



Benefit Administration by Design LLC

ICHRAs: Why They're an Ideal Solution for Employers of All Sizes



Introduction

Healthcare spending has been climbing for decades. In 2018, it consumed 17.7 percent of the entire U.S. economy.¹ Just 30 years earlier, it was half that.

The rising cost of healthcare and the general uncertainty of those costs have a tremendous impact on your business and your employees. Over half of the nonelderly U.S. population is covered by health insurance sponsored by their employer.² That number is actually in decline, from 67.3 percent in 1999 to 58.4 percent nearly two decades later. Why? One reason might be that employees are seeking more affordable alternatives. Everyone is looking for ways to stem the tide of these costs. Transformative, outside-the-box solutions deserve your attention.

Three federal agencies issued a final rule that expanded the ability of employers to use Health Reimbursement Arrangements (HRAs) by allowing these HRAs to be integrated with individual health insurance in 2020.³ From that rule, the individual coverage health reimbursement arrangement (ICHRA) was made available as a way for employers of all sizes to bring more predictability and cost certainty to their healthcare costs.

We'll outline what ICHRAs are, how they work and why employers and employees from businesses of all sizes can benefit from this new solution.



¹ <https://www.brookings.edu/research/a-dozen-facts-about-the-economics-of-the-u-s-health-care-system/>

² <https://www.kff.org/health-reform/press-release/coverage-at-work-the-share-of-nonelderly-americans-with-employer-based-insurance-rose-modestly-in-recent-years-but-has-declined-markedly-over-the-long-term/>

³ <https://www.federalregister.gov/documents/2019/06/20/2019-12571/health-reimbursement-arrangements-and-other-account-based-group-health-plans>



The challenge employers face

Having a workforce that's happy, healthy and financially secure is a great way to position your business for success. You want to take care of your employees. But every successful business also needs the ability⁴ and the predictability⁵ to budget for that care. So how can you do both? It isn't easy, especially when the cost of that employee healthcare is constantly changing. Healthcare premiums typically increase 4 to 6 percent annually, which already outpaces inflation. That leaves you deciding whether your business can absorb those increases and/or how much of the premium increases will be passed along to your employees.

Then, there are your employees. While group health plans give you the opportunity to provide universal care for eligible employees, that doesn't necessarily mean that all of your employees have access to coverage. And, when you offer a group health plan or multiple group health plans, the ability to adapt these plans based on needs is limited, and each change increases your administrative burden.

You may also be looking for ways to provide healthcare support. For large employers, you may have part-time and/or seasonal employees who would otherwise not be covered by your group health plan. And many small employers want to offer healthcare, but want to do so in a way that reduces the administrative burden because they don't have a dedicated resource internally. Since 2010, the percentage of firms with fewer than 200 employees offering health benefits has declined.⁶



⁴ <https://finance.yahoo.com/news/2021-health-insurance-rates-are-coming-out-despite-unprecedented-uncertainty-185033017.html>

⁵ <https://finance.yahoo.com/news/2021-health-insurance-rates-are-coming-out-despite-unprecedented-uncertainty-185033017.html>

⁶ <http://files.kff.org/attachment/Report-Employer-Health-Benefits-Annual-Survey-2019>



The challenge employees face

Healthcare is very much a personalized experience. When one of your employees has a doctor's appointment or needs to visit a walk-in clinic, the diagnostic process and treatment includes a discussion of their own medical history, their family history and what pain, discomfort or concerns they're experiencing.

Healthcare is not a one-size-fits-all industry. Yet that's essentially what group health coverage is. Over 80 percent of small-to-midsize employers (fewer than 200 employees) and 42 percent of large employers (200-plus employees) with health benefits offer their employees only one type of health plan.⁷ We've grown used to having the ability to customize everything in our lives, from the shoes we wear to the streaming services we watch. And the recent development and popularization of 3-D printing has allowed us to bring to life just about anything we can imagine.

But despite the role that healthcare plays in our lives, the personalization of it has room to grow. Many employees are left to choose between the health insurance they're provided or no premium assistance at all. One employee's health insurance needs aren't necessarily the same as another's. Some employees are seeking comprehensive health coverage, while others are not anticipating seeing a doctor for the upcoming plan year for anything more than an annual check-up. The former may be better suited for a traditional health plan, while the latter may prefer the reduced premiums that come with High-Deductible Health Plans (HDHPs). That leaves you to develop a solution that works for everyone.

⁷ Kaiser Family Foundation Employer Health Benefits Survey, 2018, Figure 4.1



What are ICHRAs?

ICHRAs are a type of employer-funded HRA provided to employees as a means to purchase individual health insurance rather than offering a group health plan. Employees can shop for affordable, more personalized coverage through the individual health insurance market and use their ICHRA funds to pay for part or all of their health insurance premiums. ICHRAs can be offered by employers of any size, to all or a subset of employees based on defined classes and class rules. There's no limit on how much an employer can contribute.

They were introduced at the beginning of 2020 as a response to regulations within the Affordable Care Act (ACA), which when signed into law in 2010 placed limits on the use of HRAs. These limits included preventing employers from integrating their accounts with individual health coverage. ICHRAs specifically address that by allowing HRAs to be integrated with individual health insurance.

ICHRAs: What you need to know

- **Employer eligibility:** Available to businesses of any size.
- **Employee eligibility:** They must be enrolled in individual health insurance or Medicare Parts A, B or C. You also can influence eligibility by determining which employees the ICHRA is being offered to. Employees eligible for a traditional group health plan are ineligible for an ICHRA. Eligibility can be set based on class of employees.
- **Contribution limit:** Unlimited and determined by you. There is no limit as to how much a company can contribute. Amounts can vary based on employee age, number of dependents and by class.
- **Carryover:** Unlimited and determined by you.
- **Eligible expenses:** Individual health insurance premiums, Medicare premiums (Parts A, B, C and D), Medicare Supplement premiums, certain insured student health plans, ACA-compliant catastrophic health plans and 213(d) medical expenses. You may design the plan to reimburse premiums and all (or certain) 213(d) eligible expenses, or limit reimbursement to just premiums.
- **Tax savings:** Employer reimbursements are tax-free.
- **ERISA requirements:** An ICHRA must adhere to ERISA (Employee Retirement Income Security Act), which requires certain employee communications. A third-party administrator can help take this off your plate.
- **HSA/FSA eligibility:** ICHRAs may be designed to be compatible with health savings accounts (HSAs) and flexible spending accounts (FSAs).
- **COBRA eligibility:** COBRA applies to ICHRAs, so a qualified beneficiary would be eligible to continue coverage through an ICHRA after experiencing a qualifying event.
- **Non-discrimination testing:** ICHRAs, just like any HRA, are subject to IRS rules that require that there isn't discrimination between highly compensated employees (HCEs)/key employees and other employees at a company.



What are the employee classes?

You can offer the ICHRA to all employees or a subset of them. The defined employee classes are:

- Salaried
- Non-salaried (e.g. hourly)
- Full-time (as defined in Code Section 105 or 4980H)
- Part-time (as defined in Code Section 105 or 4980H)
- Seasonal (as defined in Code Section 105 or 4980H)
- Employees covered by collective bargaining unit
- Employees who have not satisfied a waiting period for coverage
- Nonresident aliens with no US-based income
- Employees of an entity that hired the employees for temporary placement at another entity (temporary worker rule)
- Employees whose primary site of employment is in the same rating area. The rating area is defined as the rating area used for ACA premium rating requirements in the individual market. This allows employers to offer or vary benefits based on worksite location.
- Any combination of two or more of the above classes.

If you also offer a group health plan to one or more classes, then there are minimum class size requirements. The class sizes are:

- Ten employees, for an employer with fewer than 100 employees.
- Ten percent of the total number of employees, for an employer with 100 to 200 employees.
- Twenty employees, for an employer with more than 200 employees.



How ICHRAs work

- 1. Determine eligible employees.** Would your employees (or subsets of them) benefit by offering an ICHRA rather than group health insurance? Or are you looking for a way to support employees, such as part-time or seasonal hires, who would not otherwise be covered by your group health insurance? Evaluate your subsets of employees and decide who will be offered the ICHRA and who, if any, can receive group health coverage.
- 2. Set contribution limits.** Determine how much you are willing to reimburse your employees for annually. Contributions are typically made on a monthly basis.
- 3. Choose complimentary employee benefits.** You can build an ICHRA so your employees are eligible to participate and receive the pre-tax advantages of HSAs and FSAs. Before designing your plan, now is the time to determine if you'd like to include other employee benefits with your offering.
- 4. Notify employees.** You generally have to notify your employees of an ICHRA at least 90 days prior to the start of a plan year. Please note: For new hires and for employees who are newly eligible during the plan year, the ICHRA must provide notice no later than the date on which the ICHRA first takes effect for the participant.
- 5. Design the plan.** Now, you can determine a number of the other customizable options with your ICHRA, including what the contribution limit is, when the ICHRA's plan date begins and what expenses are eligible.
- 6. Capture employee attestation.** In order to utilize ICHRA funds, employees must attest annually to having individual health insurance coverage.
- 7. Employees incur claims.** Once your ICHRA's plan year is underway, your employees can start incurring claims and seeking reimbursement. For each reimbursement, they must attest to having individual health insurance when the expense was incurred.
- 8. Claims are reimbursed.** With an ICHRA, you're reimbursing claims as they're incurred rather than funding the account up front (like you would with an HSA or FSA). Seek a third-party administrator that offers online account and mobile app technology that makes it easy for them to submit claims and receive fast reimbursement.



The 2020s: The decade of the ICHRA?

When the creation of the ICHRA was first announced, the Department of Labor, Department of Health and Human Services and the Treasury Department estimated that 800,000 employers would offer it to more than 11 million employees.⁸ These projections are big numbers and would suggest that ICHRAs could dramatically reshape American healthcare. Here are some other numbers that suggest the 2020s could be the decade of the ICHRA:

4.5%

The number of people covered by group health insurance is expected to drop 4.5 percent by 2029.

25%

The number of people covered by individual health insurance who don't have access to ICHRA funds is expected to fall 25 percent by 2029.

800,000

The three federal departments also estimate that 800,000 people who otherwise would have been uninsured will be insured as a result of ICHRAs by 2029.

11 million

That also happens to be the number of HSAs that existed in their first decade after being introduced in 2004.⁹ That means ICHRA growth is expected to be on par with what HSAs experienced.

Four-year boom

ICHRA use is expected to grow quickly throughout the decade, and much of that growth is projected to occur by 2024. According to projections by three federal departments, ICHRA participation is expected to reach nearly 11 million by 2024.

	2021	2022	2023	2024
Individual health insurance coverage with ICHRA	2.7 million	5.3 million	8.1 million	10.9 million
Traditional health plan coverage decline	-1.7%	-3.3%	-5%	-6.7%

Note: Data on this page, unless otherwise noted, is from: <https://www.federalregister.gov/documents/2019/06/20/2019-12571/health-reimbursement-arrangements-and-other-account-based-group-health-plans>

⁸ https://www.irs.gov/pub/irs-utl/health_reimbursement_arrangements_faqs.pdf

⁹ <https://www.devenir.com/wp-content/uploads/2019-Year-End-Devenir-HSA-Research-Report-Executive-Summary.pdf>

Why employers of all sizes will love ICHRAs

You'll bring predictability to your healthcare costs

- **For small employers:** Running a small business brings unique challenges. Margins can be tight, and the difference between being in the red and being in the black can be razor thin. ICHRAs give you the opportunity to provide healthcare to your employees while keeping costs predictable and easy to budget.
- **For large employers:** If you employ hundreds or thousands of employees, the unpredictability of healthcare costs remains, only it's on a much higher scale due to employee volume. With group health coverage, your budget impact is really up to the insurance provider and their annual rate increases. With an ICHRA, you set the terms of how much you'll fund them, and you can also vary your contributions based on employee class, age and/or family size. Additionally, if your health insurance is self-funded, you can increase your cost certainty with an ICHRA, since self-funded plan claims are paid by you, the employer.

You'll save time in your administration

- **For small employers:** Versatility is a prized commodity. Whether you have three employees or 30, you and your employees may be asked to wear many hats. Your HR representative might be managing other functions. ICHRAs reduce the time you spend on administration because, instead of managing a group health plan, you're simply administering the ICHRA (or leaning on an innovative third-party administrator to take even more of that work off your plate). This allows you and your employees to focus more time and energy on growing your business.
- **For large employers:** The burden of offering a group health plan to all employees and administering employee benefits to them may consume considerable amounts of time from multiple full-time employees. Imagine what these resources at your company could do if they could focus more on employee engagement and development, which produce profound results for businesses.¹⁰

You can reduce the cost of employee turnover

- **For small employers:** When you have a smaller staff, the loss of an employee to another employer is felt deeply. And consider the time it takes to recruit, hire and train an employee at a small business. You need benefits that differentiate your business in recruitment and retention. This is especially challenging for small businesses. Those with fewer than 200 employees have experienced more than a 10 percent drop in offering health benefits just since 2010.¹¹ An ICHRA is a simple and more affordable way to provide employees with the support they need to cover healthcare costs.
- **For large employers:** The cost of employee turnover can be in the tens of thousands of dollars per employee.¹² That's why employee retainment plays an important role in business growth. Nearly three-quarters of organizations say that retaining employees is their reason for increasing their employee benefits.¹³ ICHRAs are a way for you to provide your employees, especially part-time and seasonal workers who may not otherwise have healthcare, with a new benefit that's not commonly offered by your competition, but soon will be (based on projections).

¹⁰ <https://www.gallup.com/workplace/231581/five-ways-improve-employee-engagement.aspx>

¹¹ <http://files.kff.org/attachment/Report-Employer-Health-Benefits-Annual-Survey-2019>

¹² https://www.huffpost.com/entry/how-much-does-employee-turnover-really-cost_b_587fbaf9e4b0474ad4874fb7

¹³ <https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/employers-beef-up-benefits-2018.aspx>

You can provide a solution for any employee

- **For small employers:** There were nearly 27 million U.S. employees who worked part-time in 2019.¹⁴ And the percentage of employees who were seasonal reached as high as 9.3 percent during the peak holiday season in recent years.¹⁵ Your ability to recruit and retain these employees is important. ICHRAs provide you an opportunity to differentiate yourself in the recruiting marketplace for these employees.
- **For large employers:** About one-sixth of all part-time employees work in retail, while the agriculture industry employs more than 3 million workers, 84 percent of which are seasonal.¹⁷ Part-time and seasonal employees in these industries and many others are essential to your success, as is retaining them. ICHRAs make it possible for you to give them healthcare at a predictable and budgetable cost.

You reimburse only what gets used

- **For all employers:** The savings are simple. With group health insurance, you're paying a portion of health insurance premiums whether or not your employees actually have claims. With an ICHRA, you set contribution limits that make budgeting easy. But you also only reimburse expenses when claims are submitted, meaning that you will never pay more than you decide to contribute.

You can meet your mandated requirements

- **For employers with 50-plus full-time employees:** If you employ at least 50 full-time employees, including full-time equivalent employees, in the prior year, you are subject to the Affordable Care Act (ACA) employer mandate. The mandate states that these employers must offer minimum essential coverage to at least 95 percent of their full-time employees and their dependents.¹⁸ When you offer an ICHRA, it counts as an offer of minimum essential coverage under the employer mandate. If you contribute a sufficient amount through your ICHRA that meets the affordability requirements of the ACA, then you can avoid making any employer mandate payments required by the ACA.



¹⁴ <https://www.statista.com/statistics/192338/number-of-part-time-employees-in-the-us-since-1990/>

¹⁵ <https://www.bls.gov/opub/btn/volume-8/holiday-employment-in-retail-trade.htm>

¹⁶ <https://nrf.com/insights/economy/about-retail-jobs>

¹⁷ http://www.ncfh.org/uploads/3/8/6/8/38685499/fs-migrant_demographics.pdf

¹⁸ <https://www.irs.gov/affordable-care-act/employers/employer-shared-responsibility-provisions>

ICHRAs vs. QSEHRAs

	ICHRA	QSEHRA
Employer eligibility	Any size employer.	Employers with fewer than 50 employees that do not offer a group health plan.
Employee eligibility	Employees who are enrolled in individual health insurance or Medicare Parts A, B or C coverage. Employers may define certain eligible classes of employees. Employees eligible for the group health plan, covered by a healthcare sharing ministry plan or employees covered by a spouse's group health plan cannot participate.	Full-time employees are automatically enrolled unless excluded based on an allowed category. Employers may choose to extend eligibility to part-time employees. Employees cannot waive coverage if eligible.
Group health insurance integration	Cannot be offered to any employees who are also offered group health insurance. May be offered alongside an HSA or FSA.	Employers may not also offer types of group health coverage, including group dental, vision, HSA, HRA or FSA.
Premium tax credit	Employees are ineligible for the premium tax credit when enrolled in the ICHRA.	Any premium tax credit received is reduced by the amount of the QSEHRA allowance.
Eligible expenses	Employers may design the plan to reimburse premiums and 213(d) eligible expenses, or limit to premiums only. Eligible premiums include individual health insurance premiums, Medicare Parts A, B, C and D, Medicare Supplement premiums, certain insured student health plans, ACA compliant catastrophic health plans.	Employers may design the plan to reimburse premiums and 213(d) eligible expenses, or limit to premiums only.



3 Common Questions About ICHRAs

Where can my employees find individual health insurance?

They can shop for coverage through the federally operated insurance marketplace or through a private insurance marketplace.

Can I offer an ICHRA and group health insurance?

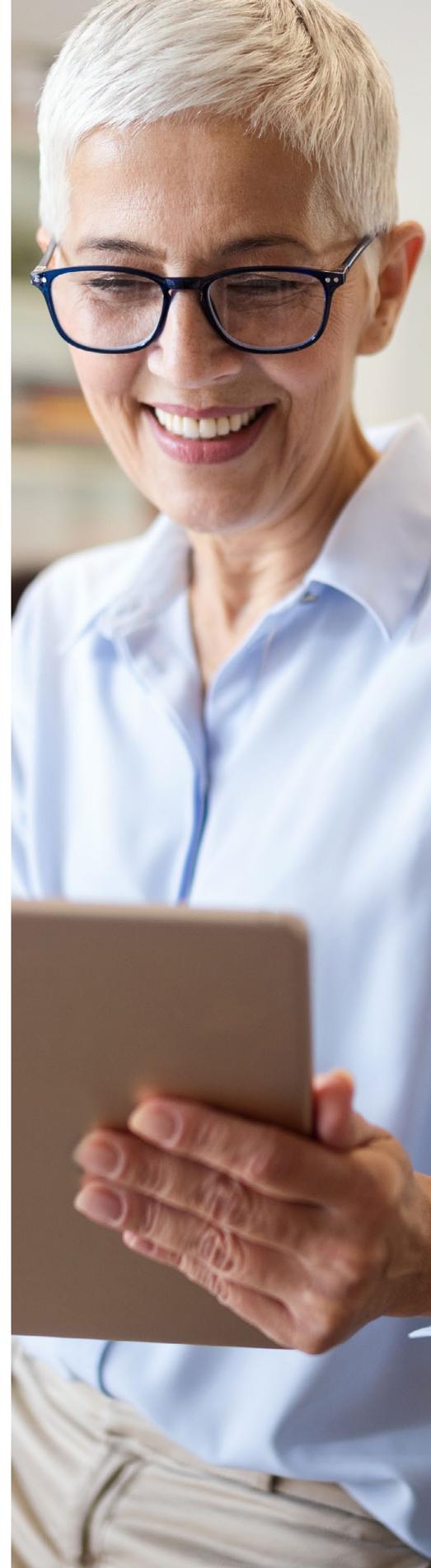
Yes, you can offer traditional group health insurance and an ICHRA, but you can't offer them both to the same class of employees.

Can an employee covered by their spouse's health insurance participate?

Yes, as long as the employee's spouse has individual health insurance. If the employee is spouse's employer group health plan, then the employee is ineligible for the ICHRA.

Why ICHRAs are a winning solution for employees

- **Choices.** How many people make use of everything their health insurance covers? Offering an ICHRA means your employees will shop for personalized, individual coverage that meets their needs.
- **More can be covered.** The percentage of private-sector employers who offer group health insurance has been declining in recent years. ICHRAs give those employers an opportunity to support employees who may otherwise be uninsured.
- **Portability.** Employees can retain their individual health insurance, even if they change employers.





Conclusion

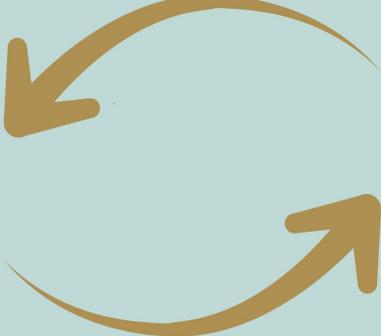
Unpredictability in healthcare costs is challenging businesses of all sizes. And that unpredictability is expected to escalate in the months and years during and immediately following the COVID-19 pandemic.

There remains plenty of curiosity surrounding ICHRAs, since they're new to the healthcare industry. But their impact is projected to be indelible, as more employers look for ways to reduce their risk and stabilize their budgets while also providing all employees with the type of healthcare and employee benefits they need.

ICHRAs could be just the solution you're looking for. And, Benefit Administration by Design LLC has the helpful tools, innovative technology and responsive customer service that enables you to simplify your employee benefits, save time and shift your focus to the other areas of your business.

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Benefit Administration by Design LLC

About Benefit Administration by Design LLC

Benefit Administration by Design LLC (BABD) was born out of a prolonged frustration by its founders with poor TPA customer service and problem resolution with CDH and COBRA administration. BABD is led by its President, Brad Milam, CPA and Vice President, Cynthia Bailey. Brad Milam, CPA, a former CFO in industry whose experience includes Accounting and Finance; Human Resources; Benefits Administration; 401K Administration; Insurance; Risk Management and managing back-office operations in a multi-entity environment. Cynthia Bailey is a Human Resources professional whose experience includes benefit selection and administration, claims management; HRIS and EDI implementation; recruiting, hiring, and on-boarding employees; generating and implementing policies and procedures. Brad and Cynthia have over 30 years combined experience in financial management, benefit management, and human resources from the client's perspective.

Our Commitment

Benefit Administration by Design LLC (BABD) believes delivering quality service is key to providing employers the opportunity to focus on what matters most - their business. Our team exists to bring the confidence to our clients that their CDH and COBRA accounts are compliant and properly administered. BABD understands that Brokers and Employers have hit a wall with other TPA's ability to resolve their concerns in a timely manner... so we decided to make it easy for employers to find solutions.

BABD provides its clients with innovative technology for a smooth online experience. When seeking answers, our clients and participants are able to get in touch with us through a direct line. Our team is made up of individuals who value serving others with integrity and attention to detail, while also taking ownership to find a resolution to their problem. That means our clients do not have to worry about long wait times or being transferred numerous times but can expect a quick solution from a live person.