ICHRAs
Separating Myths from Facts

Let's set the record straight about ICHRAs. As with any new product or service, misconceptions can arise about value, scope, and purpose. Our "Myths vs. Facts" FAQ explains how ICHRAs create another option for employers to provide employees with comprehensive, ACA-compliant health coverage.

Myth 1

Claim: *Individual Coverage Health Reimbursement Arrangements (ICHRAs) are an invention of the Trump administration intending to weaken the quality of benefits that employees receive from their employers.*

Fact: ICHRAs are similar to the Qualified Small Employer Health Reimbursement Arrangement (QSEHRAs) enacted by Congress in 2016 in an overwhelmingly bipartisan vote and signed into law by then-President Obama. The expanded rules permit employers to reimburse premiums for individual market coverage selected by employees.The coverage must comply with the requirements of the Affordable Care Act (ACA). ICHRAs and QSEHRAs are simply one method to provide employer-financed health coverage. This new option can increase the number of employees with ACA-compliant health coverage by providing employers with more options for offering health coverage benefits.

Myth 2

Claim: *ICHRAs create a system that allows for picking and choosing who gets quality insurance based on, for example, their geography or pay structure. This would only exacerbate the health care disparities in this country and begs for a workplace crisis when employees realize what is happening.*

Fact: Between 2010 and 2020, the percentage of employees covered by their firm's health benefits declined from 44% to 34% at firms with 3 to 24 employees, from 59% to 41% at firms with 25 to 49 employees, and from 60% to 58% at firms with 50 to 199 employees. ICHRAs should reverse the decline in the percentage of employees at smaller firms covered with employer health benefits. The Department of Treasury modeling projects that the ICHRA rule will cut the number of uninsured Americans by about one million people within the next five years. Ultimately, employers will only offer ICHRAs or QSEHRAs to provide their employees a superior option to a traditional group plan.

Myth 3

Claim: *Employees in an ICHRA plan would no longer receive quality group health coverage. Instead, they would be given a stipend and forced to find coverage on the Obamacare exchanges. Health insurance on the exchanges covers less and is more expensive.*

Fact: Federal rules require that individual market coverage is comprehensive and meets ten specific areas of essential health benefits.

ICHRAs and QSEHRAs are voluntary options that permit employers to reimburse premiums for ACA-compliant individual market coverage that employees select. Suppose a traditional group health plan (the employer selects the coverage for their employees) is working well. In that case, there is nothing about the ICHRA rule that makes any changes to those arrangements. Individual market plans will be more attractive to certain employees since premiums are lower in many areas of the country.

With a traditional group health plan, the employer selects a limited number of coverage options for their employees to consider. In 2020, 74% of firms offering health insurance only provided employees with one type of health plan. The HRA rule has the potential to increase worker choice and control over their health insurance significantly. Economic research shows that employees value health coverage choices. A 2013 study in the American Economic Journal estimated that the median welfare gain of additional insurance options for employees equaled 13% of premiums.

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Myth 4

Claim: *Workers in this system are left to pay out of pocket for any plan that costs more than their stipend.*

Fact: Most employees also pay out-of-pocket for employer-provided coverage, with this amount steadily increasing. In 2020, covered workers with single coverage had an average contribution of $1,243 annually, and workers with family coverage had an average contribution of $5,588 annually. Similarly, suppose an employee uses an ICHRA or QSEHRA to purchase an individual market plan that costs more than the amount of their employer contribution. In that case, the employee will owe that amount.

Myth 5

Claim: *The burden of finding the right health care plan would also be entirely borne by workers with no support from their employers.*

Fact: Many companies, including members of the HRA Council, are creating apps and structures that help employees utilize ICHRAs and QSEHRAs to enroll in the coverage best suited for them. In addition, professional brokers are available throughout the United States to assist employees in finding and selecting the right plan. These free services from an independent broker are a widely used resource. Remember: a defined contribution structure for health insurance is like popular 401(k) and 403(b) plans for retirement savings; employers provide a set amount of funds, with employees having more control over their investment selection.

Myth 6

Claim: *The ICHRA system allows workers to be divided into classes by their employers, with some receiving traditional job-based coverage and others pushed out into the individual market.*

Fact: ICHRA rules contain flexibilities that enable larger firms to offer ICHRAs to part-time workers, hourly workers, and workers in geographic locations where the individual market is more robust. The creation of classes is a way for employers to expand coverage and create compensation packages that are better for employees based on job function, location, and numerous other factors.

ICHRAs are projected to increase people with health insurance by nearly one million, so they will extend coverage to many workers who currently do not have access to a plan. Employees offered an ICHRA or QSEHRA will use it to purchase an ACA plan in the individual market.

Myth 7

Claim: *The possibility that employers could push sicker employees onto exchanges would also make those exchanges more expensive for everyone.*

Fact: The Departments of Health and Human Services, Labor, and the Treasury properly structured the ICHRA rules to prevent high-claim employees from being directed to the individual market. The HRA rule should improve the individual market and lead to more insurer participation. Early data from the initial adopters of ICHRAs suggests that the rule is encouraging enrollees who are much younger than traditional ACA enrollees to sign up for coverage, improving the overall individual market.

The ICHRA rules strike the right balance between employer flexibility and guardrails to protect the individual market from adverse selection. To prevent behavior that could lead to employers steering unhealthy employees into the individual market, the rule provides that employers may offer either an ICHRA or a traditional group health plan within an employee class but may not offer employees a choice between the two. Moreover, employers that provide an ICHRA must do so on the same terms for all employees in a class of employees, except that they may increase the HRA amount for older employees and employees with more dependents.