A Small Business Owner’s Guide to

SECTION 105 MEDICAL REIMBURSEMENT PLANS

Recruit & Retain The Best Employees
What is Zane Benefits?

Zane Benefits is the leader in individual health insurance reimbursement for small businesses. Since 2006, Zane Benefits has been on a mission to bring the benefits of individual health insurance to business owners and their employees.

Zane Benefits’ software helps businesses reimburse employees for individual health insurance plans for annual savings of 20 to 60 percent compared with traditional employer-provided health insurance. Today, over 20,000 customers use Zane Benefits’ software, services, and support to reimburse individual health insurance plans purchased independent of employment.

Zane Benefits’ software has been featured on the front-page of The Wall Street Journal, USA Today, and The New York Times. Zane Benefits was founded in 2006 and is based in Salt Lake City, Utah.

Zane Benefits’ Partner Program is an opportunity for insurance professionals to provide clients with custom Zane Benefits solutions. Request a Partner Evaluation.

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A SMALL BUSINESS OWNER’S GUIDE TO SECTION 105 MEDICAL REIMBURSEMENT PLANS

Recruit and Retain the Best Employees

As a small business owner, recruiting and retaining quality employees is vital your business, and offering health benefits is an important piece of the overall compensation you offer them.

Whether your business is hiring its first W2 employee, you need a formal health benefits package to retain a key employee, or your group health insurance is exceeding internal budgets, Section 105 Medical Reimbursement Plans allow small businesses to offer health benefits without the cost or complication of group health insurance.

This guide provides an executive-level overview of Section 105 Medical Reimbursement Plans, and how small businesses can utilize them to recruit and retain the best employees.

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EXECUTIVE SUMMARY

Where We’ve Been: Group Health Insurance
In the past, small businesses have relied on group health insurance to offer employee health benefits. However, continual increases in healthcare costs have adversely impacted most businesses’ ability to provide health benefits in the traditional way. Small businesses have been particularly hurt, and many have dropped group health insurance plans because they have become too expensive. As a result, educated small businesses are evaluating Section 105 Medical Reimbursement Plan to offer dynamic, cost-effective, and sustainable employee health benefits.

Which brings us to…

THE PROBLEM
You want to provide quality health benefits for your valued employees. But for a small business, a traditional group plan may not be cost effective.

The Solution: Section 105 Medical Reimbursement Plans
Rather than paying the costs to provide a specific group health plan, small business owners can completely control the cost of health benefits by establishing Section 105 Medical Reimbursement Plan. The general concept is that your small business would:

✓ Cancel your group health insurance plan (if you have one).
✓ Define any amount you can afford for health benefits.
✓ Use Section 105 Software to give each employee a fixed dollar amount to use on health insurance.
✓ Employees use their healthcare allowance to purchase their own individual/family policies. (Select any insurance professional to give employees a resource in selecting a plan.)

Section 105 Plans give small businesses complete control of benefits, while giving employees choice and a valued benefit. Additionally, Section 105 Plans allow small businesses to take advantage of new health reform opportunities.
RISING COSTS OF HEALTHCARE

The cost of healthcare for small businesses is not sustainable. Group health insurance premium rates for single coverage increased 156% from 1999 to 2012, and 172% for family coverage. While the increases have slowed over the past several years, the cost continues to rise faster than wages and inflation.

### Average Annual Premiums for Single and Family Coverage, 1999-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Single Coverage</th>
<th>Family Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$2,136*</td>
<td>$5,791*</td>
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<tr>
<td>2000</td>
<td>$2,471*</td>
<td>$6,638*</td>
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<tr>
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<td>$2,665*</td>
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<tr>
<td>2010</td>
<td>$5,429*</td>
<td>$12,375*</td>
</tr>
<tr>
<td>2011</td>
<td>$5,615*</td>
<td>$13,170*</td>
</tr>
<tr>
<td>2012</td>
<td>$5,615*</td>
<td>$15,073*</td>
</tr>
</tbody>
</table>

* Estimate is statistically different from estimate for the previous year shown (p<.05).


### Cumulative Increases in Health Insurance Premiums, Workers’ Contributions to Premiums, Inflation, and Workers’ Earnings, 1999-2012

- Health Insurance Premiums
- Workers’ Contribution to Premiums
- Workers’ Earnings
- Overall Inflation


### Average Employer Cost One Year of Health Insurance
- Single Employee: $5,615
- Family: $15,745

Source: Kaiser Family Foundation, 2012
Small Businesses Hit the Hardest

A full 98% of employers with 200 or more employees provide group health insurance plans for their employees. However, only 61% of employers with three to 199 employees provide group health insurance plans, down from 68% percent in 2000. (*The Kaiser Family Foundation, 2012.*)

What does health reform do for small businesses?

See Appendix A
WHAT IS A SECTION 105 MEDICAL REIMBURSEMENT PLAN?

Overview of Section 105 Plans

A Section 105 Plan allows a business to reimburse employees for health insurance expenses. A common type of Section 105 Plan is a self-funded (or self-insured) health plan, where the employer self-funds (or self-insures) health benefits rather than pay premiums to an insurance company.

Section 105 Plans are also frequently found in the form of Medical Reimbursement Plans. With a Section 105 Medical Reimbursement Plan, a small business would either:

1. Implement a Section 105 plan alongside a conventional group health insurance plan (to reimburse deductible amounts not covered by insurance). This is also called an integrated HRA, linked HRA, deductible HRA, or GroupHRA.

2. Implement a Section 105 plan as a stand-alone medical reimbursement plan, used to reimburse employees for individual health insurance premiums. This is often called a Healthcare Reimbursement Plan (HRP) or ZaneHealth.

In this guide, we are referring to a Section 105 Medical Reimbursement Plan used as a stand-alone health benefit.

With this type of Section 105 Plan, a small business does not offer a group health insurance. Rather, the Section 105 Medical Reimbursement Plan is the entire health benefit.
Stand-Alone Section 105 Medical Reimbursement Plan: The Basics

A Section 105 Medical Reimbursement Plan is:

- An IRS-approved Section 105 Self-Insured ERISA Plan
- 100% employer-funded
- Tax deductible to the business and tax-free to employees

A Section 105 Plan is not health insurance. Rather, it is a vehicle for small businesses to reimburse employees for individual health insurance premiums. Section 105 Plans are often the foundation for a pure defined contribution health plan.

A Notional Arrangement

With a Section 105 Plan, no funds are expensed until reimbursements are paid. The business reimburses employees directly. The business is not required to deposit money into third-party bank accounts.

Flexible & Employer-Controlled

With a Section 105 Plan, the small business designs and controls nearly every aspect of the plan to meet financial and recruiting goals, including:

- Amount of allowances
- Who is covered (employee and dependents, or just employee)
- Employee eligibility criteria (hours worked, waiting period, etc.)

Section 105 Plans are one of the only IRS-approved and compliant employee health benefits vehicles allowed to reimburse individual health insurance premiums.

A Stand-Alone Section 105 Plan is like a Business-Expense Account for Health Insurance Premiums.
6 ADVANTAGES FOR SMALL BUSINESSES

1) Predictable Costs

With a Section 105 Plan, the business determines their maximum liability when setting plan funding amounts.

- No minimum or maximum amounts to contribute
- No actual costs are incurred until employees receive reimbursement
- When the employee leaves the business, funds stay with the business

Tip: If your business can contribute any amount to employees' healthcare, you can afford a Section 105 Plan.

How? The amount you contribute to employee benefits is 100% up to you.

2) Employee Choice

With a Section 105 Plan, employees choose any type of insurance plan from any carrier.

On average, individual health insurance plans are 20% - 60% less expensive than group health coverage for the same type of plan. The small business sees their healthcare dollars go farther.

Additionally, Section 105 Plans encourage consumer-driven spending. When employees see the cost of healthcare, they become smarter healthcare consumers.

Another Advantage: Individual health insurance plan choices and affordability has expanded greatly with health reform. See Appendix A (pg. 13).
3) Plan Flexibility

With a Section 105 Plan, small businesses can customize virtually all components of their health plan. For example, the business sets how much to contribute to each Class of employee and eligibility for Participation.

4) Different Employees, Different Benefits

Businesses can set different benefits for different employee Classes.

For example, rather than allocating $200/month to all employees, a business can allocate $300/month to attract and retain hard-to-find programmers and $175/month to entry-level associates.

5) Tax Advantages

Small businesses may deduct the cost of a Section 105 Plan as a business expense under IRS Code Section 162. Reimbursements to employees are pre-tax dollars, so the reimbursements are 100% tax-free to employees as well.

6) Easy Administration

Typically, small business owners are not health insurance experts, nor do they want to spend valuable time gaining expertise. With limited resources, the time spent comparing policies, dealing with questions or complaints, and managing the plan falls on the business owner or other key staff. This is valuable time that could be spent growing the business.

By using compliant Section 105 software, plan administration becomes a payroll function. The business simply adds approved reimbursements to employees’ paychecks. Once set-up, administration takes 5-10 minutes a month.
SECTION 105 MEDICAL REIMBURSEMENT PLANS

FREQUENTLY ASKED QUESTIONS (FAQs)

Can I administer the Section 105 Plan myself?

A small business can self-administer its own Section 105 Plan, but failure to comply with the minimum federal administration requirements is common without utilizing proper Section 105 Software. If a small business does not utilize proper administration software to fully comply with Section 105, ERISA, HIPAA, COBRA, and ACA regulations, the administrative cost usually outweigh the benefits. Fines for not complying with these regulations are costly.

Can I pay for employees’ insurance premiums without a Section 105 Plan?

Some businesses might want to pay directly for an employee’s individual health insurance plan without utilizing an ERISA and HIPAA-compliant platform, but doing so may put the business out of compliance with federal regulations, and may increase the business’s (and employees’) tax liability (read more here).

Can a small business owner participate in a Section 105 Plan?

Yes, a small business owner can and should participate in the business’s Section 105 Plan. However, whether or not owners are eligible to receive reimbursements 100% tax free depends on how the company files taxes, and the owner’s status.

- **C-Corporation Owners**: C-Corp owners may participate in a Section 105 Plan and receive all reimbursements 100% tax-free.

- **Sole Proprietors, Partners, or S-Corp shareholders that own >2% of the company’s shares**: These Non-C-Corp owners can use the Section 105 software platform to reimburse and track medical expenses. However, all reimbursements must be reported on the owners'/partners’ wages (on their W-2 and 1040 forms) and are subject to federal income taxes. Although, exceptions exist if the spouse is also a W-2 employee.

For more Section 105 FAQs, see this article.
HOW TO IMPLEMENT A SECTION 105 MEDICAL REIMBURSEMENT PLAN

Four Easy Steps

1. Complete Plan Setup & Generate Plan Documents
   • Complete plan setup with your Section 105 Software provider (ex: ZaneHealth).
   • Download/print required Plan Documents; sign for your business's records.

2. Enroll Employees
   • Enroll eligible employees online.
   • Send Welcome Kits to employees (electronically or printed packets).

3. Employees Choose Plans & Submit Reimbursement Request
   • Employees choose a health plan online or through a Broker or the Health Insurance Marketplace.
   • Employees submit reimbursement requests to Section 105 Software provider.

4. Reimburse Employees via Payroll
   • Once reimbursement requests are approved by Section 105 Software provider, the business simply reimburses employees tax-free via payroll... just like a business expense reimbursements.

Zane Benefits Free Trial!
See first-hand how Zane Benefits Solutions can help you recruit & retain better employees

See Zane in Action
APPENDIX A: HEALTH REFORM & NEW OPPORTUNITIES FOR SMALL BUSINESSES

Health Reform: Four Major Changes in 2014 and 2015

With major Affordable Care Act (ACA) laws now fully in effect, health reform represents the biggest change in how small businesses offer health benefits, and how employees purchase health insurance. Here are four major changes that impact small business health insurance.

1. **Individual Mandate**
As of 2014, individuals are required to have health insurance, or else pay an annual tax penalty.

2. **Health Insurance Tax Subsidies & Marketplaces**
As of 2014, federal health insurance tax subsidies ("premium tax credits") are available to the majority of employees. The tax subsidies lower the cost of individual health insurance premiums. Households with income up to 400% above the federal poverty line (FPL) are eligible. This is equivalent to $46,680/year for an individual and $95,400 for a family of four in 2014. The tax subsidies will cap the cost of health insurance at 2% - 9.5% of income, based on FPL.

   The health insurance tax subsidies are only be available through the new Health Insurance Marketplaces, online websites in each state where individuals can purchase health insurance.

3. **Guaranteed-Issue Policies**
As of 2014, all individual/family health insurance policies are guaranteed-issue, meaning no one can be denied or pay more because of a pre-existing medical condition.

4. **Employer Mandate – 2015/2016**
   - Large businesses (with 50+ FTE employees) are required to offer qualified and affordable health insurance to employees starting in 2015. If they do not, they will be subject to a tax penalty based on full-time employees. **Note: 2015 is a transition year, and some large employers may not pay a penalty until 2016.**
   - Small Businesses (with less than 50 FTE employees) are not impacted by the mandate or the tax penalty.
Section 105 Medical Reimbursement Plans: The Ideal Solution in 2014

Because of health reform opportunities, most (if not all) small businesses are switching to a Section 105 Plan to offer “pure” defined contribution benefits. *Why?*

- Massive tax subsidies on the individual insurance market are available to most employees.
- All policies are guaranteed-issue, eliminating the non-economic (i.e. moral) factors from a small business’s decision-making process. (You don't need to offer group health insurance to guarantee coverage for all employees.)
- For small businesses (less than 50 employees) there is **no employer mandate and no penalty**.
- For many businesses with 50+ FTE employees, the total cost of paying the employer penalty plus providing a Section 105 Plan (pure defined contribution) will be **less expensive** than group health insurance. And, the only way for businesses to give employees access to the individual premium tax subsidies is by **not offering group health insurance**.

Deciding Your Health Reform Strategy

*Does your business employ less than 50 employees?*

1. If yes, cancel your group health insurance plan (if you have one).
2. Provide a Section 105 allowance for employees to use toward purchasing their own individual insurance policy:
   - Policies are guaranteed issue.
   - **No penalties for your small business in 2015.**
   - Employees access tax subsidies through the public Marketplaces. *Tip: Section 105 Plans can reimburse the non-subsided portion of employees’ policies.*

*Does your business employ 50+ employees?*

If yes, complete a financial analysis, comparing the cost of:

- Qualified, affordable group health insurance.
- Section 105 Plan + Penalties (penalties start in 2015 or 2016)
- Penalties alone.

[Check out this guide](#) for worksheets to complete a financial analysis.
ADDITIONAL HEALTH BENEFITS TOOLS & RESOURCES

View our full library of health benefits tools & resources at: www.zanebenefits.com/resources
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