Individual Coverage Health Reimbursement Arrangements: Policy and Application Overview
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Introduction: Individual Coverage Health Reimbursement Arrangements (ICHRA) and Other Types of HRAs
Introduction: ICHRAs and Other Types of HRAs

• In June 2019, the Departments of the Treasury, Labor, and Health & Human Services jointly published a final rule to expand the flexibility and use of health reimbursement arrangements (HRAs) and other account-based group health plans to provide Americans with additional options to obtain quality, affordable health care.

Resource: Health Reimbursement Arrangements and Other Account-Based Group Health Plans – Final Rule
What is an HRA?

• An HRA is a group health plan funded solely by employer contributions that reimburses an employee’s medical care expenses up to a maximum dollar amount for a coverage period.*

• HRA reimbursements are excludable from the employee’s income and wages for federal income tax and employment tax purposes.

• An employer may allow funds that remain in the HRA at the end of the year to carry over into future years.

• In addition to the employee, an HRA may also reimburse expenses incurred by the employee’s spouse, dependents, and children who, as of the end of the taxable year, have not attained age 27 (dependents).

*Medical care expenses means expenses for medical care as defined under section 213(d) of the Internal Revenue Code.

Resource: Health Reimbursement Arrangements - CMS.gov Resource Page
Individual Coverage HRA (ICHRA)

• Because HRAs do not by themselves comply with certain PPACA requirements, * employers could previously only offer an HRA to individuals who were also enrolled in another group health plan that did comply with these requirements, provided the HRA met certain other criteria. Employers may continue to offer these other types of HRAs that are integrated with other group health plan coverage.

• The June 2019 HRA Rule allows employers to instead meet PPACA requirements by offering an ICHRA that requires employees and any covered dependents to be enrolled in individual health insurance coverage; or Medicare Parts A and B, or Part C; in order to receive reimbursements for medical care expenses from the ICHRA. Reimbursements by the ICHRA may include premiums and cost sharing for individual health insurance coverage, and for Medicare.

• Employers may begin offering ICHRAs as of January 1, 2020.

* As an account-based group health plan to which an employer contributes a specific amount annually, resulting in a maximum amount being available to reimburse expenses, HRAs generally do not meet the ACA’s prohibition on applying an annual dollar limit to essential health benefits and do not, in all cases, provide coverage for preventive services without cost-sharing for these services.
The 21st Century Cures Act permits small employers who don't offer group health plan coverage to any of their employees to provide a QSEHRA to their eligible employees to help employees pay for medical care expenses.

An eligible employee can use a QSEHRA to reimburse medical care expenses for him or herself, as well as any covered dependents (if permitted by the employer).

To receive reimbursements from a QSEHRA, an employee and any covered dependents must be enrolled in minimum essential coverage (MEC).

Small employers can provide QSEHRAs for plan years beginning on or after January 1, 2017.

Excepted Benefit HRAs (EBHRAs)

• The June 2019 Final HRA Rule also created another, limited kind of HRA that can be offered in addition to a traditional group health plan. These “Excepted Benefit HRAs” permit employers to reimburse additional medical care expenses (for example to help cover the cost of copays, deductibles, or other expenses not covered by the primary plan) even if the employee declines enrollment in the traditional group health plan.

• Excepted Benefit HRAs cannot be used to reimburse premiums for group or individual coverage or Medicare.

Resource: For more information on EBHRAs, see Question 11 of “FAQs on New Health Coverage Options for Employers and Employees.”
Cafeteria Plans and ICHRAs

• A cafeteria plan is a separate written plan maintained by an employer for employees that meets the specific requirements of section 125 of the Internal Revenue Code. It provides participants an opportunity to receive certain benefits on a pretax basis. Participants in a cafeteria plan must be permitted to choose among at least one taxable benefit (such as cash) and one qualified benefit.

• Employers may not allow salary reduction through a cafeteria plan to pay the portion of the Marketplace premiums not covered by an ICHRA; however, employers may allow salary reduction through a cafeteria plan to pay the portion of premiums not covered by an individual coverage HRA for coverage purchased outside the Marketplace.
Individual Coverage HRAs (ICHRA): Impact on PTC
• A premium tax credit (PTC) is not allowed for an individual’s Marketplace coverage if he/she is offered an ICHRA that is affordable. This applies to employees as well as spouses and dependents of employees to whom the offer extends.
• If the ICHRA is not affordable based on standards set forth in the final rule, a PTC is allowed if the employee offered the coverage “opts out” of the HRA and the other PTC requirements are met.
• A PTC is not allowed for an individual’s Marketplace coverage if the individual chooses to be covered by an ICHRA, regardless of whether the HRA is affordable.
What makes an ICHRA affordable?

For 2020, an ICHRA is considered affordable for an employee (and dependents, if applicable) if the monthly premium of the self-only lowest-cost silver plan (LCSP) in the employee’s area, minus the monthly amount made available to the employee under the ICHRA, does not exceed 9.78%* of 1/12 of the employee’s household income.

*This “required contribution percentage” is indexed annually.

Affordable HRA Example

Self-only LCSP monthly premium – monthly ICHRA amount

\[
\frac{500 - 200}{12} = \frac{300}{12} = 25
\]

≤

Employee’s household income for the tax year/ 12 * the required contribution percentage

\[
\frac{51,000}{12} \times 9.78% = \frac{415.65}{12} = 34.63
\]
# ICHRAs vs. QSEHRAs

<table>
<thead>
<tr>
<th></th>
<th>ICHRAs</th>
<th>QSEHRAs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employers can offer this HRA-type to reimburse employees for their medical care expenses/premiums</strong></td>
<td>Yes, employers of all sizes may offer an ICHRA*</td>
<td>Yes, employers with fewer than 50 full-time employees may offer a QSEHRA*</td>
</tr>
<tr>
<td><strong>Affordability Determined Using . . .</strong></td>
<td>Employee’s self-only lowest-cost silver plan premium (LCSP)</td>
<td>Employee’s self-only second-lowest cost silver plan premium (SLCSP)</td>
</tr>
<tr>
<td><strong>If coverage through the HRA is unaffordable . . .</strong></td>
<td>Employee must “opt out” to be PTC-eligible, if they otherwise qualify for PTC</td>
<td>Employee must reduce monthly PTC by their monthly QSEHRA amount</td>
</tr>
</tbody>
</table>

*Employers offering an ICHRA generally cannot offer traditional group health plan coverage to employees in the same class; employers providing a QSEHRA cannot offer group health plan coverage to any employees.*
ICHRA Employer Notice

• An employee who is offered an ICHRA will generally get a written notice at least 90 days before the beginning of the ICHRA’s plan year.

• However, employees who become eligible during the plan year, or later than 90 days before the start of the plan year (such as newly hired employees), will get their notice no later than the date on which their coverage under the ICHRA can begin.
The final rule requires this “employer notice” to include key information about the ICHRA, such as the dollar amount of the HRA offer, the date that coverage under the HRA may begin, and whether the offer extends to dependents (among other things).

Resource: For more information on the ICHRA employer notice, see the Individual Coverage HRA Model Notice.
The employer notice must also include (among other things):

- Contact information (including a phone number) for an individual or a group of individuals who participants may contact in order to receive additional information regarding the ICHRA.

- A statement of availability of an SEP to enroll in or change individual health insurance coverage, through or outside of an Exchange, for the participant and any dependents who newly gain access to the ICHRA and are not already covered by the ICHRA.

- A statement that there are different kinds of HRAs (including a qualified small employer health reimbursement arrangement) and the HRA being offered is an individual coverage HRA.
Employer Notice: ICHRAs vs. QSEHRAs

• Employers that provide QSEHRAs also must provide a notice: Section 9831(d)(4) of the Internal Revenue Code requires an eligible employer who provides a QSEHRA to its eligible employees to furnish a written notice to each eligible employee at least 90 days before the beginning of each plan year, or for an employee who is not eligible to participate at the beginning of the plan year, the date on which the employee is first eligible to participate in the QSEHRA.

Resource: For more information, see Section E. “Written Notice Requirement” in IRS Notice 2017-67.
ICHRA/QSEHRA Individual Market Special Enrollment Period (SEP)
Overview: ICHRA/QSEHRA Special Enrollment Period (SEP)

- Employees and their dependents who newly gain access to an ICHRA or who are newly provided a QSEHRA may qualify for a special enrollment period (SEP) to enroll in individual coverage through or outside of the Marketplace.
- The **triggering event** is the first day on which coverage for the qualified individual, enrollee, or dependent under the ICHRA can take effect, or the first day on which coverage under the QSEHRA takes effect.
Enrolling through an ICHRA/QSEHRA Special Enrollment Period (SEP)

• Generally, qualified individuals will need to apply for and enroll in individual health insurance coverage in time for it to take effect by the date that their ICHRA or QSEHRA starts.

• Employees with questions about their ICHRA or QSEHRA start date should check their employer notice, or contact their employer.

• Individuals whose ICHRA or QSEHRA starts on January 1st should enroll during the individual market annual Open Enrollment Period (November 1 to December 15), so that their individual health insurance coverage start date coincides with the January 1st start date of their ICHRA or QSEHRA.
ICHRA/QSEHRA SEP Coverage Effective Dates

- If the individual selects an individual health insurance plan before the triggering event, his or her coverage will take effect on the first day of the month following the date of the triggering event or, if the triggering event is on the first day of a month, on the date of the triggering event.
- If the plan selection is made on or after the day of the triggering event, coverage will take effect on the first day of the month following plan selection.
ICHRA and QSEHRA
Consumer Scenarios
Scenario 1: Employee with dependents has an offer of an affordable ICHRA

On July 1, 2020, Joe gets a notice that his employer will newly offer its employees an ICHRA starting on October 1, 2020. The ICHRA reimburses $500 dollars of medical care expenses for employees monthly, but it does not reimburse medical expenses for dependents of employees. Joe completes an application to find out whether his ICHRA meets requirements for affordability, and then applies for coverage on HealthCare.gov.

• For 2020, Joe (married, one dependent) has estimated household income of $75,000, and the self-only monthly premium for the lowest cost silver plan (LCSP) that is offered in the Exchange for the rating area in which Joe resides is $798.25.

• Joe’s required contribution is $298.25, which is not more than the product of the required contribution percentage and his household income divided by 12. Therefore, the ICHRA is considered affordable, and Joe is not eligible for APTC.
  – $798.25 - $500 = $298.25 (Joe’s required contribution: self-only LCSP monthly premium – monthly ICHRA amount)
  – ($75,000 x .0978)/12 = $611.25 (1/12 of the product of Joe’s household income for the tax year and the required contribution percentage)

• Joe accepts his employer’s ICHRA offer, and within 60 days before October 1, 2020, he enrolls in individual health insurance coverage in order to meet his ICHRA’s requirement to have individual health insurance coverage (or Medicare Parts A and B or Medicare Part C).

• Joe’s wife and dependent are eligible for APTC, because the ICHRA does not reimburse medical expenses for dependents of the employee.
When Joe applies for coverage on HealthCare.gov, he sees information about HRAs and job-based coverage.

**Health care benefits through a job**

In the next sections, we'll ask about 2 different types of benefits available through a job.

First, we'll collect information about Health Reimbursement Arrangements (HRAs).

**Health Reimbursement Arrangements (HRAs)**

- HRAs aren't traditional job-based health plans. An employer chooses a dollar amount they'll make available for reimbursing medical expenses instead of offering a health plan.
- A person must buy their own health plan to use certain types of HRAs.
- A person pays for monthly premiums and other qualifying medical expenses, then requests reimbursements through the HRA.

Learn more about HRAs.
The application also explains how certain types of HRAs may impact his application for Marketplace coverage. Joe recognizes that he has an individual coverage HRA.
ICHRA Offer and Affordability

In this example, Joe does not already have an individual coverage HRA, and he can still “opt out” of his new individual coverage HRA offer.
Joe is the only applicant who has been offered an individual coverage HRA through his employer with a start date within 60 days from today. Joe has not yet accepted the offer.
Details found in the HRA employer notice can be used to enter the date the notice was sent, the date the HRA starts, and the individual coverage HRA amount available to Joe. Joe will also be asked to provide information about the employer offering the individual coverage HRA.
Later, in the section of the application that asks about SEP-qualifying events, Joe will provide information about whether he’s been offered an individual coverage HRA or provided a QSEHRA.
ICHRA Special Enrollment Period

Joe will also need to enter the information about when the HRA notice was sent, when the HRA will start, and whether he’s currently enrolled in an individual coverage HRA.
Eligibility Results

• Joe’s eligibility results will contain information about:
  – Eligibility for premium tax credits,
  – Eligibility for an SEP due to having a new individual coverage HRA offer, and
  – The deadline to select a plan.
The EDN will include information about eligibility for premium tax credits and a special enrollment period, as well as information about enrolling in Marketplace coverage with an individual coverage HRA.

**Eligibility Determination Notice (EDN)**

**ACTION REQUIRED: Next steps to enroll in Health Insurance Marketplace coverage**

<table>
<thead>
<tr>
<th>Household member(s)</th>
<th>Results</th>
<th>Next steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joe Applicant, Jane Applicant, Johnny Applicant</td>
<td>Until September 30, 2020, you’re eligible to buy a 2020 Marketplace plan through a Special Enrollment Period.</td>
<td>Choose a plan.</td>
</tr>
<tr>
<td>Joe Applicant</td>
<td>Eligible to buy a 2020 Marketplace plan, but we need more information from you.</td>
<td>Choose a plan before the individual coverage HRA start date (it may be sooner than the end of this Special Enrollment Period). Then pay your first month’s premium.</td>
</tr>
<tr>
<td>Johnny Applicant</td>
<td>Eligible to buy a 2020 Marketplace plan, including a Catastrophic plan.</td>
<td>Choose a plan by September 30, 2020 and pay your first month’s premium.</td>
</tr>
</tbody>
</table>

**Enroll in coverage**

- **Enroll in coverage now.** If your “Results” say you’re eligible to buy a Marketplace plan, September 30, 2020 is the last day to choose one. Visit HealthCare.gov to compare plans side-by-side, or call the Marketplace Call Center.
- **If you miss the deadline,** you won’t be able to buy a Marketplace plan until the next Open Enrollment Period, unless you have another life change that makes you eligible to buy a Marketplace plan outside Open Enrollment.
- **If your “Results” say you need to submit documents, your eligibility may end if you don’t submit the documents we need.

Joe Applicant—If you plan to accept your individual coverage HRA, you may need to enroll sooner in a Marketplace plan. You’ll also need to let your employer know you enrolled through the Marketplace. Check your employer’s notice for important details.
On July 1, 2020, Tina gets a notice that her employer will newly provides its employees with a QSEHRA starting on August 1, 2020. The QSEHRA will reimburse $800 per month of each employee’s medical care expenses. It can also reimburse medical care expenses for employees’ dependents, and provides $1,600 per month to employees with dependents. Tina uses the QSEHRA worksheet to figure out whether her QSEHRA meets requirements for affordability, and then applies for coverage on HealthCare.gov.

- For 2020, Tina and her husband Dylan, who are in their 60s, have an estimated annual household income of $55,000, and the self-only monthly premium for the second-lowest cost silver plan (SLCSP) that is offered in the Exchange for the rating area in which Tina resides is $1,464.82.

- Tina’s required contribution is $664.82, which is more than the product of the required contribution percentage and her household income divided by 12. Therefore, the QSEHRA is not considered affordable, and Tina and Joe are eligible for APTC offset by the amount of Tina’s QSEHRA.

  - $1,464.82 - $800 = $664.82 (Tina’s required contribution: self-only SLCSP monthly premium – monthly QSEHRA amount)
  - ($55,000 x .0978)/12 = $448.25 (1/12 of the product of Tina’s household income for the tax year and the required contribution percentage)

- On August 13, Tina and Dylan apply for coverage on HealthCare.gov in order to meet her QSEHRA’s requirement to have MEC – they attest to a QSEHRA start date of August 1 and her employer’s notice date of July 1, and qualify for a SEP. Before they select a plan, they reduce the APTC they’ll apply to their monthly premiums by $1,600, the monthly amount of Tina’s QSEHRA.
QSEHRA Special Enrollment Period

First, Tina and Dylan attest that they have an HRA that will start in past 60 days or within the next 60 days.

Next, they each attest that this HRA is a QSEHRA.
Tina provides her QSEHRA start date and her employer’s notice date, and attests that she’s not currently enrolled in her QSEHRA.

Next, the couple completes both of these questions for Dylan.
Eligibility Results

Tina and Dylan’s eligibility results will contain information about:

- Eligibility for premium tax credits,
- SEP eligibility due to having a newly provided QSEHRA, and
- Tina and Dylan’s deadline to select a plan.

Tina and Dylan are eligible for APTC, but their application explains that they’ll need to manually adjust the amount they use based on their QSEHRA amount.
Tina and Dylan’s EDN also includes information on how their QSEHRA might impact the amount of APTC they should use, and includes information about their special enrollment period.
Tina and Dylan get started with plan selection, and see information about when their coverage will start based on when they pick a plan.

Choose a plan by September 30, 2020 to get coverage.
Complete the steps below and choose a plan by September 30, 2020 to get coverage.

After you enroll, tell your employer so you can start using your QSEHRA.

<table>
<thead>
<tr>
<th>For coverage to start:</th>
<th>Confirm your plan by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 1, 2020</td>
<td>August 31, 2020</td>
</tr>
<tr>
<td>October 1, 2020</td>
<td>September 30, 2020</td>
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</table>

You’re eligible to enroll in Marketplace coverage

You have a Special Enrollment Period because of a Qualified Small Employer HRA (QSEHRA) offer from your employer.

Use your tax credit to lower your monthly premium

You qualify for a premium tax credit of $2,547 a month. You can decide how much of this amount you want to use to save on your monthly premium.

You can lower your monthly premium up to $2,547 per month

The amount is based on:
- Expected yearly income
- Where you live
- Tax household size

If any of these things change over the year, the tax credit amount you qualify for can change. For example, if your income goes up during the year, you’ll likely qualify for a lower tax credit. If you take more tax credit than you’re eligible for, you may have to pay money back when you file your federal taxes at the end of the year.

If your income or household changes, it’s very important to update your Marketplace application as soon as possible to avoid paying money back on your federal taxes.

If you choose not to use any of your tax credit, you’ll claim the full amount on your federal taxes.
Because Tina’s QSEHRA doesn’t meet standards for affordability, she and Dylan reduce the amount of the tax credit they’ll use each month by $1,600, their monthly QSEHRA amount.

If Tina’s QSEHRA did meet standards for affordability, the couple should instead select the option not to use any of the tax credit.
When Tina and Dylan select a plan, they can see the monthly premium that they’ll pay based on the monthly amount of the tax credit that they’ll use.
Additional Resources

- Information on individual coverage HRAs: https://www.healthcare.gov/job-based-help/#/ichra
- Information on QSEHRAs: https://www.healthcare.gov/job-based-help/#/qsehra