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ICHRA eBook

PERSONALIZED BENEFITS
FOR THE
MODERN WORKFORCE

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What is ICHRA?

Individual Coverage Health Reimbursement Arrangement

A shift from "defined benefit" to "defined contribution".

First available January 1, 2020, Individual Coverage Health Reimbursement Arrangement (ICHRA) is a rapidly growing alternative to conventional group health insurance.

ICHRA is a medical reimbursement plan that allows employers of all sizes to provide defined, non-taxed reimbursements to employees for qualified medical expenses, including monthly premiums.

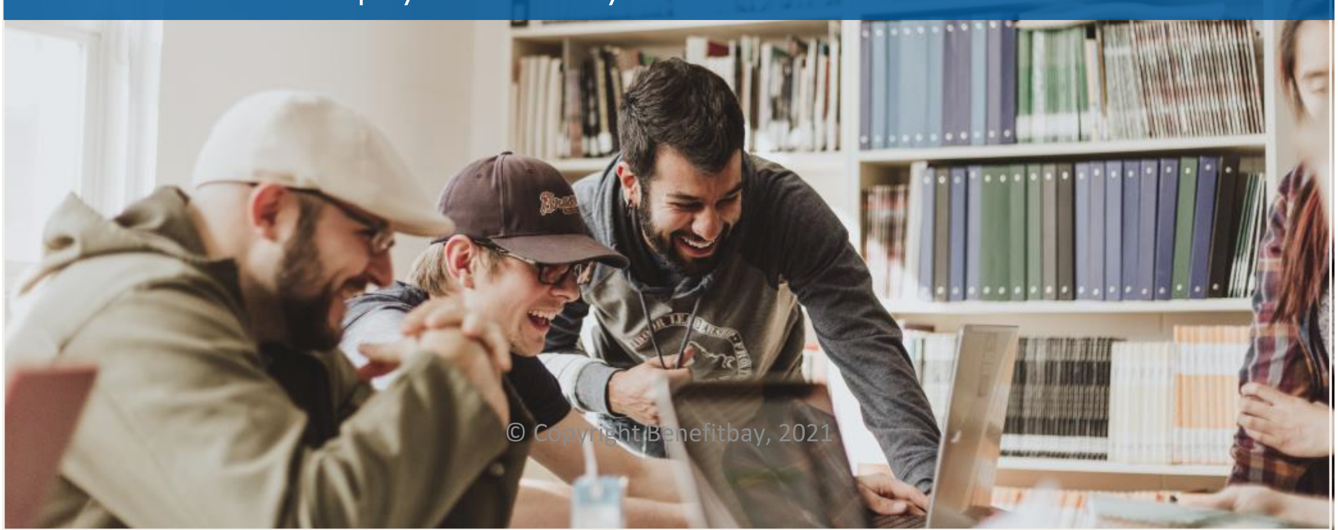
Conventional group health insurance consists of a "defined benefit". Employers are tasked with understanding each employee's individual medical requirements and meeting this wide array of needs with a small selection of plans from a few carriers.

Group plans are unpredictable for budgeting and administratively time-consuming and often challenging.

ICHRA, on the other hand, consists of a "defined contribution". Employers provide a non-taxed allowance of funds to their employees and empower them to select their own plan with all their personal and family needs taken into consideration. ICHRAs are easier for employers to administer and have a fixed, predictable budget.

Did you know?

The US Department of Health and Human Services estimates that, once employers fully adjust to the new rules, roughly 800,000 employers will offer an ICHRA, providing insurance for more than 11 million employees and family members.



Attributes of an ICHRA:

- Employer contribution can be used for individual medical, Medicare (A, B, C & D) and ancillary insurance.
- No limit on the amount an employer can contribute.
- Works for any size employer
- For large groups (50+ employees) ICHRAs meet ACA mandates.
- Small groups (less than 50 employees) can leverage ACA subsidies.
- Employers can replace group health plans for the entire company, or just a class of employees.
- Employers can grandfather employees into the group health plan and offer new hires only an ICHRA plan.

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Employers

Why should employers switch to ICHRA?

Fixed, predictable cost and simplified administration.

Employers spend valuable time and resources managing employee risk and creating systems to administer a plan with multiple layers of complexity and an unpredictable budget.

For many companies, group health is too expensive, too complex, and just doesn't fit their employee population.

With an ICHRA, employers can focus on why they started their business in the first place.

It gets them out of the insurance business and enables them to support and empower their team with all the tax advantages of a group plan.

Employer Advantages

1. Fixed, stable, predictable cost.
2. Employers are out of the insurance business – no more managing employees' health risk.
3. Employers no longer need to guess what plan will meet the needs of their diverse employee population.
4. Ability to sort employees into classes and assign different contribution amounts to each class.
5. Option to offer a group plan to one class of employees and an ICHRA to another class.
6. FICA savings for employee's portion of premium.
7. No minimum participation or contribution requirements.
8. Simplified administration and compliance.

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Employees

Why will employees be happier in an ICHRA?

Understand and control of your family's health coverage.

We have all come to expect a certain level of control over the things that matter most, and few things matter more than our health care. Every employee has different needs, and yet, conventional group health plans attempt to be a one-size-fits-all solution.

With ICHRA, employees are empowered to consider their own individual and family needs.

Who are their doctors? What prescriptions do they take? What procedures do they have planned in the year ahead? These considerations are too important to entrust to someone else.

For the first time employees can enjoy the tax advantages and employer support that they enjoyed in a group plan while taking direct ownership of their health care.

Employee Advantages

1. More plan selections.
2. Direct control over their health – employees can act in the best interest of themselves and their family.
3. Employer contribution towards premium is tax-free.
4. Employee's portion of premium is excluded from taxable income (if purchased off-exchange).
5. Plans are portable, you can bring your health plan with you through changes in employment.
6. Premium savings and potential government subsidies (for small business employees).

Affordability

DEFINITION

The Employer Mandate through the Affordable Care Act requires that employers over 50 full-time equivalent (FTE) employees offer affordable, compliant health insurance to 95% of their full-time employees. Those who fail to do so are subject to penalties.

An ICHRA plan can satisfy the Employer Mandate if the employee's portion of the premium, for a single coverage, is less than 9.61% of the employee's household income for the lowest cost silver plan, on-exchange, in their rating area.

AFFORDABILITY SAFE HARBORS

ICHRA coverage is treated as affordable if the employee's portion of premium does not exceed 9.61% of:

1. **Form W-2:** Employee's W-2 wages (box 1).
2. **Rate of Pay:** An amount equal to 130 hours x employee's hourly rate on the first day of coverage, or the employee's monthly salary.
3. **Federal Poverty-Line:** 1/12 of the federal poverty line for a single individual for the calendar year.

Premium Tax Credits

Small employers that are not subject to the Employer Mandate may choose to either offer an "affordable" ICHRA plan, or an "unaffordable" ICHRA plan.

Affordable definition is a bit different for a Premium Tax Credit. It is based on the second lowest silver plan within a rating area and employee's age.

If the ICHRA is considered affordable, then employees are not eligible for tax credits.

If the ICHRA is unaffordable, they may waive out of ICHRA and opt for the government subsidies.

Employers may want to offer an unaffordable ICHRA plan to a class of employees to allow employees can receive tax credits.

Subsidies will be based on total household income at the time of enrollment.

ICHRA Classes

Employers who offer ICHRA can categorize their employees into classes and assign a strategic contribution amount to each class. There are 11 IRS defined employee class options:

ICHRA Class Options

1. Full-time Employees
2. Part-time Employees
3. Seasonal Employees
4. Employees covered by a collective bargaining agreement
5. Employees who haven't satisfied a waiting period for coverage
6. Non-resident aliens with no US-based income
7. Geographic location
8. Salaried Employees
9. Non-Salaried Employees
10. Temporary Employees of a staffing firm
11. A combination of two or more of the above classes

Within each class, employers have the option to vary their contribution according to employee age and family status. Refer to "Contribution Rules" on page 10.

Did you know?

Employers who offer an ICHRA plan *can still* offer a group plan to a specific class of employees. Minimum class size applies to Full-time, Part-time, Salaried, Non-Salaried and Geographic location (less than a state) based on the size of the company.

Minimum Class Size

Less than 100 - 10 employees

100 – 200 – 10% of total number of employees

200+ - 20 employees

Contribution Rules

An employer must offer an ICHRA on the same terms and conditions to all eligible employees. Employers can provide a flat dollar amount to all employees, or they can assign a specific contribution according to the classes defined on page 9.

Within each class, an employer has the option to further vary contributions:

Vary by age:

- Age based variations cannot exceed the 3:1 ratio allowed for individual market premium differences.
- The oldest age band cannot receive more than 3x the youngest person.
- A young employee may not receive more contribution than an older person.

Vary by family status:

- Single Employee
- Employee + Child
- Employee + Spouse
- Family

The employer can decide if unused employer contributions should carry over to the next plan year or be forfeited at the end of the plan year.

Off-exchange

For off-exchange plans (non-federal or state-based exchange), the employee's contribution can be established through a Section 125 pre-tax payroll deduction.

On-exchange

For on-exchange plans (federal or state-based exchange) the employee's contribution is a post-tax payroll deduction.

Who Can Participate in ICHRA?

There are company ownership rules that need to be considered when establishing an ICHRA. Both employees and contractors can be eligible, but many owners are not eligible for a company contribution under an ICHRA arrangement.

ICHRA plans are available for:

1. W2 Employees – Full Time
2. W2 Employees – Part Time
3. Temporary Employees
4. 1099 Sub-Contractors

Exclusions:

- Individuals enrolled in a non-compliant ACA plan, such as a limited duration policy or a health sharing plan.
- Individuals already enrolled in another group health plan, including a spouse or domestic partner's plan.
- A sole proprietor, partner in a partnership, a 2% or greater shareholder in an S-Corp and their spouse and children working in the company.

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Common ICHRA Designs

Group Health Plan (GHP) + ICHRA:

- Offer GHP to Corporate employees and ICHRA to all other full-time employees.
- Offer GHP to full-time employees and ICHRA to part-time employees.
- Offer GHP to all salary employees and ICHRA to hourly employees.
- Offer GHP to full-time employees and ICHRA to seasonal employees.

ICHRA Only
Full Replacement of CHP

- Offer more contribution to salary than hourly.
- Offer more contribution to full-time than part-time.
- Offer seasonal employees or employees in a waiting period (measurement period) an ICHRA contribution.
- Offer contributions to full-time or salary only.
- Can work with FSAs and HSAs if ICHRA is only reimbursing premiums

When offering a Group Health Plan and an ICHRA plan, consult with the carrier to understand their participation requirements.

When can employees enroll in ICHRA?

ICHRA empowers employees to shop for and enroll in an individual health plan (on or off-exchange), Medicare premiums part A&B, C, &D, and supplemental policies.

Unlike an individual plan purchased outside of an ICHRA, special rules apply to make enrollment more manageable for employers and their teams.

Enrollment Period

To enroll in an individual health plan, it must be within the Open Enrollment period which typically runs from November to December.

Qualifying Events

Outside of Open Enrollment, a qualifying event must be triggered in order to purchase a plan (i.e., the birth of a child, a marriage, a divorce or moving.)

ICHRA Enrollment

When an employer decides to offer an ICHRA, it triggers a special enrollment period which gives employees 60 days to purchase a health plan. This allows an employer to offer an ICHRA anytime during the year.

Calendar Year

ICHRA's run on a calendar year so, if an ICHRA starts anytime after January 1, there will be a short plan year and start over the following January 1.

New hires have a 60-day window to enroll in coverage.

Compliance Requirements

- ICHRA must have a process in place to verify employees are enrolled in an individual policy.
- ICHRA is subject to ERISA (not underlying individual coverage if there is no employer endorsement, selection or renewal of individual coverage) – it is completely voluntary.
- Employer provides annual notice to each participant that the individual health insurance coverage is not subject to ERISA.
- IRS Notice furnished with 90 days prior to the plan year.
- New hires must be provided with the IRS Notice no later than the ICHRA effective date.
- Summary Plan Description furnished to participants.
- COBRA Qualifying Event Letters must be provided to employees experiencing a qualifying event.
- Form 5500 Filing (if more than 100 participants at the beginning of the plan year).
- Applicable Large Employers must report and file 1095.
- Contributions must adhere to the 3:1 ratio.
- Non-discrimination test if ICHRA offers reimbursement for expenses other than premiums.
- Reporting on W-2 is optional.

Note: New employer in business less than 120 days before the start of the ICHRA plan year, the notice is due no later than the date on which the ICHRA may first take effect.

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Where does an ICHRA plan "fit"?

Unlike the group health plans, ICHRAs offer:

- No medical underwriting – no concerns with pre-existing conditions
- No adverse selection
- No minimum participation requirements
- No minimum employer contributions

Groups at risk:

- Large Renewals
- High Claims
- Low Participation
- Network Issues
- Carrier Issues
- Employer Want Out of Insurance Business

Industries:

- Restaurants
- Hospitality
- Retail
- Construction
- Landscaping
- Healthcare
- Manufacturing
- Delivery
- Professional Services
- Non-profit
- Tech Industries

Getting started

1. Choose an effective date
2. Send out Initial Notice (90 days prior)
3. Determine budget
4. Establish classes to fit company's objectives
5. Determine who is eligible – use available classes
6. Determine contributions – use available classes
7. Begin employee communication campaign:
    1. Value of ICHRA
    2. What to Expect – The Transition Plan
    3. Shopping for and enrolling in Individual Coverage

Benefitbay – The key to successful deployment

Contact Benefitbay to streamline a successful ICHRA deployment from plan design, establishing classes and determining contributions to enrollment all through a single technology platform.

- Meets compliance requirements
- ALE (Applicable Large Employer) affordability calculations
- Small Group Subsidy Advantage Tool
- Non-discriminatory contribution guardrails to ensure compliance
- Employer Portal | Employee Portal
- Advanced Reimbursement Checking – employer funding banking account to remove employee financial hardship and administrative responsibility. Funding similar to a group health plan.

Thank you for your interest in ICHRA, powered by Benefitbay. We're eager to help you deliver this revolutionary new form of benefits to your clients. Please visit us online:

www.benefitbay.com

or email us:

info@Benefitbay.com