GRAVIE Guide

Defined Contribution for Employee Health Benefits

The defined contribution approach to employee health benefits offers employers affordability, value and administrative ease, all while offering employees more choice.

This guide provides a summary of the defined contribution approach to employee health benefits, and the different ways in which this method can be offered.

Defined Contribution vs. Defined Benefit – What's the difference?

With the **defined benefit** approach to employee benefits, employers work with a broker to select a health plan that meets the needs of most employees. By limiting the options available to employees, employers can balance costs. There are multiple models for this approach, but all involve providing limited benefit options, while attempting to meet the needs of most employees.

Defined contribution has emerged as a better approach for many employers. With this approach, employers choose how much money to contribute towards employee benefits, and employees select their own plans.

Types of Defined Contribution Benefits

1. Defined contribution with additional income:

With this approach, the employer offers additional income to employees to be used to purchase health insurance in the individual market. Just like salary or hourly wages, this income is taxed. This approach offers flexibility as it allows employers to set a budget, and choose how much additional income they want to provide each employee.

2. Defined contribution with a Health Reimbursement Arrangement (HRA):

With this approach, the employer funds an HRA account that is used by employees to pay for health insurance premiums. The main benefit of this approach is that the HRA contributions are tax-free. Something to keep in mind with HRA contributions is that there are more restrictions, including how you can allocate money amongst employees. For more information on this approach, check out our Gravie Guide: Small Employer Health Reimbursement Arrangements (SEHRAs).

Advantages of Defined Contribution Health Benefits Through Gravie

- Employers set their own budget so they know the maximum amount they will be paying towards benefits
- Employers get out of choosing "one-size-fits-all" group plans that fit few employees' needs
- Employees get more options than they would with traditional group benefits and are able to choose benefits that fit their unique needs
- In some cases, employees may be eligible to receive tax credits, which could lower the cost of benefits

How does Gravie help employers and employees with defined contribution employee benefits?

When employers partner with Gravie to provide benefits, they get support determining which approach to take and help developing a benefits strategy that works within their budget. Gravie also relieves employers of many of the administrative and compliance hassles often faced when providing traditional group health benefits.

When employees shop for benefits through Gravie, they get access to our intuitive, web-based marketplace and our expert, licensed advisors. The help and support employees get from the advisors is what we call Gravie Care. Whether your employees need help choosing the plan that's best for them, or they need help using their benefits throughout the year, Gravie advisors are here to help.

Gravie provides a smart tech, human touch approach to benefits that employers and employees love.

To learn more about whether a defined contribution approach to benefits is right for your business, contact Gravie today.