



## Individual Coverage Health Reimbursement Arrangement 101 Guide for Employers

Plan Design | Communication | Administration

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# Introducing a new type of health insurance plan for your employees...

## The Individual Coverage Health Reimbursement Arrangement: ICHRA (pronounced “ick-rah”)

### What is an ICHRA?

An ICHRA is the next generation of employer-sponsored healthcare coverage. For the first time, employers of any size can reimburse employees for major medical and Medicare premiums on a tax-advantaged basis with no caps on the reimbursement amount.

Employers can now more accurately define the expense of employee healthcare and eliminate the erratic renewal cost increases associated with claims experience and health risk status in the group health market.

Here's how it works::

**PLAN DESIGN PHASE** **1** Employer defines reimbursement limits and employee eligibility requirements aligned with their culture and budget

**EDUCATION & ENROLLMENT PHASE** **2** Employee selects a qualified individual health insurance or Medicare insurance policy specific to their personal needs

**ADMINISTRATION PHASE** **3** Employees are reimbursed for their premium expense in the amount determined by the employer in the plan design

**eZICHRA<sup>®</sup>**

# The History of ICHRA

Health Reimbursement Accounts (HRAs) are commonly used with group health plans. Before the Affordable Care Act passed in 2010, small employers used them to reimburse for individual health insurance, a practice that the ACA made illegal.

The 21st Century Cures Act was passed in 2016 to address the issue. The bill created the Qualified Small Employer Health Reimbursement Arrangement (QSEHRA), which allows small businesses to reimburse for individual coverage under certain guidelines.

In 2019, the U.S. Department of the Treasury, U.S. Department of Health and Human Services (HHS), the Department of Labor and the Internal Revenue Service created the Individual Coverage HRA (ICHRA). The Departments estimated that by the end of 2025, roughly 800,000 employers will offer ICHRAs to pay for insurance for more than 11 million employees.

## Generally speaking, what is an ICHRA?

An Individual Coverage Health Reimbursement Arrangement (ICHRA) is an employer-sponsored health benefit plan that allows employers to reimburse their employees for qualified medical expenses, including individual health insurance premiums. Different from traditional group health insurance plans, ICHRA allows employers to define a monthly allowance for each employee, which the employee can use to purchase individual health insurance coverage that fits their needs. ICHRAs provide employees with flexibility and portability, as they can keep their coverage even if they change jobs.

Employers initiate the ICHRA plan, determine the amount of their contributions, and establish the specific eligibility criteria. The contribution amounts can vary based on factors such as age, enrollment tier, and geographic location. ICHRAs are available to employers of all sizes. By offering an ICHRA, employers can provide a health benefit to their employees while stabilizing costs and customizing the benefits to individual employee needs.



## What are the benefits to a company and its employees of an ICHRA compared to a traditional group health plan?

In many cases, a traditional group health plan is medically underwritten at the company level, meaning the company's premiums are based, in part, on the health risks within the employee and dependent population as well as the pool that the organization is part of at the insurance carrier level. All individual marketplace plans are guaranteed issue and have no medical underwriting. Individual marketplace plan costs change only based on the individual's age as of the effective date of the policy, the zip code or county of where the individual resides and in some, but not all cases, tobacco use.

When a company adopts the ICHRA method, it is no longer responsible for the medical claims risk within its employee population.

When properly designed, ICHRAs and traditional group health plans are fully compliant with all ACA mandates and avoid ACA penalties

Employers and employees continue to benefit from the tax advantages they have today with both an ICHRA plan and a traditional group health plan

### ICHRA PLAN

- Budget friendly – predictable costs, less volatile than traditional group insurance
- Simplified renewal process – less onerous planning
- No minimum employee participation requirements
- Employees select the plan that fits their needs & budget – greater choice

### TRADITIONAL GROUP HEALTH PLAN

- Uncertain costs – future costs are often dependent upon the group's claims utilization
- Time consuming renewal process – RFPs, medical questionnaires, carrier negotiations
- Usually a 50 – 75% employee participation is required
- Employees must select from the plan options that the company has chosen for them

### Is an ICHRA better than a group plan?

It depends on your needs. An ICHRA is another option for employers to provide health insurance to employees. When an employer adopts the ICHRA method, costs tend to be much more stable and predictable from one year to the next.

### What are the advantages of an ICHRA?

- Employers can better control costs by setting the reimbursement amount.
- Employees have more options for health plans that fit their individual needs.
- The employer no longer manages a health plan and its risks.



## Is an ICHRA right for my company?

The ICHRA solution can be a great fit for many companies, but especially those businesses that exhibit any of these factors:

- Companies facing large premium increases: Fully-insured groups with high utilizers and/or overall experience rating.
- A multi-state footprint: Companies that have employees in different states, including those with newly expanded remote-work practices.
- Self-funded: High and/or variable claims and administrative burdens.
- Recruitment or retention issues: Employee dissatisfaction due to benefits.
- Carrier dependencies: Groups that are limited in offerings due to carrier writing requirements, or unable to offer carriers that meet the employee's network needs.
- Participation and Affordability: Groups that struggle with participation minimums or face compliance hurdles with affordability.

## How do I know if an ICHRA is right for my organization?

The first thing an organization should do is to have an ICHRA analysis performed so they know if an ICHRA will be a good financial fit. If so, the organization should then consider whether or not an ICHRA model will be a positive cultural match for their organization. Ask ezICHRA to provide an ICHRA analysis for your organization [HERE](#).

## How does an ICHRA enable me to control my budget.

An organization can set its reimbursement rates at the beginning of the year and the spend doesn't increase when employees use their insurance. It's a set cost, like the 401(k) of employer-sponsored health insurance.

## Does ICHRA have tax advantages?

Yes. Employers can deduct reimbursements made to employees through ICHRA, reducing their overall tax liability. Those reimbursements are not considered taxable income for employees, just like a traditional group health plan.

## How does an ICHRA help me attract and retain talent?

An ICHRA is an attractive option for health care coverage because an employee can choose a plan that fits their specific needs and budget, from the wide array of options available through the individual marketplace.

## Is an ICHRA ACA-compliant?

Yes. An ICHRA meets the Affordable Care Act's minimum requirements for employer-sponsored health plans.

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## **Why would a company need an ICHRA administrator instead of administering it themselves?**

While it's technically possible for companies to administer an ICHRA on their own, we don't recommend it, especially for large groups and overtaxed HR teams.

The ezICHRA platform relieves the administrative burden, helps ensure compliance, and frees up HR teams to do other work. Our technology makes it easy to enroll it simplifies the selection process, so every employee can compare the plans that are best for them, according to their individual needs. Our dedicated white-glove customer service team is there every step of the way, from implementation and open enrollment to ongoing support throughout the year.

## **Is there a limit on reimbursement amounts?**

There are no minimum or maximum employer reimbursement limits. Employers who are considered Applicable Large Employers should offer contributions that are deemed affordable to escape any Employer Shared Responsibility Penalties.

Employers can choose how to structure reimbursements.

1. Give all employees the same amount of money.
2. Vary reimbursements by family size.
3. Vary reimbursements by employee age (most popular option): For example, employers could provide higher reimbursements to older employees who are likely to encounter higher premiums. Reimbursements must be structured using a 1:3 ratio. For example, you could give a 20-year-old employee \$100 per month and a 60-year-old employee \$300 per month.

## **Does an ICHRA have specified enrollment periods?**

Yes. A company can start their ICHRA at any time of year. The initiation of an ICHRA creates a 120-day Special Enrollment Period so employees can select their health plans, 60-days prior to the ICHRA effective date and 60-days after the ICHRA effective date. All ICHRA's renew on January 1 because that is when all individual policies renew. For all January 1 ICHRA effective dates and ICHRA renewals, open enrollment is usually held during the month of November. For newly hired employees, and employees experiencing a Qualified Life Event such as marriage, divorce or having a baby, the same 120-day Special Enrollment Period applies.



## Can employers keep some employees on a group plan while having others on an ICHRA plan?

Yes, employers can offer a specific class of employee a group health plan and a different class of employee an ICHRA. See the shaded box below for allowable ICHRA classes.

## Can you offer a choice between a group health and an ICHRA plan to the same class of employee?

No. To protect against adverse selection, the ICHRA regulations prohibit giving any particular class of employee the choice between the two options. Furthermore, when a company creates an ICHRA class while at the same time maintaining a groups health class, the regulations established minimum class sizes within an ICHRA class.

## What are the minimum class size requirements?

The minimum number of employees to be included in a class ultimately depends on the size of the employer based off the employee count on the first day of the plan year. Minimum class sizes only apply when at least one class is being offered a traditional group plan. There are no minimum class sizes for full replacement ICHRAs.

Size of Employer	Minimum Class Size
Less than 100 Employees	10 Eligible Employees
100-200 Employees	10% of the Eligible Employees (rounded down)
200 or more Employees	20 Eligible Employees

## What are the other considerations when establishing ICHRA classes?

- ICHRA reimbursement must be offered fairly to all employees to satisfy Section 105(h) Nondiscrimination Rules
- Applicable Large Employers must ensure plan affordability if they want to avoid Employer Shared Responsibility Penalties

*Sounds complex – but don't worry – ezICHRA has you covered! Unlike some models that require you to use self-service tools and create your own plan design, the ezICHRA team will be with you every step of the way and design a fully-compliant plan for you to fit your culture and budget.*

## Allowable ICHRA Classes

- ✓ Full-time employees
- ✓ Part-time employees
- ✓ Seasonal employees
- ✓ Salaried employees
- ✓ Hourly employees
- ✓ Employees working in same geographic location
- ✓ Union employees
- ✓ Waiting periods
- ✓ Non-resident aliens
- ✓ Some temporary employees
- ✓ Combination of classes\*
- ✓ Minimum class sizes apply\*

## What does it mean when they say an ICHRA must be affordable?

An ICHRA is affordable when the contribution is greater than the lowest cost silver plan an employee can purchase minus 9.12% (adjusted annually) times the employee's household income.

The lowest cost silver level plan an employee could purchase on the public marketplace is based on the employee's age and where they live. The Internal Revenue Service notes that an employer can use the employee's primary work address in determining the availability of silver plans. They can also base reimbursements on rates from the previous year for all January 1<sup>st</sup> ICHRA effective dates.

## How do I determine if my ICHRA plan is deemed affordable?

The IRS allows organizations to use several Safe Harbors to establish affordability.

Safe Harbor	Definition
W-2 Wages	Employers can use the household income of a salaried employee (Box 1 of W-2).
Rate of Pay	Multiply the hourly rate by 130 hours to estimate a monthly income.
Federal Poverty Level (FPL)	Assume an employee's income is equal to the federal poverty level.

\*Rate of Pay and FPL are the most commonly used options to establish affordability.

## What if my small business and our employees can't afford an ICHRA?

Small employers don't have to provide an affordable ICHRA to employees. In the case that an employee can't afford the ICHRA, an employee can choose an ICHRA, or they can waive the ICHRA and obtain a policy directly from the marketplace using the available premium tax subsidy.

## Can an employee still make contributions to their HSA with an ICHRA?

Most groups offer a premium-only ICHRA contribution (as opposed to medical expense reimbursement). If you are providing premium-only contribution/reimbursement then yes, employees can still contribute. In order to continue to contribute to their HSA account, an employee would just want to make sure that they elect an HSA qualified health plan, and an employer must verify that their plan is HSA compatible.

## Can an ICHRA reimburse Medicare premiums?

Yes. To qualify for an ICHRA, the employee eligible for Medicare must have coverage of Part A and Part B together or Part C.

An ICHRA may reimburse premiums for Medicare, Medicare supplemental health insurance (Medigap), and other medical care expenses. Premiums for Parts A,B, C, D, and Medigap policies are all eligible for reimbursement.



## Which plans can be reimbursed through an ICHRA?

### Permitted

- Individual Major Medical Plans (on or off-exchange)
- Catastrophic plans (limited to under age 30 or qualify for a hardship exemption)
- Medicare Part A + B, Part C ("Medicare Advantage"), Part D (Drugs), and Medicare Supplement plans ("Medigap")
- Student health insurance plans

### Not Permitted

- Short-term limited Duration Insurance (STLDI)
- Health Care Sharing Ministries (HCSM)
- Fixed indemnity plans
- Excepted benefits coverage only (vision, dental, etc.)
- Association health plans
- Multiple Employer Welfare Arrangements (MEWA)
- TRICARE

## Who is eligible for ICHRA?

Any employer with at least one W-2 employee can use an ICHRA, including S-Corps\*, C-Corps, B-Corps, nonprofits and LLCs taxed as C-Corps.

\*An S-Corp owner that owns more than a 2% share of the company is considered self-employed and not typically able to participate in an ICHRA using the same pre-tax advantages that an employee can. Self-employed individuals can usually deduct health insurance expenses through their tax return.

## What do I need to administer an ICHRA?

- Legal Plan Documents (subject to ERISA)
- COBRA administration (if not exempt)
- A process to substantiate employee monthly premiums
- A reimbursement mechanism
- Record-keeping and tax reporting

## What is the difference between working with ezICHRA compared to other ICHRA administrators?

Simply stated, ezICHRA is a team of seasoned employee benefit consulting professionals, whereas most other ICHRA administrators are technology companies that entered the health insurance business to promote and sell their technology. We, at ezICHRA, understand the financial challenges that companies are facing; we understand that insurance is confusing to employees; we understand the challenges HR professionals face when introducing an entirely new concept to employees. We view ICHRA through the lens of the company and their employees as benefits consultants and we provide high-touch, one-on-one support to make the transition to ICHRA smooth and positive for all stakeholders. Health insurance is personal, and it cannot be replaced by technology alone.

## How long is the implementation process?

ezICHRA has an implementation timeline of approximately 8 weeks lead time, depending on the size of the group. This allows for proper communication and education for the employees which will help improve the overall experience.

## What is the annual ICHRA administration cost for an employer?

Administrative costs can vary based on factors such as employee headcount, estimated enrollment, and geographic location. Typically, customers will experience savings between 10% – 40%% (including premium employer contributions and fees) when moving from a fully-insured or self-funded group to ezICHRA.

## Can I continue using my broker or benefits consultant through ezICHRA?

Yes. We respect the relationships that companies have with their benefit consultants. We encourage the continued relationship with your broker.

Our Broker Partner Program helps you maintain your relationship with your broker. You are also encouraged to continue offering ancillary benefits through your broker using the group health market.

## What are the ICHRA Reporting Requirements?

It depends on whether or not your company is deemed an Applicable Large Employer (ALE) or not.

The IRS defines an applicable large employer (ALE) as a business with 50 or more full time equivalent employees. Do you need help figuring out if you're an ALE or non-ALE? [Here's a link](#) to the IRS page. We recommend working with your tax professional to determine your status.

A common ICHRA FAQ among business owners is, *"what forms do I need to report if I offered an ICHRA last year?"* The short answer is **Forms 1094 and 1095**. However, there are different versions of the forms for ALEs and for small businesses.

Another ICHRA FAQ we often hear is, *"how and when do I need to file these forms to comply with ICHRA regulations?"*

For the previous year reporting period, you will usually need to file your Form 1094 and accompanying Forms 1095 by:

- **End of February:** Forms due to IRS if filing with paper forms. Most companies will **NOT** be eligible to file paper forms due to the new 10 document limit.
- **End of February:** Form 1095 is due to employees.
- **End of March:** E-filed forms are due to IRS. The new e-file threshold is 10 total forms, meaning virtually all companies will need to file electronically.

## **ICHRA Reporting Requirements for Small Employers**

If your business has fewer than 50 full-time equivalent employees per the IRS guidelines, you're considered a small business and must file certain forms to the IRS to remain compliant.

### **Here are the ICHRA reporting requirements for small businesses.**

File Form 1094-B and Form 1095-B with the IRS

Send a Form 1095-B to any employee who participated in the ICHRA for at least one month during the plan year.

Form 1095-B provides information about the organization's coverage to employees. You must submit Form 1095-B for every employee who participated in the ICHRA during the plan year. Form 1094-B is a summary sheet that includes the total number of Form 1095-Bs submitted to the IRS.

Each form includes codes that tell your employees how you calculated their affordability. You must provide this form to all employees who participated in the ICHRA for at least one month during the plan year.

## **ICHRA Reporting Requirements for Applicable Large Employers**

If your business has more than 50 full-time equivalent employees, you're considered a large employer and must meet the ACA's employer mandate to provide employees with healthcare coverage. If you decide to offer an HRA rather than traditional group health insurance, you must demonstrate that the amount you're reimbursing employees for through the HRA is enough to make the employee's individual health coverage costs affordable.

What exactly does that mean? Your HRA reimbursement allowances must be enough to cover the lowest cost silver tier insurance plan on the ACA marketplace or state exchange and are no more than 9.12% (2023) of the employee's household income.

### **Here are the ICHRA reporting requirements for large businesses.**

File Form 1094-C and accompanying Forms 1095-C with the IRS

Send Form 1095-C to any employee who is full-time for at least one month during the calendar year.

The forms includes codes that tell employees how you calculated affordability. You must provide this form to all employees that were full-time for at least one month.



Departments of Treasury, Labor and Health & Human Services estimate that 800,000 employers will offer an ICHRA by the end of the year 2025 insuring 11,000,000 individuals

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