ICHRA
Employer Contributions

Guidelines and Examples

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By offering an ICHRA, employers define the maximum monthly contribution limit allowing for better budgeting, flexibility in plan design and providing employees more coverage options to choose from. Employers:

- establish the pre-tax contribution allowance per person, stabilizing the maximum out-of-pocket expenses for which the employer will be responsible
- provide employees the opportunity to shop and compare all coverage options available to them

The Nexben ICHRA solution allows employers to define the monthly contribution amount and addresses the following:

- employer contribution is monthly with no carry over from month to month or year to year
- contribution amounts do not accumulate for the employee to use in a later month
- contributions not used by the employee are retained by the employer
- reimbursable expenses for premiums only

If you have questions regarding employer contributions or need assistance, please consult with your broker and Nexben representative.

Who can be offered an ICHRA?

With certain exceptions (including age of employee and size of family), an employer must **offer the ICHRA on the same terms to all individuals within a class of employees.** There are 11 exclusive employee class descriptions:

- full-time
- part-time
- salaried
- non-salaried (hourly)
- seasonal
- employees covered by a particular collective bargaining arrangement
- non-resident aliens with no U.S.-based income
- employees who have not satisfied waiting periods
- temporary employees of staffing firms
- employees working in the same insurance rating area (same geographic location such as state or multi-state region)
- any combination of two or more of the classes previously mentioned

Defining the Contribution Amount

The employer defines the contribution amount it will contribute, tax-free to the ICHRA. The amount can be as little or as much as the employer wants (no minimum or maximum contribution amounts are required). **The contribution amount must be a fixed dollar amount.**

The amount can be set by:

- declaring a fixed dollar amount
  - Option 1: Employer Contribution Strategy – Defined Contribution by Tier
  - Option 2: Employer Contribution Strategy – Defined Contribution by Relationship
- utilizing a formula to back into a fixed amount
  - Option 3: Employer Contribution Strategy – Percentage of Benchmark Plan by Relationship

Contribution strategies can be structured by either Tier or Relationship, but not both.

In the following section, examples of how each Contribution Strategy Option works are provided.

Contribution Strategy - Option 1 Defined Contribution by Tier

Contribution by tier is used when an employer would like to contribute to the overall total premium, including dependent premium cost. The employer determines their health benefit budget and sets a fixed contribution amount, giving equal amounts to all employees regardless of age.

- Contribution amounts may vary by tier and there could be fewer than 5 tiers (a class may be excluded from coverage under the ICHRA)
- Contribution amounts may vary by employee classes

  NOTE: a new employer contribution form must be completed for each class if the contribution amounts are different.

Example 1: Employer defines a fixed contribution amount of $500 for all tiers.

OPTION 1: Defined Contribution by Tier	
	Define Contribution Amount
Employee	$500
Employee + Child	$500
Employee + Spouse	$500
Employee - Children	$500
Family	$500

If Mary, the employee, selects and enrolls in coverage:

- for herself, she will receive the $500 employer contribution
- for herself + child, she will receive the $500 employer contribution
- for herself + spouse, she will receive the $500 employer contribution
- for herself + children, she will receive the $500 employer contribution
- for family, she will receive the $500 employer contribution

If the total monthly premium is less than the defined tier contribution, the contribution does not carry over to the following month. If the total monthly premium is more than the defined tier contribution, Mary is responsible for paying the remainder.

Example 2: Employer defines different fixed contribution amounts by each tier.

OPTION 1: Defined Contribution by Tier	
	Define Contribution Amount
Employee	$500
Employee + Child	$550
Employee + Spouse	$600
Employee - Children	$700
Family	$800

If Mary, the employee, selects and enrolls in coverage:

- for herself, she will receive the $500 employer contribution
- for herself + child, she will receive the $550 employer contribution
- for herself + spouse, she will receive the $600 employer contribution
- for herself + children, she will receive the $700 employer contribution
- for family, she will receive the $800 employer contribution

If the total monthly premium is less than the defined tier contribution, the contribution does not carry over to the following month. If the total monthly premium is more than the defined tier contribution, Mary is responsible for paying the remainder.

Example 3. Incorrectly filled out contribution by tier, if the goal is to provide the employee with a $500 employer contribution regardless of which tier the employee selects.

OPTION 1: Defined Contribution by Tier	
	Define Contribution Amount
Employee	$500
Employee + Child	$0
Employee + Spouse	$0
Employee - Children	$0
Family	$0

In the example above, the only tier where the employee would receive the $500 employer contribution is the Employee tier. If the employee selects any of the other tiers (Employee + Child, Employee + Spouse, Employee + Children, or Family) the employee would receive a $0 contribution.

Contribution Strategy - Option 2 Defined Contribution by Relationship

Contribution by relationship is used when an employer would like to contribute based on the people. An employer may specify fixed contribution amounts for the employee, the employee's spouse, or the employee's child(ren).

- Contribution amounts may vary by relationship (a class may be excluded from coverage under the ICHRA)
- Contribution amounts may vary by age and relationship (a class may be excluded from coverage under the ICHRA)
- Contribution amounts may vary by employee classes

NOTE: a new employer contribution form must be completed for each class if the contribution amounts are different.

Example 1: Employers defines fixed contribution by relationship – employee only

The employer may set the fixed contribution amount for the employee only.

OPTION 2: Defined Contribution by Relationship	
	Defined Contribution Amount
Employee	$500
Spouse	$0
Child(ren)	$0

In this example, the employee would receive the $500 employer contribution. The spouse and child(ren) would receive $0. The $500 would only be applied to the employee's premium cost. If the employee premium is $350, the $150 difference would not carry to any dependent's cost and be forfeited.

Example 2: Employer defines fixed contribution by relationship – employee and dependents

The employer may also set different fixed contribution amounts for the employee, spouse and child(ren).

OPTION 2: Defined Contribution by Relationship	
	Defined Contribution Amount
Employee	$500
Spouse	$300
Child(ren)	$200

In this example, the employee would receive $500, the spouse would receive $300, and the child(ren) would receive $200.

Let's look at a scenario on how this would play out:

- Total insurance premiums = $1127.51 (made up of employee cost of $475.12, spouse cost of $450.24 and child cost of $202.15)
- The contribution will only equal $975.12 ($475.12 + max spouse amount of $300 and max child amount of $200). The employee would be responsible for paying the remaining premium balance of $152.39

Defined Contribution by Relationship and Age

When structured by relationship, employers may also contribute different amounts based on different age bands. Individual market plans for older people typically cost more, so employers may elect to offer higher contribution allowances to older employees. Contribution allowances must be structured using a 1:3 ratio from the youngest to the oldest employee to be considered ICHRA compliant. For example,   the employer may contribute $100 for a 24-year-old and $300 for 64-year-old employee.

Contribution Strategy - Option 3 Percentage of Benchmark Plan by Relationship (age bands apply)

A formula may be used to determine the fixed contribution amount. By using a percentage of a benchmark plan, an employer can "back into" a fixed dollar amount. However, the employer contribution **must** be a fixed dollar amount.

How it works:

- The employer selects a plan for benchmarking; the lowest cost silver plan in the employers geographic rating area has been commonly used. Include the name of the benchmark plan when completing the contribution form.
- The employer selects the percentage of that plan they would like to contribute to the employee and their dependents (spouse and child(ren)).
- The employee is not required to enroll in the selected benchmark plan, they may select any policy available in their own rating area. If they choose a more expensive policy, they will pay more out of pocket and if they select a less expensive policy they will pay less.

  NOTE: a new employer contribution form must be completed for each class if the contribution amounts are different.

Example: Employer decides to contribute 85% of a benchmark plan for each employee. Let's call this Plan A. Below is an example of how the fixed contribution amount by age band would be calculated based on a percentage of the benchmark plan.

OPTION 3: Percentage of Benchmark Plan by Relationship (age bands apply)			
Benchmark Plan: PLAN A			
	Age	**Plan A Monthly Premium**	**Maximum Fixed Contribution Amount (Premium x 0.85)**
Employee #1	25	$400	$340
Employee #2	40	$500	$425
Employee #3	55	$600	$510

In this case, the fixed contribution amounts are $340, $425, and $510. Please note tobacco use increases medical premiums, which is <u>not</u> factored into this example.

Here are a few scenarios on how this would play out:

- Employee #1 decides to select Plan A. Employee #1 would be responsible for paying $60, the difference between the total premium for Plan A and the employer contribution.

  NOTE: If a benchmark plan is selected, the employee cost may change due to geographical rating area. Keep in mind, the benchmark plan is defaulted to the employer's physical address. So, if an employee lives outside the employer's rating area (zip code/county), the premium rates could change, thus impacting the employee cost. It is possible to select multiple benchmark plans to accommodate different locations and classes.

- Employee #3 selects a different plan with a total premium cost of $700. Employee #3 would be responsible for paying the difference between that premium and the fixed contribution amount. The remainder to be paid by Employee #3 would be $190 ($700 - $510 = $190).

If an employer would like to contribute 100% of the medical premium for employees, they can do so by contributing a defined dollar amount that is higher than the cost of the most expensive individual plan for a 64-year-old (which can be found on the Nexben platform). For example, if the monthly premium of the most expensive individual medical plan is $967.52 for a 64 -year-old, the employer can contribute a defined dollar amount of $970, which exceeds the potential maximum cost for an employee, regardless of which plan they select.

The benchmark plan is typically based on the employer's rating area. An employee may be in a higher rating area than the benchmark plan selected by the employer, which may impact the ability of the employer to achieve the goal of reimbursing 100% of the employee's premium.