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ICHRA 101: Understanding the Basics

Individual Coverage Health Reimbursement Arrangements (ICHRAs) were rolled out prior to COVID-19 striking the United States, but the demand for this new product is expected to skyrocket, as more and more employers look for ways to bring stability to their healthcare costs. The ICHRA is designed to expand the use of HRAs by employers to fund premiums for their employees in the individual health insurance market.

ICHRAs allow employers of any size to reduce and stabilize their healthcare expenses while also enjoying great flexibility in plan design, while employees can use them to gain a greater degree of control in their healthcare spending, tax advantages and the opportunity to receive benefits as a part-time or seasonal worker.

Why were ICHRAs created?

Before the Affordable Care Act (ACA) was enacted in 2010, small employers commonly used HRAs to reimburse employees for individually purchased health insurance. However, regulations that spun out of the ACA halted this practice. Congress addressed the problem in 2016 with a bill creating the Qualified Small Employer Health Reimbursement Arrangement (QSEHRA), which again made it permissible for small employers to offer health insurance reimbursement benefits. In 2018, several federal departments proposed regulations to expand these QSEHRAs; the rules were finalized in June 2019. Employers of all sizes were eligible to start offering an ICHRA in January 2020.

How does an ICHRA work?

Rather than choosing a group health plan for employees and having them purchase health coverage through their employer, ICHRAs simply reimburse employees at a set level for part or all of an individual health plan. Employers define which employees are eligible and establish reimbursement limits for each class of employee covered. Employees purchase the individual plans they want and then submit claims for reimbursement, and employers reimburse all valid claims.

These plans are tax-advantaged, exempt from both payroll taxes. And, unlike QSEHRAs, ICHRAs are available to companies of all sizes. The health insurance premiums that employees will pay is dependent on the individual market in their state, and so the ICHRA may be more attractive to employers with a stronger individual market.

What are the employee classes?

One important advantage to ICHRAs is that they allow an employer to define classes of employees that can be used to create a range of benefit levels. This is important because, unlike QSEHRAs that only allow small employers to offer individual HRAs, the ICHRA can now be used by larger employers to either cover their entire population of workers, or workers in particular classes. For instance, a large employer may want to offer a full group health plan to salaried workers and then offer part-time workers an ICHRA. Or, a large employer could offer different benefit levels of an ICHRA to different classes of employees.

The classes defined in the guidance so far are:

- Full-time employees
- Part-time employees
- Salaried employees
- Hourly employees
- Seasonal employees
- Employees in the same geographic area
- Employees covered by a collective bargaining agreement
- Employees who have not satisfied a coverage waiting period
- Temporary employees
- Non-resident aliens with no U.S.-based income
- Any combination of classes

These classes ensure that employers base reimbursements on legitimate job criteria and do not allow discrimination against, for example, less-healthy employees. However, they still give employers flexibility in deciding who can participate and how much to reimburse.

What is the Minimum Class Size?

The class of employees offered the ICHRA generally must satisfy the following minimum size requirements:

- 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% of the employees
- For employers with more than 200 employees, the class must be at least 20 employees

Note: The minimum class size requirements only apply to the employees receiving the ICHRA, not any traditional group health plan. Moreover, an employer's size is based on EIN, not IRS controlled group rules. The class size is determined based on the expected number of employees on the first day of the plan year of the ICHRA. Among other exceptions, the size limits also do not apply if the employer is not offering a traditional group health plan.

What are the other advantages of ICHRAs?

With an ICHRA, employers have the ability to control costs and risks. Rather than attempting to choose a one-size-fits-all plan, managing renewals and participation rates, and being subject to unexpected premium increases, companies can simply set their monthly allowances and then get back to running their businesses.

Unlike traditional group health insurance, there are no minimum participation requirements. Companies have full control over the class reimbursement amounts they set and can even change those amounts during the plan year. Beyond employee class, companies can tailor the reimbursements based on employees' ages and family size.

Companies may launch an ICHRA plan on any date. Employees must be notified who will be offered an ICHRA 90 days prior to the start of the plan. Offering these plans will trigger an open enrollment period when employees will be eligible to purchase individual plans.

ICHRA Funding Requirements

- Employer-funded account; no limit on annual contributions.
- Employer can allow unused funds to carry over to following plan year.
- Employer can pro-rate contributions to new, mid-year plan participants.

ICHRA Substantiation Requirements

Employer must establish reasonable procedures for employees to substantiate that they have purchased individual health coverage with their ICHRA funds. It is employer's responsibility to monitor individual coverage: Annual verification is acceptable for premium only reimbursement. Monthly verification may be required for an ICHRA with combines premium and/or 213d medical expense reimbursement.

ICHRA Notice Requirements

Employers are required to distribute the Individual Coverage HRA Model Notice to their employees in the following instances:

- For first ICHRA plan year: Provide written notice to employees by 1st day of plan year.

- For renewal plan years: Provide notice to employees 90 days prior to plan year. Notice must be provided to all employees prior to enrollment.
- ABG provides the Model Notice (abbreviated and government versions) to employers.