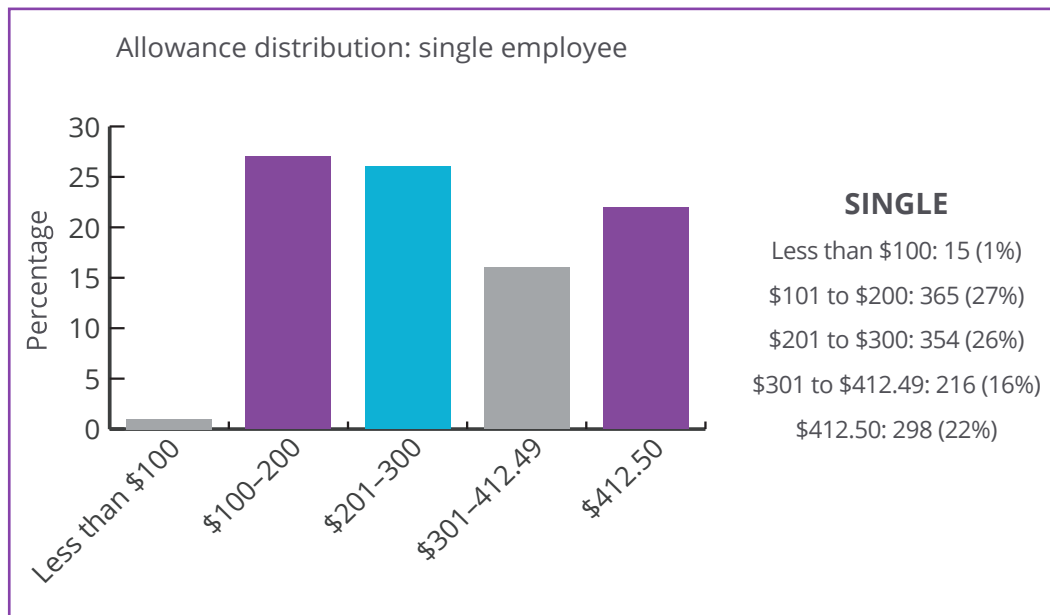
² The family status of 10 percent of eligible employees is unknown.

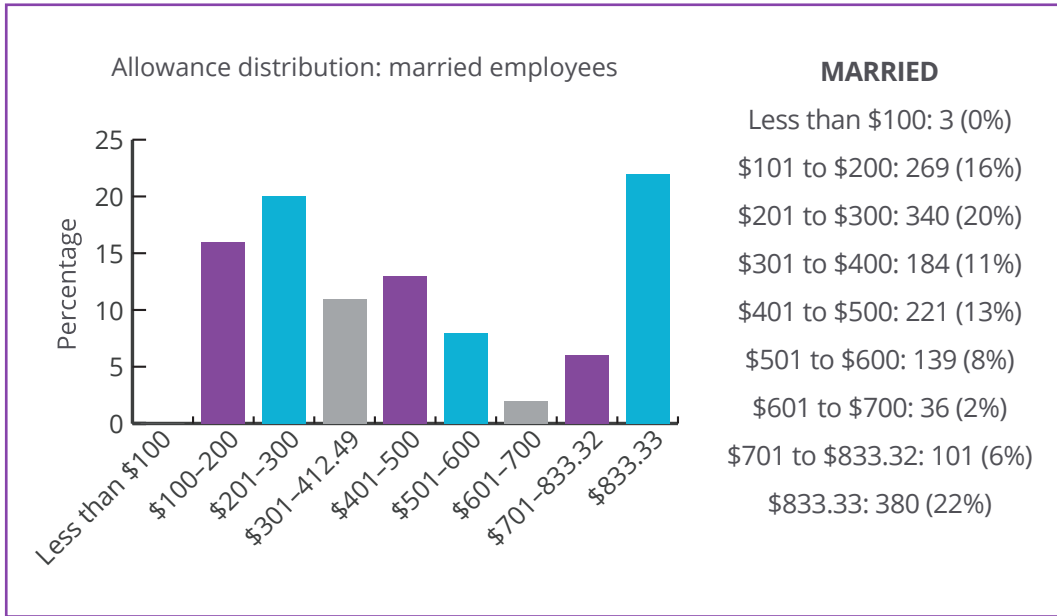
COMPANY-FUNDED ALLOWANCES

With the QSEHRA, small businesses choose how much money to make available for employee reimbursements each month. Because there are no minimum contribution requirements, a company can choose an allowance that fits its budget.

Small businesses can differentiate employee allowances based on family status. In 2017, businesses could grant annual allowances of up to \$4,950 (\$412.50 monthly) for self-only employees and \$10,000 (\$833.33 monthly) for employees with a family.

Nationwide, the average monthly employee allowance was \$386.55. By family status, average allowances were \$280.20 for single employees and \$476.56. Twenty-seven percent of self-only employees and 32 percent of employees with a family received the maximum monthly allowances of \$412.50 and \$833.33, respectively.





Midwest	\$389.46
Married	\$492.96
Single	\$271.58
Northeast	\$425.64
Married	\$527.96
Single	\$286.55
South	\$389.02
Married	\$450.66
Single	\$284.72
West	\$386.73
Married	\$464.94
Single	\$282.47

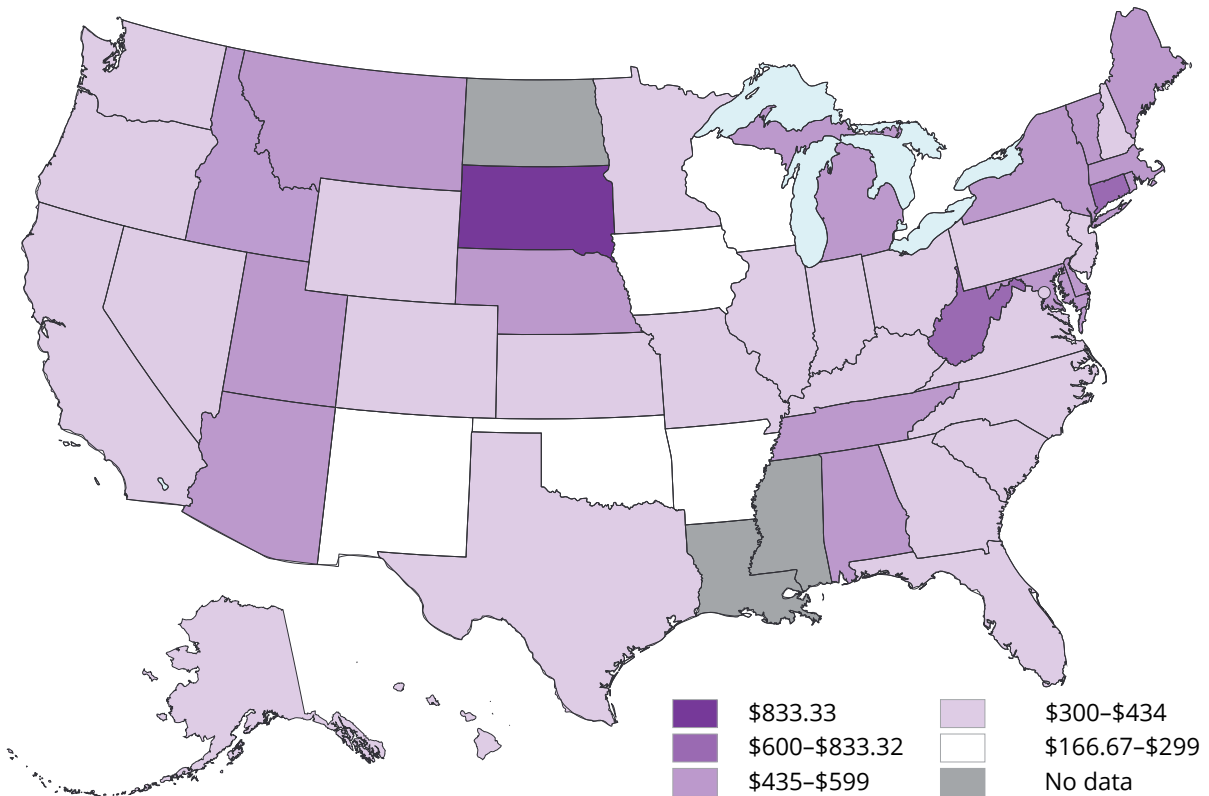
Allowance averages also varied by region, state, and company size.

Regionally, average allowances were very similar, with a slightly higher average in the Northeast—likely due to the region’s higher cost of living. These average allowances were: \$425.64 in the Northeast, \$389.46 in the Midwest, \$389.02 in the South, and \$386.73 in the West.

By state, allowances vary more significantly. In 2017, states offering the highest average monthly allowances were South Dakota (\$833.33), Connecticut (\$638.22), West Virginia (\$648.48), Delaware (\$564.06), and Maine (\$536.36).

At the lower end of the spectrum are Iowa (\$166.67), Oklahoma (\$180.36), Idaho (\$208.96), Arizona (\$221.74), and New Mexico (\$237.50).

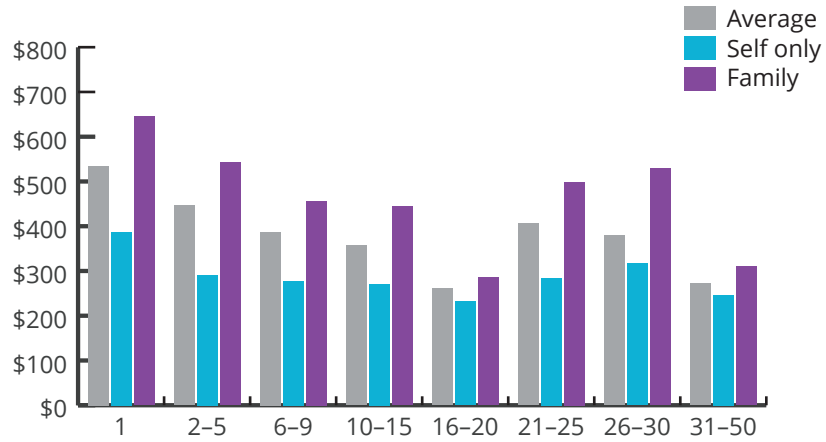
Allowances by state



There are some observable trends when it comes to company size. Generally, smaller businesses offer larger allowances, with one-person businesses offering the highest average allowance at \$534.41.

These smaller businesses may choose to offer higher allowances because they have more budget flexibility for health benefits, or because hiring and keeping employees is more important for smaller organizations.

Allowance by company size



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PREMIUM EXPENSE SUBMISSIONS

The QSEHRA allows employees to submit a variety of expenses for reimbursement. Many employees take advantage of this and, in fact, devote the large share of their monthly allowance to their premiums.

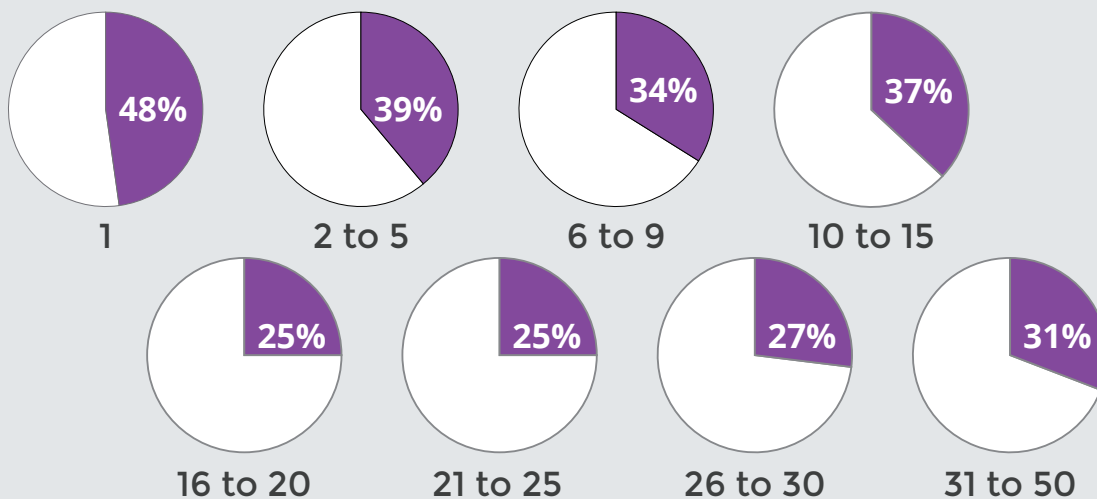
Others don't submit any premium expenses for reimbursement, either because they have coverage through a spouse or parent or because they've chosen not to seek coverage at all.

In 2017, 40 percent of employees submitted at least one premium expense for reimbursement, including 41 percent of self-only employees and 39 percent of employees with a family.

Both company size and monthly allowance were strong predictors of whether employees submitted a premium for reimbursement.

In general, employees who worked for smaller businesses were more likely to submit a premium for reimbursement. Nearly half (48 percent)

Premium submission rate by company size

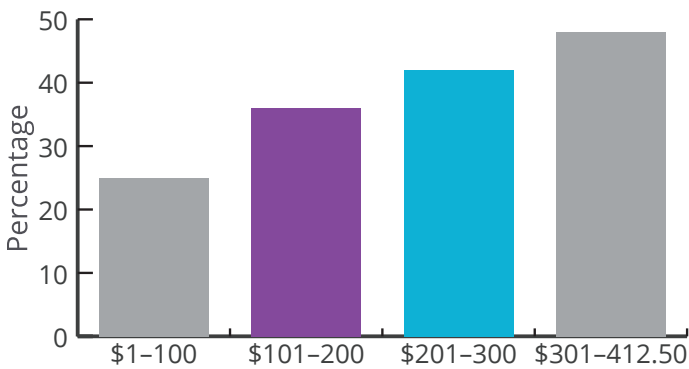


of employees with 1-person businesses submitted a premium for reimbursement, compared with just a quarter of employees working for businesses with between 16 and 25 employees.

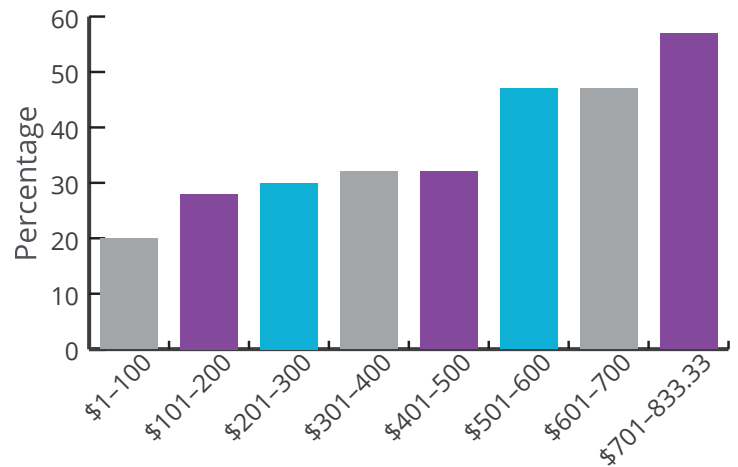
This trend may be because smaller businesses find it easier to explain the personalized health benefits and QSEHRA concepts and help their employees use the benefit than do larger businesses with more employees.

The size of an employee’s monthly allowance also affected premium submission rate. Employees were much more likely to submit a premium if they received a larger monthly allowance. For example, just 25 percent of self-only employees who received \$100 or less submitted a premium. That’s compared to 48 percent who submitted a premium while receiving between \$301 and \$412.50 a month.

Premium submission rate by monthly allowance: self only



Premium submission rate by monthly allowance: family



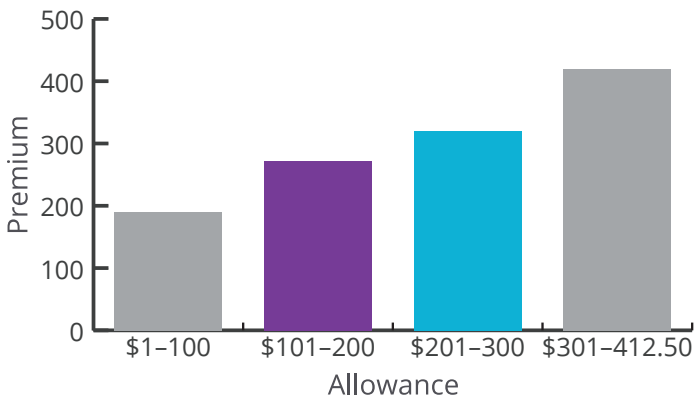
This is likely because individual premiums—particularly individual health premiums—are expensive, and larger allowances encourage greater spending.

The size of employee allowances also predicts the total premium cost employees submit for reimbursement. Employees with larger allowances submit higher premium costs than employees with smaller allowances.

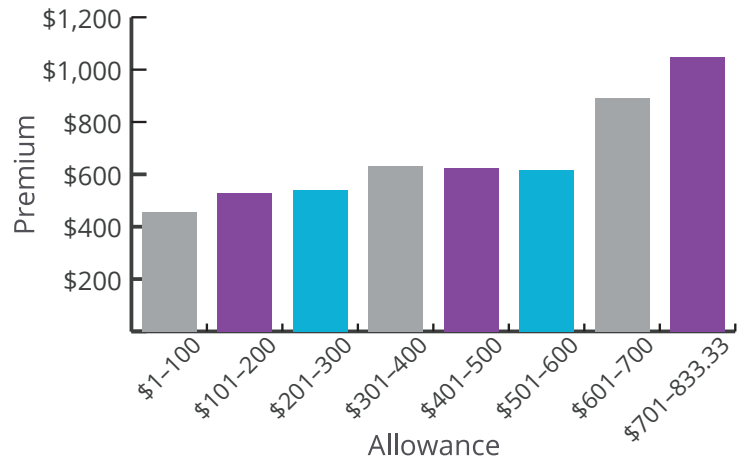
Self-only employees with allowances of \$100 or less submitted premiums totaling an average \$190.19. Employees receiving between \$301 to \$412.50 submitted an average \$419.65 in premium expenses.

The trend was also true of employees with a family, who submitted an average \$454.93 for premiums when receiving allowances of \$100 or less. Employees submitted \$1,047.52 when receiving allowances between \$701 and \$833.33.

Premium cost by monthly allowance: self only



Premium cost by monthly allowance: family



Premiums typically take up a large portion of employees' monthly allowances. Among employees who submitted at least one premium expense, 61 percent used their whole allowance on premiums.

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NONPREMIUM EXPENSE SUBMISSIONS

In addition to individual premiums, employees with a QSEHRA can receive reimbursement for out-of-pocket expenses like copays, prescription and nonprescription drugs, and any amount paid toward a policy's deductible.

Because premiums are so expensive, 73 percent of employees who submitted at least one premium expense didn't submit a nonpremium expense.

Nonpremium expense submissions still occurred, though. Among employees who submitted at least one expense for reimbursement through the QSEHRA, 26 percent submitted a nonpremium expense. That includes 24 percent of employees who didn't submit a premium expense and 27 percent of employees who did.

Among those who did submit a nonpremium expense, the average number of expenses submitted was eight, with the average annual sum of all expenses submitted landing at \$1,298.59.³

Employees who didn't submit a premium expense tended to request a higher sum of nonpremium expenses for reimbursement: an average of \$1,426.96. Employees who did submit a premium expense submitted an average of just \$1,083.72 in nonpremium expenses.

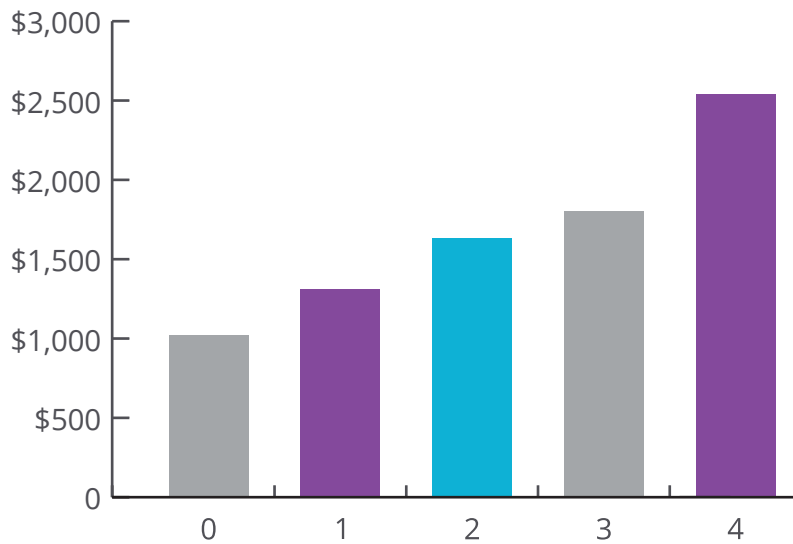
Family status also affected the sum of requested reimbursement for nonpremium expenses. Generally, self-only employees requested less than employees with a family (\$787.33 versus \$1,549.14).

Employees with dependents submitted a higher sum of nonpremium expenses for reimbursement, with the sum increasing as the number of

³ It's possible for employees to request a reimbursement amount that is higher than their annual allowance. However, they can only receive the total of their annual allowance as a reimbursement through the QSEHRA. For example, if an employee receives an annual allowance of \$4,000 but requests reimbursement for \$5,000, they'll only receive \$4,000.

dependents increased. Employees with just one dependent requested an average total of \$1,312.89, for example, while employees with eight dependents requested an average of \$5,822.44.

Average sum of nonpremium expenses by number of dependents



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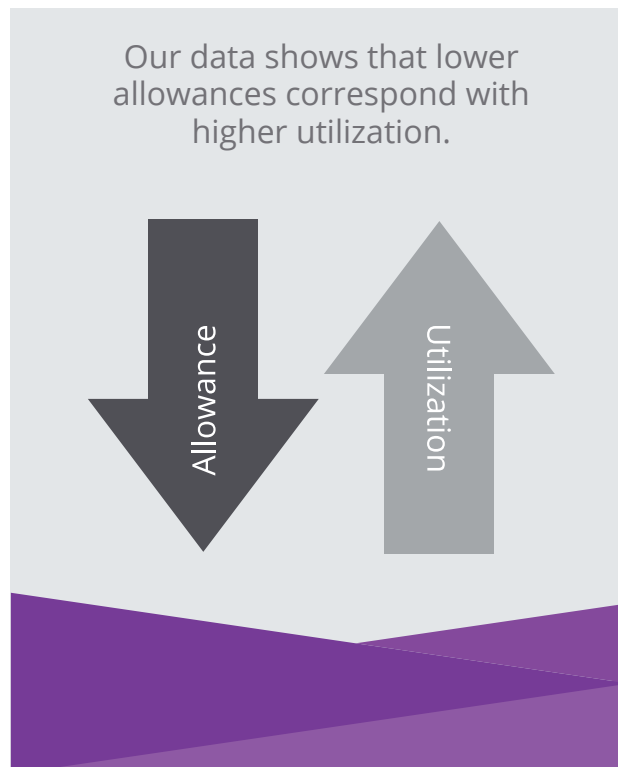
UTILIZATION AND COST EFFICIENCY

Once established, the QSEHRA allowance represents the maximum expense to the business. However, the actual cost to the business depends on how much of their allowance eligible employees actually use.

For example, if an employee has an allowance of \$400 per month (\$4,800 per year) and their approved expenses are \$300 per month (\$3,600 per year), they'll be reimbursed \$300 per month (\$3,600 per year) for a utilization rate of 75 percent. Conversely, if the same employee has approved expenses of \$450 per month (\$5,400 per year), they'll be reimbursed only up to their maximum allowance of \$400 per month (\$4,800 per year). Under this scenario, the employee is utilizing 100 percent of the allowance.

In the first example, the unused \$100 per month remains with the business, reducing the overall cost for providing health benefits to the employee. In the second example, the employee uses their entire allowance, and the remaining \$50 per month is their own responsibility.

The average utilization rate for the QSEHRA—among employees who submitted at least one expense for reimbursement—is quite high. Nationally, the average utilization rate in 2017 was 78 percent across all family sizes.



Many employees used 100 percent of their available annual allowance. In 2017, 52 percent of employees who submitted at least one expense for reimbursement collected the entirety of their allowance, including 53 percent of self-only employees and 52 percent of employees with a family. Even among those who received the highest possible monthly allowance (\$412.50 for self-only employees and \$833.33 for employees with a family), roughly a quarter used 100 percent of their allowance.

Average utilization rates do vary, though. Generally, family status, state, and allowance accounted for the greatest differences.

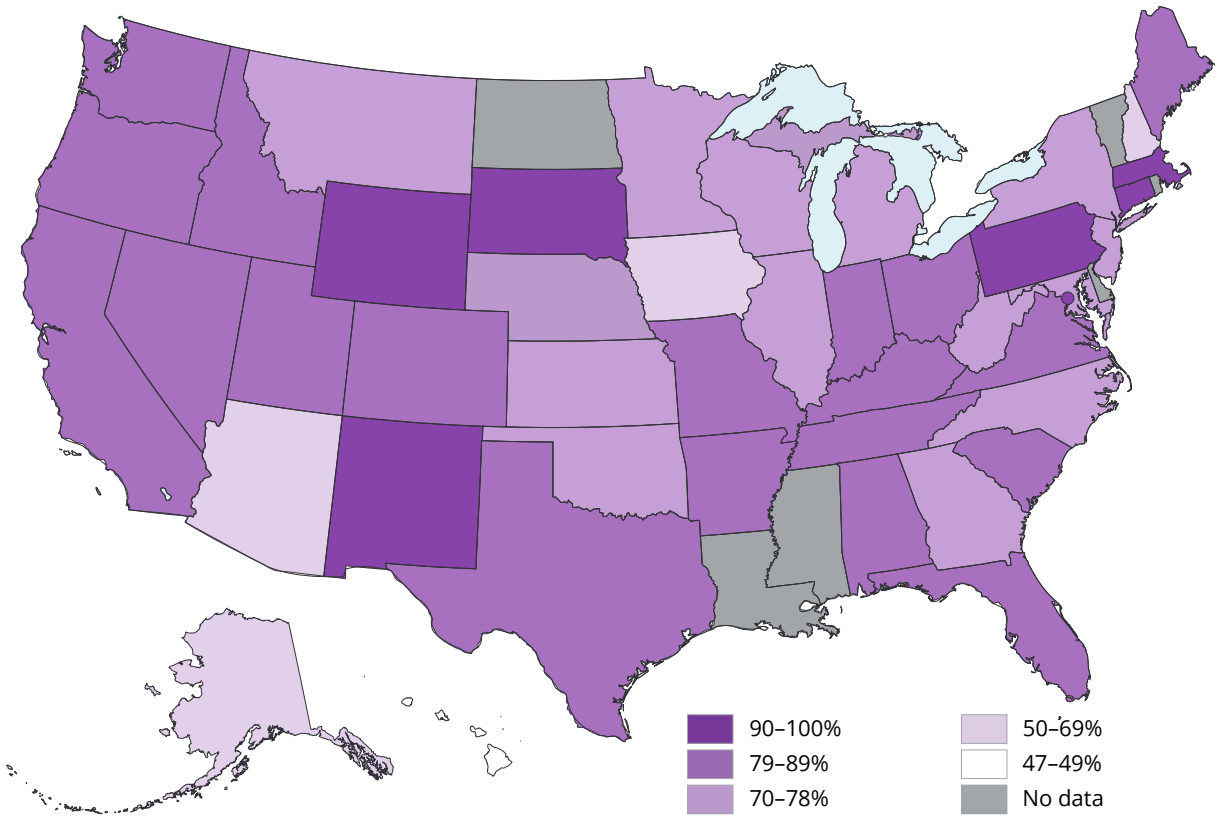
By family status, self-only employees used 79 percent of their allowance, and employees with a family used 77 percent. This slight difference may be because employees with a family could have other insurance through their spouse, which would free the employee from having to purchase and submit a premium for reimbursement—typically the largest source of expenses for employees.

By state, average allowances played a significant role in differing utilization rates. New Mexico, for example, offered among the lowest average monthly allowance at \$260.71. It's unsurprising, then, that New Mexico also had one of the country's highest utilization rates at 96 percent.

This is also true of Idaho (an average monthly allowance of \$297.68 and an average utilization rate of 84 percent), Oregon (an average monthly allowance of \$312.55 and an average utilization rate of 83 percent), and Missouri (an average monthly allowance of \$313.33 and an average utilization rate of 86 percent).

On the other end of the spectrum, states with higher average monthly allowances had lower average utilization rates: West Virginia had an average monthly allowance of \$648.48 and an average utilization rate of 76 percent, Michigan had an average monthly allowance of \$535.87 and an average utilization rate of 76 percent, and Arizona had an average monthly allowance of \$477.61 and an average utilization rate of 60 percent.

Average utilization by state



The differences in average utilization rate by monthly allowances are also intuitive. As the average allowance increases, the average utilization rate decreases.

For self-only employees, the average utilization rate was 93 percent for employees with allowances of \$100 or less a month. That decreased to 76 percent for employees receiving between \$301 and \$412.50 a month.

Similarly, employees with a family who received monthly allowances of \$100 or less used an average 100 percent of that amount. Employees who received between \$710 and \$833.33 a month, though, used an average 80 percent of their allowance.

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THE QSEHRA VS. GROUP HEALTH INSURANCE

One of the primary reasons small businesses choose to offer a QSEHRA is cost. Unable or unwilling to afford a traditional group health insurance policy, they seek a benefits option that allows them to control their budget.

PeopleKeep data confirms this.

In 2017, Kaiser Family Foundation data shows that small businesses⁴ that offered a group health insurance policy spent an average \$454.67 per employee per month for single coverage and an average \$900.08 per employee per month for family coverage.⁵

Small businesses that offered a QSEHRA, though, committed to an average \$280.20 per month per self-only employees and \$476.56 per month per employee with a family. That's a cost reduction of 38 percent and 47 percent, respectively, assuming all employees use 100 percent of their allowance.

⁴ The Kaiser Family Foundation defines a small business as any business with between 3 and 199 employees.

⁵ "Percentage of Firms Offering Health Benefits, by Firm Size, 1999-2017 9060," *2017 Employer Health Benefits Survey*, The Kaiser Family Foundation, September 19, 2017, Figure G.

The QSEHRA provided nonpremium expense reimbursement to more than a quarter (27 percent) of employees.

At the same time, small businesses using a QSEHRA provided employees value outside of an insurance policy.

While a group policy only provides insurance coverage, the QSEHRA provided reimbursement for nonpremium expenses to more than a quarter (27 percent) of employees who accessed at least part of their benefit.

Employees covered under a QSEHRA also chose their own insurance coverage—something not possible under a group health benefit.

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CONCLUSION

The health benefits market has changed.

Thanks to rising costs and increasing government regulation, traditional group health benefits have become too expensive, too complex, and too one-size-fits-all for most small businesses.

In response, small businesses all over the country are adopting and implementing personalized health benefits like the QSEHRA. Through cost savings, simplicity, and support of employee choice, personalized benefits offer significant value to small businesses unable or unwilling to offer traditional group benefits.

These advantages support small businesses' ultimate goal of hiring and keeping talented staff.

As costs associated with group health benefits continue to grow, personalized health benefit solutions are expected to flourish, eventually helping one million small businesses offer benefits by 2025.

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APPENDIX 1: METHODOLOGY

The data in this report was gathered from the 2017 PeopleKeep customer base. The report analyzed a statistically valid set of active company and user accounts during the 2017 calendar year.

Unless otherwise noted, averages in the “Premium expense submissions,” “Nonpremium expense submissions,” and “Utilization and cost efficiency” sections of the report include only users who submitted at least one item for reimbursement during the plan year.

We’ve categorized individual states by region according to Census.gov practices.

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APPENDIX 2: DEFINITIONS

Personalized benefits: Personalized benefits are a new way to offer employee benefits. With personalized benefits, small businesses give employees tax-free money to spend on the consumer services they find most valuable, like a health insurance policy.

Personalized health benefits: Personalized health benefits are a new way to offer employee health benefits. With a personalized health benefit, small businesses give employees tax-free money for medical expenses. There are many vehicles that can be used to offer personalized health benefits, such as a health savings account (HSA), health insurance reimbursement plan, HRA, or QSEHRA.

QSEHRA: The QSEHRA—the qualified small employer health reimbursement arrangement—is a vehicle many small businesses use to offer personalized health benefits. With a QSEHRA, businesses offer employees a monthly allowance. Employees then choose and pay for health care, potentially including insurance policies, and the business reimburses them up to their allowance limit. With the QSEHRA, all reimbursements are free of payroll tax for the business and its employees. Reimbursements can be free of income tax for employees, too, if the employee is covered by a policy providing minimum essential coverage (MEC).

Minimum essential coverage (MEC): Under the Affordable Care Act (ACA), minimum essential coverage is the type of coverage an individual needs to have to meet the individual shared responsibility requirement, also called the individual mandate. This includes individual market policies, job-based coverage, government-sponsored coverage, and certain other kinds of coverage.

Allowance: An allowance is the monthly dollar amount a company offers to employees. Amounts may vary by family status (self only or family). If employees don't utilize their full allowance during the plan year, unused

funds stay with the company. In 2017, businesses could offer up to \$412.50 per self-only employee and \$833.33 per employee with a family.

Reimbursement: An amount the company pays to the employee as reimbursement for approved and substantiated health expenses, including health insurance premiums. The reimbursement amount—not the allowance—represents the amount the company spends on an employee’s health benefits.

Utilization rate: The percentage of an allowance an employee uses during the plan year. For example, if an employee receives an annual allowance of \$4,000 and receives reimbursement for \$3,500 in health expenses, the utilization rate for the employee would be 88 percent.

Family status: An employee can be classified either as having “self-only” (single with no dependents) or “family” (married, married with children, or single with children) status.

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Our story

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Ready to see how PeopleKeep can work for your company?

Visit www.peoplekeep.com/demo to preview our software or click below to contact a Personalized Benefits Advisor.

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