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ICHRAs: A sustainable alternative

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After a brief respite during the pandemic, employer-sponsored health plans are again looking at [double-digit](#) rate increases. In the event the utilization of a company's plan exceeds the underwriter's expectations, it can get far worse, with 20% and 30% increases not being uncommon. This trend is driven by several factors: a surge in previously [postponed](#) medical procedures, modest or negative [investment](#) returns, significant increases in [labor](#) costs (especially due to new nursing contracts), ongoing [underpayment](#) by Medicare and Medicaid, an [aging](#) workforce, and continual advances in medical treatments and pharmaceuticals. These pressures are driving health care costs for both employers and employees to record-breaking levels, with double-digit medical [inflation](#) far outpacing traditional consumer price index (CPI), creating a growth pattern that's becoming increasingly unsustainable. Unfortunately, much of this is old news.

The pressing question now is: when will health care costs become truly unsustainable? Is there an alternative to these group health plans that can help combat soaring costs? For HR professionals, there may finally be an answer, and it has less to do with the cost of care and more to do with how employers and employees share the burden. Individual Coverage Health Reimbursement Arrangements (ICHRAs) offer HR professionals a way to provide health coverage without taking on the full financial liability of group health plans. This shift allows employers to mitigate rising health care costs while offering employees more choice and control over their benefits, paving the way for a more sustainable approach to health care coverage.

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THE TROUBLE WITH GROUP PLANS

There is a notable parallel between the old-fashioned pension plans and today's employer-based health insurance system. In a "defined benefit" pension plan, employers are committed to providing a guaranteed benefit for a specific period. A classic example is an employer pledging to pay 70% of an employee's final year's salary for the rest of the employee's life. Social Security operates similarly. However, managing such a plan poses considerable challenges for employers. These plans require rigorous legal oversight, actuarial assessments, audits, and, crucially, liquidity. Employers must invest pension funds strategically to cover future obligations. If investments underperform or actuarial assessments show increased liabilities, employers must contribute additional funds — often referred to as a "cash call" — to ensure the plan can meet its commitments. Due to these complexities and financial liabilities, many defined benefit plans have transitioned to defined contribution plans, such as 401(k)s (or 403(b)s for nonprofits), over the past 45 years.

The similarities between defined benefit pension plans and group health insurance plans are striking. Group health insurance plans are complex to manage, requiring expertise in plan documentation, COBRA administration, privacy compliance, and more. They carry substantial legal liabilities, with pricing heavily influenced by the health of employees and their dependents. Just as pension plans must increase contributions in response to market downturns, health plans must raise premiums when claims exceed premiums collected. In effect, employers with medical plans assume financial responsibility not for stock market fluctuations, but for the health of their workforce. Combined with medical inflation that has consistently doubled the CPI for the past 30 years, health care costs continue to follow a steep, predictable upward trend.

THE BENEFITS OF ICHRAS

Enter ICHRAs. While the concept has been around since the Cafeteria Plan regulations of 1978, ICHRAs have only recently become viable. The idea of employees selecting benefits on a tax-free basis was immediately appealing in the group insurance market. However, it faced obstacles: limited options in the individual insurance marketplace, a lack of accessible education on how to select or purchase health care, and a prevailing belief that employers would continue handling the selection and funding of health plans. Fast forward to 2020, when a combination of factors — including updated Cafeteria Plan regulations, advances in technology vendors, changes in individual market rules, and new requirements under the Affordable Care Act (ACA) — made it possible for employers to offer tax-free, guaranteed-issue, employee-selected health insurance that still qualifies as group coverage under the ACA.

From the perspective of HR professionals accustomed to managing the evaluation, selection, negotiation, and installation of a group plan, ICHRAs are truly simple to carry out. A competent vendor with an intuitive interface and good customer service will handle 95% of the open enrollment process. The HR team will not be involved in selecting plans or negotiating pricing because the vendor's technology platform will include every option available to every employee based on their home zip code. Because individual plans have set rates, there is no negotiating pricing. ICHRAs simplify the open enrollment process dramatically for HR teams.

ICHRAs simplify the open enrollment process dramatically for HR teams.

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Other key advantages of an ICHRA include:

- + **Cost control for employers:** Employers can set a fixed monthly allowance for each employee, helping companies predict and control health care costs more effectively. This eliminates the risk of unpredictable premium increases associated with traditional group health plans.
- + **Flexibility for employees:** Employees have the freedom to choose health plans that best suit their needs from the individual market. This flexibility empowers employees to select coverage that matches their preferences for coverage levels, networks, and specific health care needs.
- + **Tax benefits:** Employer contributions to an ICHRA are tax-deductible, and employees can receive reimbursements tax-free, reducing the overall cost of health care benefits for both parties.
- + **Reduced administrative burden:** ICHRAs simplify administration by shifting the responsibility of selecting and managing health insurance plans from the employer to the employee. This reduces administrative complexity, legal liability, and paperwork for employers.

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CONSIDERATIONS AND RECOMMENDATIONS

After 50 years, employers can now offer employees direct access that connects them with available individual health plans, guides them through plan options, assists in navigating the purchasing process, and provides funds to help cover a portion of the cost. This approach marks a major shift from the traditional model of employers selecting a few plans, providing basic information, and hoping employees make informed decisions and submit the necessary paperwork.

However, transitioning from a group health plan to an ICHRA involves several important considerations. Will all employees have access to individual coverage? Will the available plans be comparable to current options? What are the new administrative responsibilities? What will the enrollment experience be like? How will non-medical benefits — such as dental, vision, life, and disability insurance — be handled? How will this integrate with payroll? What support will be available for employees who need help with enrollment or health care issues? Addressing these questions requires careful planning and thoughtful assessment.

This may not be the immediate solution for your organization, but much like the challenge of managing a defined benefit pension plan, managing a group health plan is time consuming, fraught with liability, and outpacing traditional inflation with no end in sight. Just like employers who transitioned to 401(k) plans to alleviate those challenges, ICHRAs provide the ability to step back from taking financial liability for the health of employees, while still providing meaningful medical insurance options to them.

There are several vendors providing the technology backbone that makes ICHRAs feasible. Evaluating them can be complicated and time consuming, so contact your insurance broker to assist in obtaining pricing and evaluating both the vendors and the coverage options.

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