

Individual Coverage Health Reimbursement Arrangements (ICHRA)

What is an ICHRA?

An individual coverage health reimbursement arrangement (ICHRA) is a type of health reimbursement arrangement in which employers of any size can reimburse employees for premiums for individual health coverage including Medicare premiums.

How does an ICHRA work?

With an ICHRA, the employer funds the account; depending on plan design, contributions could be made monthly or any other time-frame arrangement. The employer determines how much to contribute, and there are no minimum or maximum limits. ICHRA participants will be direct deposited the funds into their personal checking account. ICHRA participants can then use these funds to pay for individual health coverage.

Who is eligible for an Individual Coverage HRA?

Employees must have coverage through an individual health insurance policy to participate in an ICHRA. This can include on- or off-exchange coverage, Medicare Parts A and B, or Medicare Part C. Participation in a group health insurance plan automatically disqualifies anyone from eligibility for an ICHRA.

Employees can be the primary policyholder of the individual insurance plan, or they can have coverage under an individual policy held by another family member. Family members also qualify under the employee's ICHRA if they meet two conditions. First, they must meet the same criteria as the employee; second, the employer must extend eligibility to spouses and dependents.

ICHRA Rules You Should Know

As with all tax-advantaged health plans, ICHRAs have strict rules:

- Only the employer can contribute to your ICHRA
- ICHRA funds must be used on IRS-approved products and services. The IRS considers funds spent for non-approved purchases to be taxable income that must be accounted for on your tax returns.
- Employers can contribute different amounts to different employee groups, such as full-time, part-time, seasonal, salaried, and hourly.
- Companies can offer group insurance to some classes of employees and ICHRAs to other classes of employees that do not participate in the group plan.
- Employers can vary contributions within the same class of employees based on age or family size.
- Unlike HSAs and FSAs, ICHRA can be used to pay for healthcare plan premiums.
- If you lose your individual health coverage, you are no longer eligible for an ICHRA.
- ICHRA reimbursements do not count towards an employee's taxable income.



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Can I pay for employees Medicare Premiums with an ICHRA?

Yes. Employees must have coverage through Medicare Parts A and B, or Medicare Part C. Participation in a group health insurance plan automatically disqualifies anyone from eligibility for an ICHRA.

If you offer an ICHRA, you must offer it on the same terms to all individuals within a class of employees, except that the amounts offered may be increased for older workers and workers with more dependents. You cannot offer an ICHRA to any employee that is eligible for the group health plan (GHP). However, you can decide to offer an ICHRA to certain classes of employees and a GHP (or no coverage) to other classes of employees.

Under ICHRA, the only distinctions you can make for the plan are by using classes based on the following status:

- Full-time employees
- Part-time employees
- Employees working in the same geographic location (state or multi-state region)
- Seasonal employees
- Employees in a unit of employees covered by a particular collective bargaining agreement
- Employees who have not satisfied a waiting period
- Non-resident aliens with no U.S. based income
- Salaried workers
- Non-salaried workers (such as hourly)
- Temporary employees
- Any group of employees formed by combining two or more of these classes

AWM can help you to administer your ICHRA plan. In most scenarios, employers will allocate a monthly amount to distribute to ICHRA participants. AWM can transfer these funds from the employer to each individual participant's personal bank account in order to be used to pay for individual insurance premiums. Since these funds are not taxable income, they do not need to go through payroll or be reported on the employee W2.

AWM also offers a debit card that can be funded by the employer to be used for paying for individual health coverage or other eligible items. Contact us today for more information.



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