



Employer FAQ:

Individual Coverage Health Reimbursement Arrangement

What is an ICHRA?

Individual coverage health reimbursement arrangements (ICHRA) are tax-advantaged accounts that are funded with employer dollars that employees may use to pay for individual healthcare premiums and eligible out-of-pocket medical expenses. The employer outlines which employees are eligible to participate as well as what expenses will be covered within the limitations outlined by the Internal Revenue Service. Although an ICHRA can have an option to carry forward unused funds from year to year, an employee cannot take their ICHRA funds to a new employer.

How does an ICHRA work?

ICHRAs are based on reimbursing employees for insurance rather than buying it for them. This means employees pay out of pocket for their individual health insurance premiums and/or eligible medical expenses (depending on your plan design) and then submit receipts for reimbursement.

How does an ICHRA differ from an HRA?

An ICHRA can reimburse individual insurance premiums, while a traditional HRA cannot. In addition, a traditional HRA must be integrated with a group health insurance plan, whereas an ICHRA works with individual insurance plans.

How does an ICHRA differ from a QSEHRA?

The primary difference is that a QSEHRA can only be offered by businesses with less than 50 employees, while an ICHRA is available to businesses of all sizes. In addition, QSEHRAs have annual contribution limits, while ICHRA has no limits. Finally, QSEHRAs are not subject to COBRA, which ICHRA are subject to COBRA.

What are the benefits of offering an ICHRA to your employees?

You are most likely considering an ICHRA because you have decided to provide your employees with tax-free funds to help pay for health insurance coverage they have purchased in the individual market. An ICHRA offers many benefits, including:

- **Cost Control:** Allows you to define your benefit budget and control your health benefit costs.
- **Customization and Flexibility:** Gives you the ability to design a plan that meets your specific business needs.
- **Employee Personalization:** Employees can choose a health insurance plan that best fits their individual needs.
- **Plan Portability:** Employees own their health insurance coverage and can take it with them if they change jobs.

What are the requirements for an HRA to qualify as an ICHRA?

1. You may not offer the same class of employees a choice between an ICHRA and a traditional group coverage health insurance plan.
2. You can leverage 10 different employee classes to structure benefit eligibility and allowance amounts. While different terms may apply to different classes of employees, the same terms must be offered to all employees within the same class.
3. Participating employees and dependents must be enrolled in an individual health insurance plan or Medicare to participate in an ICHRA.
4. You must have reasonable procedures in place to verify employee enrollment in an individual health insurance plan or Medicare.
5. A written notice must be provided to eligible employees at least 90 days prior to the beginning of the plan year explaining key terms of the ICHRA.
6. Eligible employees must have the option to opt out annually and upon termination.

What are the employee classes?

You can choose to create different reimbursement rules for different types of employees, referred to as employee classes, allowing you to fine tune your ICHRA offering. Permitted employee classes include:

- Full-time employees
- Part-time employees
- Seasonal employees
- Employees covered by a collective bargaining agreement
- Employees in a waiting period for coverage
- Salaried employees
- Hourly employees
- Temporary employees of staffing firms
- Non-resident aliens with no U.S.-based income
- Employees in the same geographic location
- A combination of two or more of the above

Are there minimum class size requirements?

If you offer a traditional group health insurance plan to at least one class of employees and an ICHRA to another class of employees, minimum size requirements apply to the following classes:

- Salaried employees
- Hourly employees
- Full-time employees
- Part-time employees
- Employees in the same geographic location

For employers with fewer than 100 employees, the class must be at least 10 employees. For employers with 100 to 200 employees, the class must be at least 10 percent of the employees. For employers with more than 200 employees, the class must be at least 20 employees.

Are there minimum participation requirements?

With the ICHRA, there are no participation requirements. If employees decide not to use the benefit, there is no cost concern for the plan.

Can I offer an ICHRA and a traditional group health insurance plan?

You may offer an ICHRA and a traditional group health insurance plan as long as employees in each class are only offered one solution and certain classes being offered reimbursement through an ICHRA meet minimum class size requirements.

What is the tax benefit for me as an employer?

Employers can deduct the amount of their contributions. Since the account is funded on a notional basis, the employer can take the deduction only when the amounts are actually paid out.

Is there a tax benefit for my employees?

Yes. ICHRA funds are contributed to employees on a pre-tax basis; therefore, disbursements are not included when calculating taxable income. For this reason, employees can not claim an income tax deduction for an expense that has been reimbursed under the ICHRA.

What happens to the funds if my employee leaves the company?

ICHRA funds are not portable, except as permitted by COBRA. With the ICHRA, you have pledged to pay the funds if needed; therefore any unused funds remain with you, the employer.

How much can I contribute to employee ICHRAs?

There are no minimum or maximum contribution amounts for ICHRAs. You may contribute as much or as little as you would like as long as it's offered fairly to each class.

Can employees contribute to an ICHRA?

No. Only employers may contribute funds to an ICHRA. However, employees who purchase individual health insurance coverage outside of an ACA exchange may be permitted to pay premiums not covered by the ICHRA through a "supplemental" salary reduction cafeteria plan.

Can I, as an employer, define the ICHRA rollover amount?

Yes. You have the option to roll over unused ICHRA funds to the following year or reset the account balance to zero at the end of the year.



**For more information,
call 800-499-3539**