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# ICHRA Implementation Guide

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Individual Coverage Health Reimbursement Arrangement: Setup, Compliance,  
and Administration

## What Is an ICHRA?

An Individual Coverage Health Reimbursement Arrangement (ICHRA) is an employer-funded, tax-advantaged health benefit that reimburses employees for individual health insurance premiums and qualifying medical expenses. Introduced in 2020, ICHRA gives employers a defined-contribution alternative to traditional group health insurance with predictable costs and employee choice.

ICHRA allows employers of any size, from 1 employee to thousands, to offer a health benefit without the complexity of managing a group health plan. Employer contributions are tax-deductible, and employee reimbursements are tax-free when used for qualifying expenses.

## ICHRA vs. Traditional Group Health Insurance

Feature	ICHRA	Traditional Group Plan
Cost predictability	Fixed employer contribution each month	Annual renewal increases (often 8-15%)
Employee choice	Employee selects own plan from marketplace or off-marketplace	Limited to plans selected by employer
Administration	Third-party ICHRA administrator handles compliance	Employer or broker manages plan admin
ACA compliance	Can satisfy employer mandate with affordable offer	Must meet minimum value and affordability tests
Employer size	Any size (1 to unlimited employees)	Typically 2+ employees depending on state
Contribution flexibility	Can vary by 11 employee classes (age, geography, etc.)	Uniform contribution percentage required
Risk to employer	No claims risk; fixed cost per employee	Claims experience affects renewal rates
Tax treatment	Employer: deductible; Employee: tax-free reimbursement	Employer: deductible; Employee: pre-tax premium

## Eligible Expenses

- Individual health insurance premiums (marketplace or off-marketplace plans)
- Medicare Part A, B, C, D premiums and Medigap premiums
- Dental and vision insurance premiums (if allowed by plan design)
- Qualifying medical expenses as defined under IRC Section 213(d)
- Prescription medications, lab work, and preventive care costs
- Mental health services and substance abuse treatment

Employees cannot be enrolled in both ICHRA and a traditional group health plan from the same employer. If transitioning from group to ICHRA, the group plan must be terminated for the ICHRA-eligible class of employees.

## Contribution Strategy

One of ICHRA's key advantages is contribution flexibility. Employers can set different contribution amounts for up to 11 employee classes, allowing customized benefit levels while maintaining compliance.

## Permitted Employee Classes

Class	Description	Example Use
Full-time employees	30+ hours/week under ACA	Primary ICHRA offering
Part-time employees	Less than 30 hours/week	Lower contribution than full-time
Seasonal employees	Work 6 months or less per year	Optional coverage offering
Salaried employees	Exempt from overtime	Higher contribution for retention
Hourly employees	Non-exempt employees	Standard contribution level
Employees by state/rating area	Based on work location	Adjust for cost-of-living differences
Temporary employees	Employed through staffing agency	May exclude from ICHRA
Union employees	Covered by CBA	Separate from non-union classes
Employees by age band		

	Using 1:3 ratio for older vs. younger workers	Align with higher insurance costs for older employees
Waiting period	New hires during initial waiting period	Up to 90-day waiting period

## Setting Contribution Amounts

Set contributions based on your budget, local insurance costs, and ACA affordability requirements. Use this framework to determine appropriate contribution levels.

Factor	Consideration	Action
ACA affordability threshold	Employee cost for self-only coverage cannot exceed 8.39% (2024) of household income	Set contribution so lowest-cost Silver plan is affordable
Local insurance costs	Individual plan premiums vary significantly by state and rating area	Research average premiums in each employee location
Budget per employee	Total annual amount employer is willing to spend per employee	Divide annual budget by 12 for monthly contribution
Competitive benchmarking	What similar employers in your industry and region offer	Survey competitors and industry data
Employee class variation	Different contribution amounts for different classes allowed	Set higher amounts for classes with higher retention needs

For ACA applicable large employers (50+ full-time equivalent employees), the ICHRA must offer an amount that makes the lowest-cost Silver plan in the employee's area affordable. Use the IRS affordability safe harbors to determine minimum contribution levels.

## Employer Compliance Requirements

Requirement	Details	Status
Written plan document	Formal ICHRA plan document required before effective date	
90-day advance notice to employees		

	Written notice before plan year start or employee eligibility
Notice content requirements	Must include contribution amount, opt-out right, marketplace eligibility impact
Substantiation of claims	Verify employee has qualifying individual health coverage
Proof of individual coverage	Employee must provide proof of enrollment each month/year
ACA reporting (Forms 1094-C/1095-C)	Report ICHRA offer on annual ACA information returns
Non-discrimination within classes	Same terms offered to all employees within each class
Prohibition on group plan for same class	Cannot offer both ICHRA and group plan to same employee class

## Employee Enrollment Process

1. Employer provides 90-day written notice with ICHRA details and contribution amounts
2. Employee shops for individual health insurance (marketplace or off-marketplace)
3. Employee enrolls in a qualifying individual health plan that meets minimum essential coverage
4. Employee opts into ICHRA or opts out (opting out preserves marketplace subsidy eligibility)
5. Employee submits proof of individual health coverage to ICHRA administrator
6. Employee submits eligible expenses for reimbursement through ICHRA portal
7. Administrator verifies expense eligibility and processes reimbursement
8. Employee receives tax-free reimbursement via payroll or direct deposit

## Integration with Health Insurance Marketplace

- Employees who accept ICHRA are generally not eligible for marketplace premium tax credits
- Employees may opt out of ICHRA to retain marketplace subsidy eligibility if the ICHRA is not affordable
- An ICHRA is considered affordable if the employee contribution (lowest-cost Silver plan minus ICHRA) does not exceed the ACA affordability percentage

- Employees must decide during open enrollment whether to accept ICHRA or use marketplace subsidies
- ICHRA administrators typically provide tools to help employees compare options

BrightWealth® helps employers design, implement, and administer ICHRA programs that maximize tax advantages and employee satisfaction. Our team handles plan documentation, compliance, employee education, and ongoing administration. Contact us for a complimentary ICHRA feasibility analysis.