A PRACTICAL GUIDE FOR EMPLOYERS

Individual Coverage HRA Plan (ICHRA)

The relatively new ICHRA plan is quickly becoming a game changer for employee benefit design strategies. By providing decision makers with a unique and flexible option for designing a solid benefits program in a controlled cost environment, ICHRA plans are experiencing rapid growth and widespread acceptance.

My Benefit Advisor has experts ready to enhance your understanding of ICHRA's nuances and to determine the applicability of these plans for your company's profile, objectives and needs.

MY BENEFIT ADVISOR

June 2021

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.

When compared to a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA) which was created in 2017, an ICHRA similarly 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?

ICHRAs 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 establishes 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 ICRHA). 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:

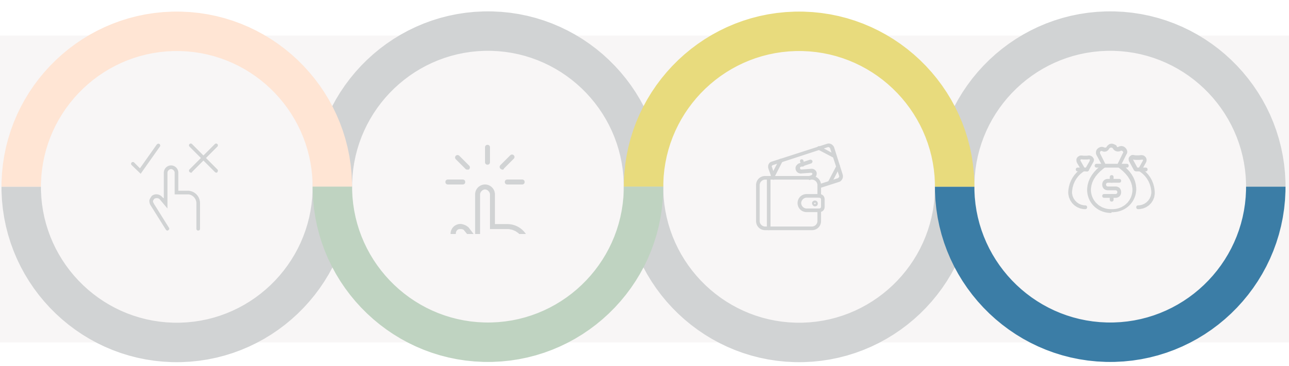
1. Insurance Premiums Only,
2. Insurance Premiums plus Qualified Medical Expenses, or
3. Qualified Medical Expenses Only

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 submit premium and eligible out-of-pocket expenses for reimbursement

Employer reimburses employees on a tax-free basis, up to the reimbursement limits

Comparing an ICHRA to a QSEHRA

Both the QSEHRA and the ICHRA are health benefit plans uniquely positioned to offer employers the ability to offer affordable and personalized benefit options to their employees. Each program allows the company to set allowances for their employees to utilize for health insurance policy premiums and other eligible medical expenses.

While both QSEHRA and ICHRA are similar in concept and follow the same general process for reimbursing employees for healthcare expenditures, they also contain a few differences that make each one unique:

ICHRA		QSEHRA
Employers of any size can offer an ICHRA.	**Employer Eligibility**	Available only to groups with less than 50 full-time equivalent employees.
Employee allowances are determined by the employer.	**Allowance/Reimbursement Amounts**	$5,250 for single employees, $10,600 for families. Family status is the only variable that can qualify for different allowance amounts.
Employers can offer an ICHRA and a traditional health insurance plan at the same time, although employees cannot choose between the two options.	**Integration with Traditional Group Health Plans**	QSEHRA plans cannot be offered with a traditional group health plan.
The employer can decide to offer it to all their employees or only to one or more designated classes of employees. An eligible employee must be enrolled in a qualified medical plan.	**Employee Eligibility**	All full-time employees are eligible for a QSEHRA, and the employer can choose to extend eligibility to part-time employees as well, provided the same allowance amounts are offered to all employees.
Employees must be covered by an individual health insurance plan or Medicare Parts A and B or Part C to be eligible for an ICHRA.	**Employee Insurance Status Requirements**	The employee's insurance status does not impact their eligibility for a QSEHRA. They can have an individual plan, coverage through a spouse, an alternative healthcare solution or no coverage at all.
All ICHRA reimbursements are free from both payroll and income tax.	**Tax Treatment**	Only employees with minimum essential coverage (MEC) can receive QSEHRA reimbursements free of income tax.
Employees may waive coverage under an ICHRA.	**Rights to Waive Coverage**	Employees may not waive coverage under a QSEHRA.

Should You Consider Replacing Your Traditional Group Plan with ICHRA?

When contemplating the installation of an ICHRA, most business owners and benefit personnel may look to compare the arrangement to their existing, traditional health insurance programs. From an employee's perspective, there are probably two main disadvantages of an ICHRA when compared to traditional programs.

First, the individual coverage plans that comprise the ICHRA offering tend to have mostly HMO or EP based networks, which some individuals might find a bit more limited than the more comprehensive array of group plans that would typically be offered. Second, the premiums for individual programs tend to be a bit more expensive than those for group plans. There are really no significant disadvantages of ICHRA for the employer.

After that, there are many advantages of ICHRA plans for both employer and employee that may provide a compelling reason to consider switching to an 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 a larger traditional group, the claims experience of the employee population can have a significant impact on the yearly renewal rates. With an ICHRA, an individual's personal claim history has no impact on rates.
- **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. Although a company can in fact administer an ICHRA plan on their own, most will engage the assistance of an administrator. Your MBA representative can review the best administrators available to your company based on your location and employee demographics. 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

The Implementation Process

The actual implementation process for an ICHRA is not complicated. Once an administrator has been chosen, 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, claim submission procedures, etc.
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.

Stay Informed

As the country continues to navigate through the impacts of the COVID-19 pandemic, MBA has developed helpful information, powerful resources and effective solutions for their clients.

Visit our website at www.mybenefitadvisor.com for additional support.