

If an employee plans to use their Individual Coverage Health Reimbursement Arrangement (ICHRA) on a qualified medical expense as defined by the Internal Revenue Code (IRC) 213(d), here are best practices for employees to follow.

1. Valid Documentation: A letter or some form of documentation from a doctor stating the medical necessity of the procedure is needed for every reimbursement. The documentation should indicate the type of service provided, the date of the service, the amount of the expense, and the name of the person who incurred the expense. An explanation of benefits from the insurance provider or a detailed receipt from the healthcare provider can typically provide this information.

2. Confirm Eligibility: Double-check to ensure that only eligible employees are receiving reimbursements. This is especially important for ICHRA participants, as employers can offer different benefit offerings for different classes of employees (e.g., full-time vs. part-time). Keeping track of employee status changes that could affect eligibility is important.

3. Ensure Expenses Are Not Reimbursed Elsewhere: Verify that the expenses haven't been reimbursed elsewhere or aren't already deducted on the employee's tax return. Expenses should be exclusive to the ICHRA for the claim to be eligible.

4. Consistent Review Process: Create a consistent review process for all requests for reimbursements. Develop a handbook detailing standard policies for common reimbursement items and a process for reviewing submitted 213(d) reimbursements from employees that may need further review (e.g., determining medical necessity). To prevent potential bias or inconsistency in the handling of reimbursement requests, provide regular training to those responsible for reviewing reimbursements.

5. Keep Records: Keep accurate and detailed records of all reimbursements to ensure accurate bookkeeping.

For U.S. federal tax purposes, the IRS recommends that records such as receipts, canceled checks, or other documentation of medical expenses be kept for at least three years from the date of filing the original return or two years from the date the tax was paid, whichever is later. This is also generally true for records related to reimbursements for IRC Section 213(d) expenses under a health reimbursement arrangement (HRA), flexible spending account (FSA), or similar health benefits arrangement.

However, there can be other reasons to retain records for a longer period, such as for insurance or employee benefits purposes, or if there's any chance the expenses or reimbursements could be relevant to future legal or regulatory inquiries. Also, bear in mind that states might have their own requirements for record retention that could be longer than the federal guidelines. The failure to retain necessary records could result in fines, penalties, or other adverse consequences.

7. Periodic Audit: Conduct a periodic internal audit of reimbursements to help identify any mistakes or fraud and ensure that the reimbursement process is working as intended.

8. Employee Education: Regularly educate employees about what qualifies as a 213(d) expense. Employees who understand the rules are less likely to submit ineligible expenses.

9. Use of Technology: Consider using a technological solution to assist with the management of ICHRA. Many platforms can help automate the verification and reimbursement process, making it easier to manage and reducing the chance for error. For example, some technologies allow you to identify 213(d) expense eligibility by using inventory control information (UPC or SKU).

