

The ICHRA

Healthjibe

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Introduction

The individual coverage HRA (ICHRA) is a new health reimbursement arrangement (HRA) available to businesses of all sizes.

With an ICHRA, a company offers employees a monthly reimbursement allowance or permitted benefit. Employees then purchase an individual health insurance policy and submit reimbursement requests each month when they receive their bill from the insurance company up to the reimbursement allowance.

The ICHRA differs from other currently available HRAs in several ways:

- Businesses of all sizes can offer the ICHRA.
- Applicable Large Employers (ALEs) can meet the employer mandate with an ICHRA.
- Businesses can offer both the ICHRA and a group health insurance policy, but not to the same group (or class) of employees.
- Businesses can define benefit eligibility and offer different allowance amounts based on 11 employee classes.
- There are no minimums or caps on the allowances made available through the ICHRA.
- Employees have the option of collecting premium tax credits or participating in the ICHRA.

With these features, many more small and mid-size businesses will be able to offer an HRA for the first time in 2020.

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How the ICHRA Works

Like all HRAs, the ICHRA follows a simple, five-step process: 1) the company defines employee eligibility and 2) offers an allowance, 3) employees buy health care, 4) employees submit proof of incurred expenses, and the 5) company approves and pays the reimbursement directly to the employee.

1. The business defines employee eligibility

The business has some flexibility in defining ICHRA eligibility based on employee classes such as full-time, part-time, etc. Additionally, all employees (and their families, if eligible) must be covered by an individual health insurance policy or Medicare to participate in the ICHRA.

2. The business sets an allowance amount for employees

The business offering the ICHRA chooses a monthly amount of tax-free money it will make available to employees. This is the maximum amount for which employees can be reimbursed through the benefit. There are no minimum contribution requirements or maximum contribution caps.

3. The business determines eligible expenses

The business decides what expenses are eligible for reimbursement under the ICHRA beyond health insurance premiums. For example, some businesses also reimburse for cost sharing expenses such as deductible and co-payments. Generally, all items listed in IRS Publication 502 are eligible for reimbursement through the ICHRA.

4. Employees buy health insurance

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Using their own money, employees purchase the health insurance policy that fits their personal needs.

5. Employees submit proof of purchase

After incurring an expense, employees submit proof of it to the business. Employees must also attest to having individual health insurance every time they submit a reimbursement request before it can be approved. The documentation must include three items: a description of the product or service, the cost of the expense, and the data the expense was incurred. Invoices, receipts, or explanation of benefits from the employee's insurance company typically satisfy this requirement.

6. The business reimburses employees

If the documentation provided by the employee meets requirements, the expense is eligible for reimbursement and the employee has the appropriate insurance coverage, the business must approve the employee's request and reimburse them up to their allowance amount. If the expense doesn't qualify, the business must follow the procedure for denied claims according to its ICHRA plan documents.

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The ICHRA and premium tax credits

The ruling issued by the Departments of the Treasury, Labor, and Health and Human Services states that an employee (or any member of the employee's family) cannot collect premium tax credits if they participate in the ICHRA.

Premium tax credits are designed to help eligible individuals and families with low or moderate incomes afford health insurance purchased through the individual health insurance marketplace.

An employee's premium tax credit is calculated on a sliding scale, with lower income households getting a larger credit to help cover the cost of health insurance. Should the ICHRA benefit qualify as "unaffordable" under the definition laid out in the Affordable Care Act (ACA), employees can opt out of the ICHRA and collect premium tax credits instead.

Importantly, if the ICHRA is considered "affordable," employees cannot collect premium tax credits by opting out. Additionally, employees who are otherwise eligible for premium tax credits may choose to waive access to those credits and participate in the ICHRA.

An ICHRA is considered affordable if the cost of health insurance for an employee is less than 9.78% of the employee's household income. The lowest-cost silver plan on the local exchange is the standard for the calculation with an employer's ICHRA contributions being subtracted from the premium.

That means the monthly premium for the lowest-cost silver plan, minus the ICHRA monthly allowance being offered, should not exceed 9.78% of the employee's household income for the month. If this requirement is met, the ICHRA is considered affordable and may satisfy the employer mandate.

For the 2019 plan year the required contribution percentage is 9.86 percent. For 2020, it is 9.78 percent. If this requirement is met, the ICHRA is considered affordable and may satisfy the employer mandate.

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Is the ICHRA right for my business?

Eligibility requirements

The ICHRA can be offered by businesses of any size. If a company decides to offer the ICHRA, they can't offer the QSEHRA or any other HRA. They can offer a group health insurance policy, but they can't offer the same employee class a choice between the ICHRA and the group policy. For an employee to be eligible to participate in the ICHRA, they must have individual insurance coverage. The stipulations regarding premium tax credits and affordability covered in the previous section of the eBook are also a consideration.

The ICHRA might be best suited for companies:

- That are subject to and want to comply with the ACA employer mandate
- That choose to offer an allowance higher than the annual contribution limits for the QSEHRA
- That want to restrict the benefit to apply to health insurance premium costs only
- That have employees with premium tax credits who would like the choice to either participate in the ICHRA or opt out
- That have a group health insurance plan they would like to continue offering
- That have few or new employees on a spouse's group health insurance plan or who have other non-individual health insurance coverage

Why not just give employees a pay raise?

Many small businesses, in the face of having to analyze, understand, and ultimately choose between HRA benefit options, might think it's easiest to just give employees a raise instead of offering an HRA. But there are some key points to keep in mind.

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Unlike an HRA, a salary increase is taxable for both the company and the employee. That's less money for the employee to use on a health insurance policy than they might receive through an HRA, and it costs the company additional payroll taxes, which adds hundreds of dollars per year per employee in company taxes. Additionally, the salary increase is lost to the company, even if the employee doesn't use it on health insurance or medical expenses.

An HRA allows the company to keep unused funds. Giving employees raises might save a company from compliance requirements associated with an HRA, but it will wind up costing both parties more in taxes, which may be unwelcome. Also consider the psychology behind issuing a pay raise. Even if the purpose and spirit of the raise is to function as a health benefit, employees may not see it that way; they may just view it as a raise instead of a company health benefit.

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How to set up an ICHRA for 2020

There are five steps required to set up an ICHRA and start offering the benefit to employees:

1. Choose who will be eligible

The first step is deciding who will be eligible for your ICHRA based on 11 employee classes:

- Full-time employees
- Part-time employees
- Seasonal employees
- Salaried employees
- Hourly employees
- Temporary employees working for a staffing firm
- Employees in a waiting period
- Collectively bargained employees
- Foreign employees who work abroad
- Employees who live in different geographic areas
- Any combination of the above classes

2. Set employee allowance amounts

Set your budget and determine employee allowance amounts.

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- There are no minimum contribution requirements or maximum contribution caps associated with the ICHRA.
- Business can offer different allowance amounts to different employee classes.
- You have the option to offer different allowance amounts based on an employee's age or family size.

PRO TIP: Keep it simple and offer the same amount for every employee.

3. Pick a start date

Once you've made the initial decisions on your plan design, you should choose a date on which the ICHRA benefit will begin. If you're choosing to cancel a group health insurance policy, you should set the ICHRA start date one day after the cancellation takes effect.

PRO TIP: Offer your ICHRA on a calendar year basis to simplify enrollment and tax reporting.

4. Provide legal plan documents

Both the IRS and the Department of Labor require that your business establish a formal plan document and summary plan document (SPD) to govern any employer-sponsored health benefit, including the ICHRA.

5. Communicate the ICHRA to employees

Inform your employees about the ICHRA plan including the amount of their allowance, what can be reimbursed, how to request reimbursement, and how participation in the benefit affects their eligibility for premium tax credits. Also remind them of their responsibility to purchase individual health insurance

using the resources provided by the carriers in their state or their state's health care exchange.

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About HealthJibe

HealthJibe is a benefits administration platform offering small and mid-size businesses (SMBs) an easier way of providing employee health benefits without the need for traditional group plans.

Our platform provides cost certainty for the employer with a defined contribution benefit design and helps employees monetize healthy habits and stretch benefit dollars through tax savings.

Simplicity is what drives the HealthJibe Platform

Employer

1. Set your budget
2. Direct employees to the HealthJibe app
3. Go back to running your business

Employee

1. Install HealthJibe on your mobile device
2. Snap a picture
3. Get tax-free cash in your bank account

We do everything else:

- Plan design and customized plan documents
- Reimbursement processing
- Reimbursement reporting
- Compliance monitoring
- Online employee support

Health engagement is what sets HealthJibe apart

HealthJibe combines employer reimbursement of health premiums with a health engagement component that encourages activities that are proven to stabilize health care costs including:

- A focus on completing important preventive screenings and exams
- Awareness and understanding of emerging or prospective health risks
- Monitoring of lifestyle habits like activity, sleep, weight, and blood pressure that contribute to lifestyle diseases such as obesity, diabetes, heart disease and more.

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