

# How to properly evaluate an ICHRA, or Individual Coverage Health Reimbursement Arrangement, opportunity. Is it right for you?

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This new type of account-based plan allows employers to subsidize individual health care plans that workers obtain on their own. Whether this opportunity makes sense for your organization, especially now, requires thoughtful evaluation of the arrangement and consideration for the impact to employees.

Bottom line: Proceed carefully.

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# How to properly evaluate an ICHRA, or Individual Coverage Health Reimbursement Arrangement, opportunity. Is it right for you?

## ***Today's environment***

Without question the health care crisis and economic challenges caused by COVID-19 has created many challenges for today's employers as they review their overall benefits strategy. Many plan sponsors are being tasked with achieving cost savings within this uncertain environment.

## ***What is an ICHRA?***

Some employers are considering implementing the new Individual Coverage HRA regulation that became effective at the beginning of this year, as a way to address these challenges. Organizations can now fund an individual coverage health reimbursement arrangement (ICHRA)—dubbed "ick-rah" on behalf of their employees. ICHRAs are accounts funded solely by an employer and are used by employees to reimburse medical expenses.

Employees can use the ICHRA to pay for premiums and other out-of-pocket expenses (as allowed by their employer) when they buy individual health care coverage. In most cases, this coverage is purchased in the public marketplace.

## ***A game changer or a wait and see?***

The new regulation has prompted many questions in the plan sponsor community. What does this mean for employer-provided group coverage? Will this account-based type plan usher in a "defined contribution" health care model for employers?

The answer...it is too soon to tell. Whether it makes sense for your organization is highly dependent on several factors, including your particular employee population, geography, and the strength and stability of the individual market where you have employees. How the ICHRA model plays out in the pandemic environment is an open question.

These are major considerations.



*How the ICHRA model plays out in the pandemic environment is an open question.*

### **How does an ICHRA work?**

To offer an ICHRA, employers must follow some key rules:

1

Employers may **either offer an ICHRA or a traditional group health plan**, but they cannot offer employees a choice between the two.

2

Employers can offer an ICHRA to **certain classes of employees** (i.e. part-timers, hourly workers, workers in certain locations). For example, employers can keep their traditional plan for existing employees and offer new hires an ICHRA.

3

Employers can contribute as little or as much as they want to an ICHRA, but it **must be the same for everyone** in that employee class.

4

Most importantly, an ICHRA **must meet Affordable Care Act testing requirements**. Employers can, however, increase the dollar amount for older employees and those with dependents.

5

At least once a year, employees **must be given the option to opt out** of the ICHRA.



So, is this goodbye to group coverage? The **pros** and **cons** of ICHRAs and the public marketplace.

## There are some **clear-cut benefits (pros)** for employers and employees



### EMPLOYERS

**Budget friendly:** A defined contribution model can be easier to budget, both in the short-term and long-term (for example, employers can index increases in ICHRA funding to the Consumer Price Index). HRAs are notional accounts; funds are not paid out by an employer until the participant incurs the qualified expense.

**Predictable:** This approach would eliminate the volatility your company experiences associated with self-insured funding arrangements, both with aggregate claims and with individual high cost claimants.

**Extends coverage:** You can use an ICHRA to help with healthcare costs for a portion of your workforce that is not eligible for traditional benefits (e.g. part-time, temporary).



### EMPLOYEES

**Choice:** Your employees can purchase whatever plan they feel is right for their own personal situations, instead of what your organization decides to offer them.

**Subsidies:** Lower paid employees may be eligible for federal subsidies in lieu of an ICHRA for coverage purchased in the Marketplaces (if the subsidy is more favorable than the ICHRA).

**Portable:** Employees can keep their coverage from job to job. This is especially applicable for gig workers (ride-share drivers, contractors/freelancers, etc.).

But ICHRAs come with plenty of cons, from the obvious to the more nuanced.



## EMPLOYERS

**Untested/strategic business challenge:** ICHRAs are not yet widely adopted and there are many variables that are simply unknown at this stage. For example, the political environment impacting the marketplaces is in flux. In addition, the strength of the marketplace and available platforms is a critical consideration. That makes it harder to have a long-term strategy for workforce management. It would be wise to assess any reputational and employee relation risks to your organization.

**Loss of control:** With an ICHRA approach, you lose control of health plan coverage for your workforce. And it puts the onus on your employees to shop for their own coverage and manage the process.

**Employee relations/recruiting risk:** Important: This approach could be seen as a takeaway, especially during a worldwide health care pandemic and may also impact your recruiting efforts. Employers should take these optics under careful consideration.

**Potential administrative complexities:** ICHRAs could make enrollment and ongoing administration a more complex, two-step process. Employees would need to enroll twice (once in the ICHRA, and again in the Marketplace) and employers may have to manage a relationship with both a benefits administrator and an ICHRA administrator.

**Different support:** It would require change management with your employee population and ongoing education. To the extent your HR/Benefits department continues to provide support to these employees, you may find the need to keep track of the options available across multiple carriers in each Marketplace where you have employees.



## EMPLOYEES

**Lack of sophistication/consumer knowledge:**

“Healthcare is already confusing enough, now I’m being asked to navigate my way through buying my own health insurance?” Will your employees be up to the purchasing task? Tip: Be wary of employees using HRA dollars for voluntary benefits instead of comprehensive medical coverage.

**“What happened to my health plan?”** Studies show the employees value their workplace health coverage, perhaps even more so now during the pandemic. This change could be seen as a takeaway by your employees.

**Employees may pay more for less:** In general, publicly available individual plans are more expensive and offer lower levels of coverage than most self-insured employer group plans. But it will vary by individual circumstance.

**Tighter controls:** Care is managed much more strictly in individual plans than in group employer plans. Employees could experience a higher prevalence of narrow networks, referral requirements for specialists, no out-of-network benefits and stricter drug formularies.

**Uncertainty:** Volatility in marketplace plans may be the norm.

- Premiums in the marketplace are age and location dependent, which is a difference from traditional group plans. Costs can vary by geographic location significantly and could increase (or decrease) drastically year to year. Older employees will pay more than younger employees in most cases.
- Plans and carries available year to year could vary.

**Complicates enrollment and administration:**

Employees would need to go to two different places to enroll and for support.



## **Key Takeaways**

- ICHRAs provide another option for financing worker health insurance coverage and could be viable if employers are willing to live with certain trade-offs.
- It's "early days", and by no means a simple decision to utilize an ICHRA. The potential of ICHRAs is still unclear, but the model does offer additional flexibility, particularly for smaller employers.
- Talk to Fidelity. We can help you evaluate if an ICHRA is appropriate for your company.

## **Talk to us. We're ready to help.**

At Fidelity Workplace Consulting, we can help your organization evaluate the pros and cons of this opportunity and how it affects your specific circumstances. Our Health & Welfare Consultants have a great deal of experience with account-based plans, while at the same time offering you unbiased and objective advice as you evaluate the ICHRA opportunity.

Bottom line: We believe that the ICHRA opportunity is a complex issue and should be examined from all angles.

For more information on our Health & Welfare consulting services related to ICHRA, please contact your Fidelity managing director or email the Fidelity Workplace Consulting directly at [fidelityworkplaceconsulting@fmr.com](mailto:fidelityworkplaceconsulting@fmr.com).

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