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Health Reimbursement Arrangements: At-A-Glance

ICHRA Contribution Basics

Individual Coverage Health Reimbursement Arrangements (ICHRAs) offer employers great flexibility when it comes to reimbursing their employees for ACA Individual and Family health insurance as well as Medicare costs. Here are some key points to understand:

Evolution from Traditional HRAs
Initially, many ICHRAs were built upon patterns established by other types of HRAs where employees would be partially or fully reimbursed for their individual health insurance plans. Many newer administered ICHRAs resemble traditional group health insurance where the employer covers the cost of the employee's Individual/Family plan while the employee contributes their share from their paycheck on a tax-free basis.

Formalized Contribution Rules
ICHRA regulations have established formal rules allowing employers to contribute towards their employees' purchase of ACA Individual/Family plans or Medicare costs. These contributions can be written off by the company, and the employee's portion may be deducted tax-free from their paycheck. (Both employer and employee enjoy tax-free benefits.)

Different Contribution Approaches

- **Lump Sum Approach:** Employers can choose a fixed amount to contribute which employees can then use to purchase their health coverage. For instance, an employer may decide to contribute $300 per month for each employee, and the employee can allocate that amount towards their plan. This approach is straightforward, but it may raise age discrimination concerns since younger employees receive a larger portion of their medical premium compared to older employees.
- **Age-Adjusted Contributions:** To address the premium differences between younger and older employees, companies can vary the contribution based on age. ICHRA regulations require the company contribution to vary on a 3-to-1 ratio. Different ICHRA administrators may implement this differently, but the 3-to-1 ratio must be maintained. Some administrators utilize reference-based plans to determine company contributions where a 21-year-old employee receives the base contribution, and a 64-year-old employee receives three times that amount. This typically aligns with the corresponding individual premiums since 64-year-olds often have premiums three times higher than those of 21-year-olds.
- **Alternative Age-Based Strategies:** Another approach based on age is to determine a contribution for the youngest employee on the census and provide the oldest employee with three times that amount while implementing a gradient for employees in between. However, this method can sometimes lead to unintended consequences when the youngest and oldest employees are relatively close in age.

Importance of a Reliable ICHRA Administration System
Utilizing a robust ICHRA administration system will assist brokers and employers in modeling the best fit for their company.

By understanding these ICHRA contribution basics, employers can make informed decisions that suit their employees' needs and comply with regulations.