



**Your Health Insurance  
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# An ICHRA Guide for Employers

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# An ICHRA Guide for Employers:

## Leveraging Individual Coverage Health Reimbursement Arrangements as an Alternative in the Company Benefit Portfolio

The landscape of employee benefits has undergone significant transformation in recent years, with increasing demand for personalized, cost-effective health insurance solutions. Among these options, the Individual Coverage Health Reimbursement Arrangement (ICHRA) stands out as a flexible and customizable alternative to traditional group health insurance plans.

ICHRA is similar in some ways to a Qualified Small Employer HRA (QSEHRA), which is for employers with fewer than 50 employees that don't offer a group health plan (GHP). There is a limit to the amount of money an employer can reimburse and is set by the IRS each year (In 2025, \$6,350 for self only and \$12,800 for family).

ICHRA allows employers to reimburse employees for individual health insurance premiums and qualified medical expenses, giving employees the autonomy to select insurance plans that best suit their needs. Unlike QSEHRAs however, all employers can offer an ICHRA with no set limits. While both QSEHRAs and ICHRA both enable employers to reimburse their employees tax-free for individual health insurance, these tools were designed for different audiences. For many businesses, ICHRA presents an innovative approach and opens new avenues to provide a tailored and strategic approach to the company benefit portfolio.



An ICHRA allows employers to reimburse employees for healthcare, setting higher limits and offering greater flexibility than its predecessor QSEHRA.

As healthcare and benefits trends continue to evolve, employers who understand the nuances and benefits of ICHRA will be well positioned to consider this option for providing employees with a competitive and adaptable benefit solution. ICHRA represents a shift toward greater personalization and employee empowerment in health insurance, allowing employees to make their own choices based on their individual healthcare needs. This approach aligns with the growing preference for flexible, employee-driven health benefits, making ICHRA a strategic tool for forward-thinking employers. By utilizing an ICHRA, business owners can confidently navigate the complexities of employee benefits and develop portfolios for their workforce that reflect modern expectations.

This paper explores how employers can leverage ICHRA to enhance employee benefit offerings, navigate compliance requirements, manage costs, and support employee satisfaction.



# Understanding ICHRAs

Before considering an ICHRA for implementation into their benefit portfolio, a solid understanding of how it works, compliance issues and the pros and cons of the product is necessary. The basics first. An Individual Coverage Health Reimbursement Arrangement is a type of reimbursement arrangement (HRA) that allows employers to reimburse their employees for individual health insurance premiums and certain other qualified medical expenses on a tax-free basis.

Another major advantage is that ICHRAs can be offered by class. For example, an employer can offer a GHP to the salary class and an ICHRA to the hourly class. Many ICHRAs are a total replacement for GHPs, employers have the choice of what is offered by class (not the employees). This is a big decision for the employer. It is important to understand that the GHP can be offered to the employer's choice of class of employee. It is not the choice of the employee to go to GHP or ICHRA.

1

## Personalized Health Coverage



Employees can select individual health insurance plans that best fit their needs, including those from the Affordable Care Act (ACA) marketplace.

2

## Tax Advantages



Both employers and employees benefit from tax advantages. Employers can provide contributions to the ICHRA on a pre-tax basis, and employees typically receive these reimbursements tax-free.

3

## Employer Flexibility



Employers set the contribution amount for the ICHRA, which offers predictability and cost control compared to fluctuating group plan premiums.

4

## Employee Eligibility and Classes



Employers can create classes of employees eligible for ICHRA. Plans can be offered to the following classes: hourly/salary, FT/PT, seasonal, geographic location, employees of a CBA, temporary employees of staffing firms, employees who have not satisfied a waiting period, non-resident aliens with no US based income. These are the only classifications that can be offered. Employers cannot create/offer a class that is not part of this list.

5

## ACA Compliance



Employers with 50 or more full time/full time equivalent employees must offer coverage that is MEC, minimum value, and affordable or face a penalty by IRS. Using the annually adjusted factor, 9.02% for 2025, the employee cannot pay more than a specific amount. The employer must adjust their contribution to meet this test. Failure to meet the affordability test could mean the employer will be penalized.



## ICHRA Pros and Cons



### Pros

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- Flexibility, with Tailored Reimbursement Based on Employee Age, Family Size, or Eligibility Date
- Cost and Risk Control for Employers
- The minimum class size is 10 for employers with fewer than 100 employees, at least 10% or total number of employees for 100-200 and at least 20 employees if the employer has 200 or more employees. Tax Advantages for Both Employer and Employee
- Can be Used to Attract and Retain Talent
- Can be an ACA Compliant plan
- Administrative Simplicity
- Flexible Plan Launch Dates



### Cons

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- ICHRA's Are Still Relatively New
- Non-Traditional Approach may be Confusing to Understand
- Reimbursement Gap...The Reimbursement May Not Cover All of an Employee's Health Insurance or Medical Expenses

# Flexibility to Design Personalized Benefit Solutions

At its core, an ICHRA enables employers to allocate a fixed dollar amount to employees on a tax-free basis, which employees can use to purchase individual health insurance through the marketplace or private insurance providers. This arrangement provides a high degree of flexibility, allowing employees to choose the specific coverage that aligns with their unique health needs and family situations. This flexibility offers a valuable opportunity to design personalized benefit solutions that cater to diverse workforces. Through the implementation of an ICHRA, employers can facilitate a program that provides value to employees while aligning the strategy with the company's financial and operational goals.

One of the first steps employers should take is to assess whether an ICHRA is an appropriate fit for their organization. Employers should evaluate the organization's workforce composition, turnover rate, and budgetary considerations to determine if an ICHRA aligns with the company's long-term goals. By using these data-driven insights, company decision makers can make informed decisions on whether to adopt an ICHRA or consider alternative benefit solutions.



## Cost Control

With traditional group health insurance, employers face unpredictable premium increases each year, and controlling costs can be challenging. An ICHRA, however, allows employers to establish a fixed monthly contribution per employee, which helps stabilize benefits costs over time. This requires careful analysis of the organization's financial capacity, as well as strategic planning to ensure the contribution rate remains attractive to employees. Please take note once again that employers can structure contribution amounts based on certain employee classes. Plans can be offered to the following classes: hourly/salary, FT/PT, seasonal, geographic location, employees of a CBA, temporary employees of staffing firms, employees who have not satisfied a waiting period, non-resident aliens with no US based income.

## Compliance

Employers should be aware of several compliance requirements that exist regarding an ICHRA, including adherence to the Affordable Care Act (ACA), IRS guidelines, and anti-discrimination rules. For instance, under ACA regulations, employers offering ICHRAs must ensure that the individual plans selected by employees meet minimum essential coverage (MEC) requirements. This can be particularly challenging when dealing with a diverse workforce that may select varying levels of coverage. Although employers have some flexibility regarding eligibility criteria, they also need to verify that employee classes are defined according to regulatory standards, and ensure contributions are compliant with IRS guidelines. By proactively addressing these compliance issues, employers can avoid costly penalties and foster a smooth implementation process.

## Education

Unlike more traditional group health plans, where employees have limited options and typically follow a structured enrollment process, ICHRAs require employees to independently select individual health plans. This shift can be overwhelming for employees who may not be familiar with the marketplace or how to compare insurance options. As a result, employers should design and facilitate educational sessions, workshops, or one-on-one consultations to guide employees through the selection process, helping them understand their health needs, compare different plans, and make informed decisions. This support is particularly important for businesses with a varied workforce, as it ensures that all employees-regardless of background or insurance knowledge-are equipped to navigate the individual insurance market effectively.

## The Process for Setting Up an ICHRA

It takes time and diligence to determine the feasibility of an ICHRA, and often requires the involvement of a Third-Party Administrator. It will take time to create and go through all the necessary steps for setup, selection and ongoing reimbursement to employees. Upon determination that an ICHRA is right for the company, the following might be used as a guide for plan setup:

**1**

### **Choose a start date**

This date typically coincides with the company's annual open enrollment period, or if applicable, the day after a company's group policy is terminated.

**2**

### **Choose classes for eligible employees**

Plans can be offered to the following classes: hourly/salary, FT/PT, seasonal, geographic location, employees of a CBA, temporary employees of staffing firms, employees who have not satisfied a waiting period, non-resident aliens with no US based income.

**3**

### **Determine a budget and set allowances**

Employers determine how much they will reimburse employees. The same terms must apply to all workers within a given class, although reimbursements may be increased for older employees and those with more dependents.

**4**

### **Establish legal plan documents**

There are specific notices that must be given to all employees prior to enrollment. The required documents will include information like the named fiduciaries, plan administrators and their responsibilities, eligibility requirements, effective dates, description of benefits and exclusions, and how the ICHRA is funded.

**5**

### **Communicate the new benefit to employees**

Use multiple channels, considering the formats most well understood and utilized by the employee population.

**6**

### **Provide resources for employees to purchase individual health insurance**

Employees may purchase individual insurance directly from a provider or through the ACA exchange.



# Positioning ICHRAs in the Benefits Portfolio

As more workers prioritize personalized and flexible benefits, ICHRAs align with this trend by allowing employees to choose a plan that best fits their needs based on the employer's selection of which type of plan can be offered to their class. Employers can use this to their advantage by communicating the unique value of an ICHRA to employees, emphasizing freedom of choice, potential cost savings, and tax advantages. Through strategic messaging, employers can promote ICHRAs as part of a modern, employee-centric benefits package, which can enhance recruitment and retention efforts in an increasingly competitive job market.

It is important to note that those individuals covered or eligible for Medicare can be reimbursed only if they are in a class that can pick individual coverage. Human resource personnel will find that this may be one of the most often asked questions. An employer CANNOT set up a Medicare eligible class. It's not one of the choices listed in #4 above. If the employer offers ICHRA to hourly employees and salaried employees get the GHP, then only the hourly employees can be reimbursed (not the salaried).

Finally, once a company adopts an ICHRA for their employees, it is important to solicit feedback from the employee population to ensure that the program remains effective and aligned with the organization's evolving needs. Periodic reviews of ICHRA utilization, employee satisfaction, and cost efficiency are essential for refining the program over time. By gathering and analyzing this data, decision makers can identify areas for improvement, adjust contribution rates as needed, and consider supplementary benefits to address gaps in coverage. This continuous improvement process allows clients to maximize the benefits of an ICHRA while adapting to changes in the healthcare landscape, employee preferences, and organizational goals.



As more employees prioritize personalized and flexible benefits, ICHRAs align with this trend by allowing employees to choose plans that meet their specific needs.

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