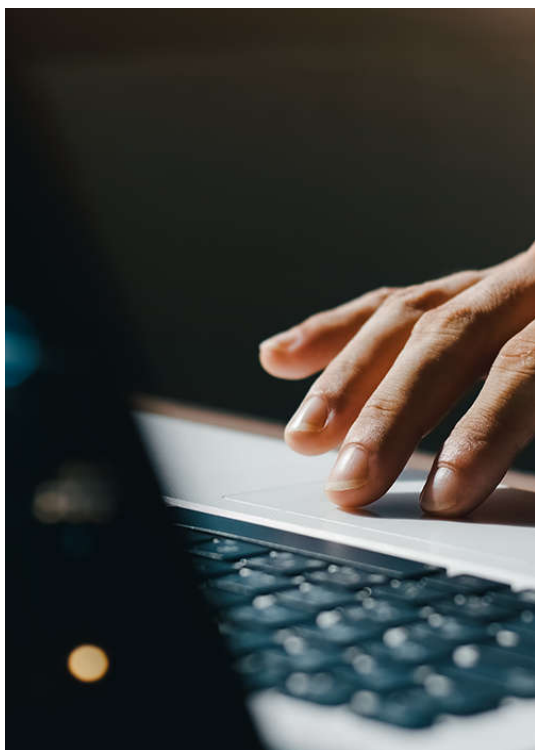


# ICHRA Guide for Employers

## Leveraging Individual Coverage Health Reimbursement Arrangements to Assist Clients

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.

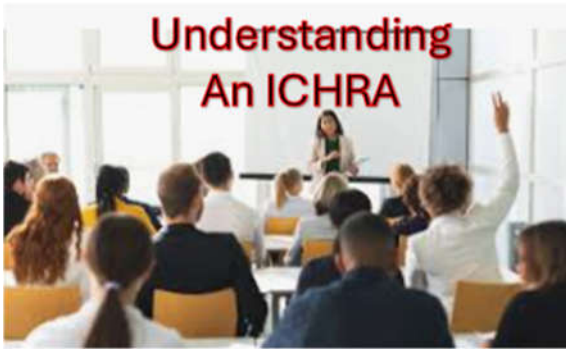
ICHRA is similar in some ways to a Qualified Small Employer HRA (QSEHRA), which is for employers with fewer than 50 employees that don't offer a group health plan (GHP). There is a limit to the amount of money an employer can reimburse and is set by the IRS each year (In 2025, \$6,350 for self only and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



**ICHRA**s allow 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 ICHRAs both enable employers to reimburse their employees tax-free for individual health insurance, these tools were designed for different audiences. ICHRAs present an innovative approach and opens new avenues to provide tailored and strategic for Employers. **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. ICHRAs represent 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 ICHRAs 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 Guide explores how we can leverage ICHRAs to enhance employee benefit offerings, navigate compliance requirements, manage costs, and support employee satisfaction.



Before considering an ICHRA for implementation into their benefit portfolio, we provide clients with 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 (HRA) 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 (Group Health Plan) 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.

## **Personalized Health Coverage**

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

## **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.

## **Employer Flexibility**

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

## **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 (Union) 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.

## **ACA Compliance**

Employers with 50 or more full time/full time equivalent employees must offer coverage that is MEC, (minimum essential coverage), 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.



## Pros

- 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

- ICHRA's Are Still Relatively New (since 2020)
- Non-Traditional Approach may be Confusing to Understand, but we have you covered with our automated solution!
- 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 we 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.



## ICHRAS

## Traditional Group Plans

VS.

### How to set up an individual coverage HRA (ICHRA)



- 1 EMPLOYEES CHOOSE OWN PLAN THROUGH THE INDIVIDUAL MARKETPLACE
- 2 EMPLOYEES HANDLE THEIR OWN PLAN ENROLLMENT, RENEWALS, AND RISK MANAGEMENT
- 3 MORE COST CONTROL SINCE REIMBURSEMENT LIMITS ARE PREDETERMINED
- 4 EMPLOYEES OWN THEIR PLANS AND CAN STAY ON THEM EVEN IF THEY CHANGE JOBS

- 1 EMPLOYERS CHOOSE ONE GROUP PLAN THAT ALL EMPLOYEES HAVE
- 2 EMPLOYERS HANDLE PLAN ENROLLMENT, RENEWALS AND RISK MANAGEMENT FOR THEIR EMPLOYEES
- 3 LESS COST CONTROL DUE TO SURPRISE RATE INCREASES EACH YEAR
- 4 EMPLOYEES DO NOT OWN THEIR PLANS, SO THEY LOSE COVERAGE IF THEY CHANGE JOBS

It takes time and diligence

to determine the feasibility of an ICHRA, and often requires the involvement of a broker and 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 broker clients to maximize the benefits of an ICHRA while adapting to changes in the healthcare landscape, employee preferences, and organizational goals.



## ICHRA's: How **Your Health Insurance Advocates** Can Help

**Your Health Insurance Advocates** focuses on providing clients with a vast array of resources that they can use to help Employers make educated, needs-focused decisions when choosing their benefits. Through our expert teams, technology, and partnerships with the nation's leading insurance carriers and service vendors, we provide innovative client-specific solutions to help your employer clients and their employees with a range of insurance and human resource needs.

### **Expert Guidance**

Your Health Insurance Advocates provides guidance when evaluating the different advantages and disadvantages of group coverage and ICHRA coverage. We work with brokers to craft a tailored and effective solution to meet the specific needs of the client.

### **Educational Resources**

Gain access to training, informational sheets, and personalized support to feel confident when selling ICHRA's.

### **Compliance Consultation**

Rest assured knowing that our team navigates the rules and regulations to ensure our employer groups are compliant and deliver ICHRA best practices.

### **Post-Sales Support**

Receive ongoing white glove service and support to ensure successful ICHRA administration while addressing any challenges that may arise.

### **Simplified Administration**

Save time with our tools that streamline the admin process assisting with enrollments, funding, reimbursements, and more.

### **Renewal Assistance**

Benefit from the same dedicated assistance from our expert team every step of the way, to ensure your ICHRA business is successfully managed year after year.

**863-588-1582 Speak with Lynne Clausen**