How much ICHRA money should you give your employees in 2025?

As we approach January 1, it's time to set your ICHRA Funding Strategy for the new year and decide how much to provide your employees for health insurance. In this post, we answer frequently asked questions that we've received from our clients.

**What Are My Options for 2025?**

As an employer, you have a range of flexible options at your disposal:

Option 1: Keep Your ICHRA Funding Strategy the Same

If your current approach is working well and employees are happy, you can choose to maintain it. You'll stick with the same "method" (percentage-based or flat-dollar contributions), but your costs will adjust based on local insurance rates. For example, we decided to keep our 2025 ICHRA Funding the same as 2024, which resulted in a 5% increase in overall cost.

Option 2: Keep Your Budget the Same, Adjust Your Strategy

If you prefer to keep your overall budget unchanged, you can adjust your strategy instead. This may involve reducing your contribution percentages or shifting your employee classifications to fit the available budget better while providing adequate coverage options. The con of this approach is that your employees may have to pay more for their health insurance premiums if they keep the same plan.

Option 3:Try Something Completely New

You have the flexibility to implement an entirely new strategy. This could mean exploring different contribution models, adjusting your employee classes, or setting up additional perks to attract and retain talent in a competitive market. Current customers can access financial modeling tools in their employer portal that will allow them to model different scenarios.

**What Is an "Affordable" ICHRA Funding Strategy?**

There are two definitions to consider:

The Legal Definition:

The IRS has defined affordability guidelines under which employers need to ensure their ICHRA offerings are affordable, or they could face penalties. For 2025, your employees' share of health insurance premium costs cannot exceed [9.02% of their household income](https://www.venteur.com/blog/aca-affordability-requirements-for-2025).

The Functional Definition:

Beyond legal compliance, an "affordable" strategy should balance company financials with employee needs. This means ensuring that your employees can reasonably afford the insurance options available to them under your plan without feeling financial strain.

**🔍 Understanding the 9.02% Affordability Rule (2025)**

For **2025**, employer-sponsored health insurance is considered **"affordable"** if the **employee’s required contribution** for **self-only coverage** does **not exceed 9.02%** of their **household income**.

The catch? Employers **usually don’t know** an employee’s full household income. So the IRS provides **safe harbors**.

**✅ Three IRS Safe Harbors for Employers**

Instead of guessing household income, employers can use one of these **safe harbors** to stay compliant:

**1. W-2 Safe Harbor**

* Use the employee’s **Box 1 wages** from their W-2.
* Health insurance is affordable if the **annual premium** for **self-only coverage** does **not exceed 9.02%** of that amount.

**2. Rate of Pay Safe Harbor**

* Multiply the employee’s **hourly rate x 130 hours/month** (assuming full-time).
* Health insurance is affordable if the **monthly premium** for self-only coverage is **≤ 9.02%** of that figure.
* Great for hourly employees — no surprises.

**3. Federal Poverty Line (FPL) Safe Harbor**

* Use the **FPL for a single individual** (2025 is ~$15,060 in the continental U.S.).
* Premium must be **≤ 9.02%** of that amount **monthly** (~$113.23/month).
* Easiest and safest — flat threshold for all.

**🧠 How Employers Apply This Practically**

Let’s say you want to keep it simple and ensure ACA compliance across the board:

* Use the **FPL safe harbor**: If your **lowest-cost, self-only plan** is **$113.23/month or less**, you’re compliant, no matter what the employee earns.

If your premiums are higher than that, you might use the **W-2 or Rate of Pay safe harbor** for more tailored affordability.

**How do I know how my ICHRA Funding Strategy will impact my employees**?

Current customers can log into their Employer Portal to model scenarios. Our tools will show the economic impact of your ICHRA Funding Strategy on each employee. This can help you anticipate challenges your team might face and fine-tune your contributions accordingly.

**What Does a Good ICHRA Strategy Look Like?**

The answer depends on your specific business needs and goals. For many of our clients, a "good" strategy typically looks like:

*- 80% of the cost of a Gold plan for employees*

*- 50% of the cost of a Gold Plan for dependents*

However, it's important to remember that "good" is subjective. If you're in a competitive industry where talent is hard to come by, you should fund your ICHRA more generously to attract top candidates. For other businesses, ICHRA offers the chance to provide health benefits for the first time ever. If this describes you, we celebrate you.  Offering even basic coverage can significantly impact employee morale and retention.

**Other Tips for 2025:**

Reevaluate Your Employee Classifications: If your workforce has changed or you're facing recruitment or retention challenges, it might be time to reassess your employee classes and adjust your ICHRA contributions accordingly.

Consider Local Insurance Market Trends: Rates vary significantly by region, so be aware of local trends when setting your ICHRA budget. Our tools can help you analyze local market shifts and make adjustments.

As always, the our team is here to help and can provide additional modeling for your team so that you can feel confident that your ICHRA funding strategy for 2025 not only aligns with your company's financial goals and supports your team's well-being.

