zizzlhealth

An employer's guide to ICHRA

ICHRA is now being introduced federally as the CHOICE Arrangement. Same model, new name.

EXECUTIVE SUMMARY

This guide is built for employers who want a clear, practical understanding of Individual Coverage Health Reimbursement Arrangements (ICHRAs), now also referred to as CHOICE Arrangements.

Use this guide to:

- Understand how ICHRA works at a high level
- Compare ICHRA to traditional group health insurance
- Identify the benefits for employers and employees
- Get answers to common ICHRA questions
- Decide whether ICHRA is worth exploring for your organization

What is an ICHRA?

ICHRAs ("ik-rahs") allow employers to reimburse employees a fixed, tax advantaged amount each month for:

- Individual health insurance premiums
- Eligible out-of-pocket medical expenses

Employees purchase their own individual health insurance coverage, and the employer reimburses qualified expenses up to the defined allowance.

A simple way to think about it:

ICHRA works like a 401(k) for health insurance. Employers control the budget. Employees choose the plan.

ICHRA / CHOICE vs traditional group health insurance

ICHRA

- Employer sets a defined contribution
- Employees select plans that fit their needs
- Predictable, controlled health benefit budget
- No group underwriting or participation rules
- Access to many plan designs in most states

vs

Traditional group health insurance

- ✕ Employer selects the carrier and plans
- ✕ Limited choice for employees
- ✕ Annual renewals with unpredictable increases
- ✕ Participation requirements apply
- ✕ Employers often choose between cost control and benefit quality

For many employers, ICHRA eliminates renewal volatility while improving employee choice.

Benefits of ICHRA by audience

Benefits for employers

- Predictable and controllable benefit costs
- Reduced renewal risk and volatility
- No participation thresholds
- Flexible workforce class design
- Competitive benefit offering without group plan complexity

Benefits for employees

- Freedom to choose insurance that fits personal and family needs
- Community rated plans with no medical underwriting
- Ability to select HSA-eligible or copay-based plans
- Coverage portability if employment changes



Who can offer an ICHRA and who can participate?

Employers of any size may offer an ICHRA to any type of worker including **full time and part time employees.**

Employer obligations

When offering an ICHRA, employers must:

- Have an ICHRA plan document prepared and make it available to employees
- Provide employees notice of the ICHRA plan prior to the initial effective date
- Provide employees the notice at least 90 days in advance of each subsequent plan year
- Give employees the option to “opt-out” of the plan within the notice
- Have a section 125 plan in place that allows employee contributions to be deducted pre-tax

Employee obligations

To receive benefits under an ICHRA, employees must:

- Purchase a qualified plan (see Health plans that qualify for ICHRA reimbursement)
- Submit proof of expense when requesting reimbursement of a qualified expense
- Opt-out if they desire to secure a federal subsidy in lieu of an ICHRA contribution



Health plans that qualify for ICHRA reimbursement

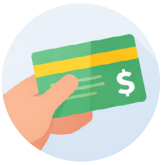
Premium for “individual health insurance plans” that provide minimum essential coverage as defined by the Affordable Care Act qualify for ICHRA reimbursement.

In most states, there are several dozen unique plan designs available to employees, including HSA-eligible and traditional copay plans. In addition, Medicare Parts A, B, C, and D, and Medicare Supplements also qualify unless specifically excluded in the plan document. Premiums for group health plans, dental plans, and vision plans do not qualify for ICHRA reimbursement.



Out-of-pocket expenses that qualify for ICHRA reimbursement

Out-of-pocket medical, dental, and vision expenses (defined by IRS code 213(d)) including copays, deductibles, and co-insurance qualify for reimbursement. Employers can exclude reimbursement for out-of-pocket expenses, limit reimbursement to the amount of funds available after premium is reimbursed, or reimburse an additional amount that is over and above the premium reimbursement.



Paying premiums

Employers may pay insurance companies on behalf of each employee and payroll deduct the employee contribution if their premium exceeds the employer contribution. This method has the advantage of a familiar “group plan” feel to employees.

Alternatively, employers may require employees to pay the entire premium and submit a reimbursement request for the employer contribution. This method creates cash flow and inconvenience issues for some employees.



FSA and HSA compatibility

ICHRAs are compatible with both healthcare flexible spending accounts and health saving accounts. Employers can offer one or both in conjunction with an ICHRA.



Determining the employer contribution

An effective strategy starts with identifying and prioritizing the objectives of providing the benefit. Because individual premiums for qualified plans are “age-rated” (they increase with age), the most equitable approach is to calculate age-specific contributions. This ensures younger and older employees are paying the same on a percentage of premium basis. Contributions can be provided to each covered employee and each dependent or can be limited to only covered employees.



Affordable Care Act (ACA) and COBRA compliance

ICHRA plans are considered ACA compliant as all qualified plans provide minimum essential coverage and employer contributions can be structured to be affordable. COBRA also applies for employers subject to ERISA law. However, state continuation does not apply.



Keys to a successful transition

Although the ICHRA plan year resets on January 1st, making the transition to an ICHRA can be done any time during the year. Effective employee education, making it easy for employees to find and purchase their plan, and paying premiums on behalf of employees with a payroll deduction process to capture employee contributions are the keys to success.

ICHRA FAQs

- **Are ICHRA premiums comparable to small group rates?**
  In many states, individual market premiums are comparable to or lower than small group rates, and availability continues to expand.
- **Do insurance carriers participate in ICHRA?**
  Yes. Most major carriers offer individual plans that qualify for ICHRA reimbursement.
- **Can employees opt-out of an ICHRA?**
  Yes. Employees may opt-out if they wish to pursue premium tax credits or other coverage.
- **Is ICHRA right for every employer?**
  Not always. Workforce demographics, geography, and benefit goals all matter. A cost analysis helps determine fit.
- **Is a CHOICE Arrangement different from an ICHRA?**
  No. CHOICE Arrangement is the new federal name being used for ICHRA. The underlying model and how it works remain the same.

Explore whether ICHRA, now also known as CHOICE, could be a fit for your organization by visiting zizzlhealth.com

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