



ICHRA: A Unique New Cost Control Strategy for Employers

What is an Individual Coverage HRA (ICHRA)?

Available since January 2020, ICHRA, in its short time on the market, has morphed into a powerful tool for company decision makers to utilize in their efforts to provide a solid benefit program to their employees while keeping control of the associated costs.



ICHRA simplifies the delivery of health insurance benefits for employers.

An ICHRA allows employers the ability to reimburse employees for individual health insurance on a tax-free basis but improves upon the original version by providing higher limits and increased design flexibility. This provides employers the ability to provide benefits without, in effect, offering a group health plan. Additionally, the ICHRA further benefits the employer by eliminating the underlying health risks from impacting the group's rates and easing much of the administrative hassle that comes from managing a traditional health plan arrangement.

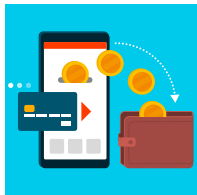
Unlike traditional, "defined benefit" style health coverage programs that require an employer to choose one or a limited number of benefit plan for all employees, an ICHRA employs more of what is considered a "defined contribution model" by providing an allowance and then letting each employee choose a plan that best fits their own individual insurance needs. Furthermore, with an ICHRA, the employer can decide which employees are eligible, establish the monthly premium allowances, then resume doing what they do best... manage and grow their business.

In this paper, we'll provide detailed information on ICHRA eligibility rules, benefits and general guidelines. And to more easily determine if an ICHRA is right for your company, we'll present some considerations, evaluation tips and strategies.

How does an ICHRA work?

ICHRAAs allow any business, regardless of size, the ability to reimburse employees for their health care expenses. As a result, each employee is able to choose a health insurance plan that best fits their own personal needs. The employer can then reimburse them tax-free for their premiums and other eligible health care expenses, up to a limit as determined in advance by the employer.

Employees must be enrolled in an individual insurance plan (or Medicare) each month that the employee or their family is covered under the ICHRA. Eligible plans may be on or off an Exchange. Any employee covered by a group insurance plan or who has coverage under a spouse's group health plan are not eligible to participate.



An ICHRA allows a business of ANY size the ability to reimburse employees for health care expenses.

What is the maximum employer contribution for an ICHRA?

There is no minimum contribution that is required for an ICHRA, nor is there a maximum contribution limit. However, the employer can differentiate contribution levels based on certain eligible employee classes, with the only stipulation being that the employer must offer the same terms for all employees in each class.

What type of Insurance Programs Qualify as Eligible Coverage Under ICHRA?

In order for employees to participate in ICHRA, they must be enrolled in a qualified individual health coverage program. The program is considered “qualified” if it meets the following two requirements:

1. The plan has no annual or lifetime limits, and
2. The plan covers preventive health services without any cost sharing

It should also be noted that ICHRA rules also do not permit an employee to meet eligibility requirements by being enrolled on a spouse's benefit plan.

| Qualifying Plan Types | Non-Qualifying Plan Types |
|---|--|
| Individual, on or off exchange Medical Plans | Multiple Employer Welfare Arrangements (MEWA) |
| Medicare Part A and B, or Part C | Short-Term, Limited Duration Insurance (STLDI) |
| Catastrophic Plans (limited to under age 30 or a qualifying hardship exemption) | Association Health Plans |
| Student Health Insurance | Coverage under a spousal plan |

What are the Permissible Employee Classes?

One of the more significant advantages of an ICHRA plan is that the employer can establish classes of employees in order to design unique and customized benefit solutions for their company. With an ICHRA, the employer can choose which employees are eligible for enrollment from a list of permissible classes (see below).

Also, an employer does not need to offer an ICHRA to all employees. Traditional group insurance can be offered to one set of employees while ICHRA can be offered to another set (although with this option, an employer must meet minimum class size standards for the employees eligible for the ICHRA). However, employees in each class can only be offered one type of program. As an example, the employer cannot offer employees within the same class the option of either an ICHRA or a group plan.



Permissible Employee Classes

- Full-time employees
- Part-time employees
- Seasonal employees
- Temporary employees working for a staffing firm
- Salaried employees
- Hourly employees
- Employees covered by a collective bargaining agreement
- Employees in a waiting period
- Employees working abroad
- Employees in different locations, based on rating areas
- Any combination of the above

Are there Minimum Class Size Requirements?

If an employer decides to offer a traditional group health plan to a designated class of employees alongside another class or classes of employees with an ICHRA, there are certain minimum class size requirements that apply, such as:

- 10 employees, for an employer with fewer than 100 employees
- 10% of the total number of employees for an employer with 100-200 employees
- 20 employees for an employer with more than 200 employees

The purpose of this rule is to prevent high risk enrollees from flooding the individual health insurance market.

What are the ICHRA Reimbursement Rules?

One of the big benefits of ICHRA is that there are no restrictions as to how much an employer can offer their employees for reimbursement. With ICHRA, employers can offer as much or as little as they want to employees, as long as it is done in a fair method for each class.

Additionally, employers can choose if they want their ICHRA to reimburse:

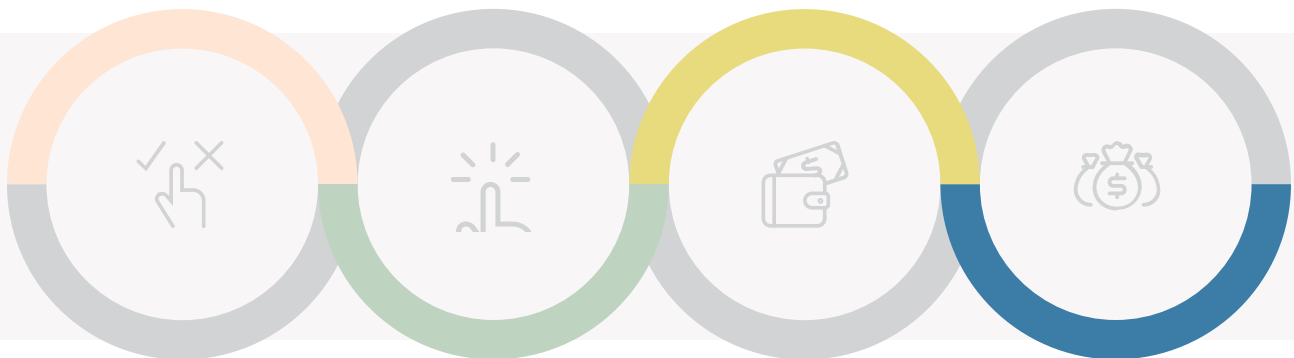
1. Insurance Premiums Only,
2. Insurance Premiums plus Qualified Medical Expenses, or
3. Qualified Medical Expenses Only

The list of qualified medical expenses is the same as the one for Health Savings Accounts (as defined in the IRS publication #502), including items such as doctor visits, copays and deductibles, prescription drugs, dental and vision expenses, etc.

Employers also have flexibility in how to structure employee reimbursements. They could:

- Provide the same amount to all employees
- Vary the reimbursement amount according to family size
- Vary the reimbursement amount according to employee age
- Vary the reimbursement amount according to age and family size

The ICHRA Process



Employer decides which employees are eligible for enrollment and establishes a monthly reimbursement allowance

Employees select a plan, paying for individual health insurance and any out-of-pocket expenses

Employees premium is pre-tax via payroll deduction. Employees listed on monthly bill satisfy substantiation requirements

Employer pays one bill each month to insurance carrier as with group coverage.



Should You Consider Replacing Your Traditional Group Plan with ICHRA?

- **Controlled Costs** — Employers can define a benefits budget and be assured to know what their cost will be year after year. No more big renewal surprises. Of course, the employer can raise their contribution level in future years to keep pace with inflation, if they so choose.
- **Elimination of Claims Risk** — Especially for traditional groups, the claims experience of the employee population can have a significant impact on the yearly renewal rates. **With an ICHRA, an individual's personal claims history has no impact on rates or renewals.**
- **Reduction of Administrative Workload** — Without the hassle that comes with managing health insurance renewals, enrollments, maintaining compliance, and monthly billing, management and benefit personnel can spend more time on productive, revenue enhancing work.
- **Plan Portability** — Since each employee owns their own health policy, they can take it with them if they leave the company for any reason.
- **Flexibility** — Employers can choose different levels of benefit for each employee class, while employees will be able to enroll in a plan that more accurately fits their own lifestyle and personal needs.
- **No Participation Minimums** — Most traditional group plans have minimum levels of participation requirements which can pressure employers to spend more money enticing employees to enroll through richer benefits or greater contributions. With ICHRA, there are no minimum participation requirements.

How to Implement ICHRA at Your Business

After an employer completes a review of all the information regarding ICHRA and determines to implement the plan as a part of the group's benefit solution, it is important to understand the various components of ICHRA that need to be put in place. In general, the following components should be considered a part of ICHRA implementation:

- A legal plan description
- The COBRA process (unless a group is exempt)
- The process required to review and substantiate employee claims
- The employee reimbursement process
- All necessary record keeping and tax reporting procedures
- Compliance review for ongoing adherence to changing regulations
- **Core Documents provides all ICHRA compliance paperwork**

The Implementation Process

The actual implementation process for an ICHRA is not complicated, the employer will:

1. **Choose a start date.** Although the start of a calendar year is a typical start date for new benefit programs, a company can implement an ICHRA on any date they desire.
2. **Determine eligibility and class structure.** The employer can choose which employees they want to be offered the benefit based on a list of eligible classes.
3. **Next, determine a budget and set allowances.** Allowances can vary by class, to be used to reimburse employees for their individual coverage premium and any eligible expenses.
4. **Execute legal plan documents.** As expected, there are rules to follow regarding HRAs established by the IRS and Department of Labor. Failure to comply with these rules can subject the employer to fines and penalties. These rules should all be included in plan documents.
5. **Communication to Employees.** Once all the details above have been worked out, it will be time to communicate the program details to employees. All pertinent information should be outlined, including the start date, allowances, **90 day notice of ICHRA offering.**
6. **Prepare to cancel the current group policy.** If the ICHRA is to replace a current group health plan, the plan will need to be terminated. If there is at least one class that will be offered to stay on a traditional group insurance plan, the proper change in eligibility should be communicated to the insurance carrier.