hra council

Health Reimbursement Arrangements: At-A-Glance

ICHRA Contribution – Beyond the Basics

In addition to the basic contribution strategies discussed in "ICHRA Contribution Basics," more advanced concepts in Individual Coverage Health Reimbursement Arrangement (ICHRA) employer contributions can lead to significant cost savings for both employers and employees. Let's explore these concepts further.

Class-Based and Dependent Contributions
ICHRAs allow for 11 different classes of employees, enabling employers to establish distinct contribution strategies for each class. Contributions may also be based on the employee's dependent status. For example, a company may cover 100% of a gold plan for **salaried employees** and their dependents, while contributing 50% toward a silver plan for **hourly employees** with no contribution for their dependents. Note: A fixed dollar amount must be defined for the contribution amount, which may be backed into by using a formula.

"Employee Only" Contribution Strategy
This approach can be beneficial for lower-paid employee groups where the employee's family members might be better off obtaining a tax credit plan from a Federal or State Exchange. Generally, a company with an "Employee Only" contribution strategy will meet the new "Family Glitch" rules which will allow the family members to see if they are better off with a tax credit plan on the Exchange rather than just the ICHRA advantage of using tax-free payroll dollars.

Location-Based Contributions
Employers may vary employee contributions based on their geographic location. If premiums differ between an employee's home location in California and another employee residing in Colorado, the company contributions can be adjusted to accommodate these location-based differences.

Zero Company Contribution
ICHRAs uniquely allow companies to provide zero contribution while still meeting the definition of Minimum Essential Coverage (MEC). For groups with over 50 employees, implementing a zero contribution ICHRA prevents Part A "Play or Pay" penalties. It may also offer a tax-free method for employees to pay their individual policy premiums that would typically be paid with post-tax dollars. ICHRAs do not have minimum participation requirements.

Coverage Exceeding 100%
Employers may offer contribution amounts that exceed the employee premium. This additional money may be utilized in coordination with other types of HRAs to cover medical deductibles, dental expenses, and vision care, etc.

Affordability and Cost Control for Large Employers
ICHRAs often provide better affordability optimization and help large employers avoid the employer "Play or Pay" penalty costs compared to traditional composite-rated large group plans. Unlike composite-rated group plans, individual plans are always age-band rated. This means that when determining affordability (based on the cost of the lowest silver plan on the Exchange minus the company's contribution), it may be more cost-effective for older, more higher premium employees to seek tax credit plans on a Federal or State Exchange. This may benefit both the employee and the employer even considering the Part B employer penalty. ICHRA administrators can assist in optimizing affordability.

Utilizing Employee Classes
Although not all 11 classes are described here, this list demonstrates the numerous opportunities to create contribution strategies that maximize cost savings for employers and employees alike. Leveraging the 11 different employee classes allows for the design of unique benefit packages to cater to underserved employees such as part-time employees, employees in waiting periods, employees in collective bargaining units (e.g., volunteer fire departments), or employees in unique state-specific situations.

By exploring these advanced contribution concepts, employers can customize their ICHRA strategies to achieve optimal savings and benefits for both the company and its employees.