

Individual Coverage Health Reimbursement Arrangements (ICHRA): A Comprehensive White Paper

Executive Summary

Individual Coverage Health Reimbursement Arrangements (ICHRA) represent a significant evolution in employer-sponsored health benefits, offering a defined contribution model that provides employers cost predictability while giving employees unprecedented choice in their health coverage. This white paper examines the history, current features, limitations, and recent legislative changes affecting ICHRA, including provisions in the One Big Beautiful Bill Act that would rebrand and expand these arrangements.

1. Introduction

The American healthcare landscape has undergone dramatic transformation over the past decade, with employers seeking alternatives to traditional group health insurance that offer greater cost control and employee choice. ICHRA emerged as a solution that bridges the gap between employer-sponsored benefits and individual market coverage, fundamentally changing how businesses approach healthcare benefits.

2. Historical Background

Pre-ACA Foundation

Health Reimbursement Arrangements (HRAs) have existed since 2002, when the IRS first allowed employers to reimburse employees for medical expenses using tax-free dollars. However, these early HRAs were limited to reimbursing medical expenses and could not be used to purchase individual health insurance premiums.

ACA Impact and Evolution

The Affordable Care Act (ACA) of 2010 initially created complications for HRAs, as the law's market reforms conflicted with existing HRA structures. Traditional HRAs were deemed to violate ACA requirements because they lacked essential health benefits and annual and lifetime limit protections required for group health plans.

The Path to ICHRA

In response to these challenges, the Trump administration introduced regulations in 2019 that created ICHRA, which became effective January 1, 2020. This new arrangement was specifically

designed to comply with ACA requirements while allowing employers to provide tax-free reimbursements for individual health insurance premiums.

3. Current ICHRA Features

Basic Structure

ICHRA operates as a defined contribution health benefit where employers set a fixed monthly allowance that employees can use to purchase individual health insurance coverage. Unlike traditional group insurance, ICHRA gives employees the freedom to choose any ACA-compliant individual market plan that meets their needs.

Key Characteristics

Employer Flexibility Employers can design ICHRA programs with significant customization options, including varying allowance amounts based on employee demographics, family size, and geographic location. There are no minimum or maximum contribution requirements, giving employers complete control over their healthcare budget.

Employee Choice Employees gain access to the entire individual health insurance market, including plans available through state and federal marketplaces. This expanded choice allows employees to select coverage that best fits their specific healthcare needs, preferred providers, and budget constraints.

Tax Advantages ICHRA contributions are tax-deductible for employers and tax-free for employees, similar to traditional group health insurance premiums. Employees may also be eligible for premium tax credits on marketplace plans if their employer's ICHRA contribution doesn't meet ACA affordability standards.

Employee Classification System

ICHRA allows employers to create up to 11 different employee classes, enabling targeted benefit strategies:

- Full-time employees
- Part-time employees
- Seasonal employees
- Employees covered by collective bargaining agreements
- Employees who have not satisfied a waiting period
- Non-resident aliens with no U.S. source income

- Employees under age 25
- Employees working in different geographic regions
- Employees in different job categories
- Temporary employees of staffing firms
- New employees (first 90 days)

Affordability and Compliance

ICHRA must meet ACA affordability requirements for applicable large employers (ALEs). The arrangement is considered affordable if the employee's required contribution for self-only coverage doesn't exceed 9.12% (2024 rate) of their household income.

4. Administrative Features

Implementation Requirements

Employers must provide employees with a written notice at least 90 days before the start of the plan year, detailing the ICHRA benefit, employee responsibilities, and the consequences of declining coverage. This notice must include information about marketplace options and potential tax credit eligibility.

Third-Party Administration

Most employers work with specialized third-party administrators who handle reimbursement processing, compliance monitoring, and employee support. These platforms typically provide employees with debit cards or reimbursement portals for seamless payment processing.

Integration with Other Benefits

ICHRA can be coordinated with other employer benefits, including Health Savings Accounts (HSAs) for employees who choose high-deductible health plans, and supplemental benefits like dental and vision coverage.

5. Current Limitations and Challenges

Employee Education Burden

One of ICHRA's primary challenges is the significant education required for employees to navigate the individual insurance market effectively. Many employees lack familiarity with insurance terminology, plan comparison, and marketplace enrollment processes.

Plan Quality Concerns

Unlike group insurance where employers vet plan quality and provider networks, ICHRA places the responsibility for plan selection entirely on employees. This can result in inadequate coverage choices or selection of plans with limited provider networks.

Market Availability Issues

Individual market plan availability varies significantly by geographic region, with some areas offering limited options or higher premiums. Rural areas particularly may have fewer carrier choices and less competitive pricing.

Coordination Complexity

ICHRA arrangements require careful coordination with premium tax credits, which can create confusion for employees and administrative complexity for employers. Employees must understand how their ICHRA allowance affects their subsidy eligibility.

Same-Class Restrictions

Current regulations prohibit employers from offering both group health insurance and ICHRA to the same class of employees, limiting flexibility for organizations that want to provide choice between benefit types.

6. The One Big Beautiful Bill Act: Transforming ICHRA

Legislative Overview

The One Big Beautiful Bill Act, introduced in Congress in May 2025, represents one of the most comprehensive tax and health benefits overhauls in recent years. The legislation includes significant changes to ICHRA that would strengthen and expand these arrangements.

Rebranding to CHOICE Arrangements

The ICHRA provisions in the One Big Beautiful Bill Act would change the name of ICHRA to "Custom Health Option and Individual Care Expensive Arrangements," or CHOICE plans. This rebranding reflects the emphasis on employee choice and individual customization.

Key Legislative Changes

Permanent Legal Foundation The bill would enshrine ICHRA in federal statute as the CHOICE Arrangement, ensuring long-term stability regardless of future presidential administrations. This

addresses concerns about the regulatory nature of current ICHRA rules and provides permanent legal footing for the benefit structure.

Small Business Tax Credits The bill proposes a new two-year tax credit for small businesses with fewer than 50 employees, providing \$100 per employee per month for the first year and \$50 per employee per month in the second year. This incentive is designed to encourage ICHRA adoption among smaller employers who may have been hesitant due to cost concerns.

Pre-Tax Premium Payments The bill would allow for the use of pre-tax payments for individual health insurance premiums through public exchanges. Currently, this tax advantage is only available for off-exchange plans and Medicare coverage.

Same-Class Flexibility Under the proposed changes, employers could offer both a group health plan and an ICHRA to the same class if they're a small business (non-ALEs). This change would provide unprecedented flexibility for small employers to offer choice between traditional and defined contribution benefits.

Expanded Administrative Authority The new bill gives the Secretary of Health and Human Services the ability to add new employee classes through regulation, allowing for future expansion of ICHRA flexibility without requiring new legislation.

Reduced Notice Requirements The CHOICE Arrangement would only require a 60-day notice period, compared to the current 90-day requirement, reducing administrative burden and allowing for more flexible implementation timelines.

Implementation Timeline

The changes made to ICHRA would apply to plan years beginning on January 1, 2026, giving employers and administrators time to prepare for the new requirements and opportunities.

7. Related Health Benefits Changes

The One Big Beautiful Bill Act includes several other health benefits modifications that could impact ICHRA adoption and effectiveness:

HSA Expansions

The bill includes various proposals aimed at expanding HSAs, including allowing those entitled to Medicare Part A to contribute to an HSA if they're enrolled in a high deductible health plan and allowing all bronze and catastrophic plans on the public Marketplace to become eligible plans for HSAs.

Premium Tax Credit Modifications

The bill would restrict subsidy eligibility to citizens, Lawful Permanent Residents, certain Cuban immigrants, and those with a Compact of Free Association, and would eliminate tax credits for those individuals using the low-income special enrollment period.

Medicaid Changes

Starting January 1, 2029, individuals would be required to prove that they're working, actively seeking employment, or participating in a job training program to receive Medicaid, with the Congressional Budget Office estimating that as many as 7.6 million people could become uninsured.

8. Market Impact and Adoption Trends

Current Market Penetration

Since its 2020 launch, ICHRA adoption has grown steadily, though it remains a relatively small portion of the overall employer-sponsored health benefits market. Early adopters have primarily been small to mid-sized businesses seeking alternatives to rising group insurance costs.

Industry Response

Insurance carriers, benefits administrators, and brokers have developed specialized products and services to support ICHRA implementation. This ecosystem development has improved the employee experience and administrative efficiency of these arrangements.

Future Projections

The proposed legislative changes are expected to accelerate ICHRA adoption, particularly among small businesses that would benefit from the new tax credits and increased flexibility. The permanent legal status would likely encourage larger employers to consider ICHRA as a long-term benefits strategy.

9. Implications for Stakeholders

Employers

The enhanced ICHRA framework offers employers greater predictability in healthcare spending while maintaining the ability to provide valuable benefits to employees. The same-class flexibility for small businesses would enable more sophisticated benefits strategies.

Employees

Workers would gain access to a broader range of health insurance options while maintaining the security of employer-sponsored benefits. The pre-tax payment option for exchange plans would improve affordability for many employees.

Insurance Industry

Carriers and administrators would see expanded opportunities in the individual market and defined contribution space. The permanent legal foundation reduces regulatory uncertainty that has constrained investment in ICHRA-specific products and services.

Healthcare Providers

The increased emphasis on individual choice could drive competition among providers and health systems to attract patients through plan networks and quality metrics.

10. Best Practices and Implementation Considerations

Employer Preparation

Organizations considering ICHRA should invest heavily in employee education and communication. Successful implementations typically include comprehensive orientation sessions, decision support tools, and ongoing assistance throughout the enrollment process.

Technology Infrastructure

Robust administrative platforms are essential for ICHRA success. Employers should evaluate third-party administrators based on their technology capabilities, employee support services, and compliance expertise.

Communication Strategy

Clear, frequent communication about ICHRA benefits, enrollment processes, and available resources is crucial for employee satisfaction and program success. Multi-channel communication approaches tend to be most effective.

11. Conclusion

ICHRA represents a fundamental shift toward consumer-driven healthcare benefits that aligns with broader trends toward choice, portability, and cost transparency. The proposed enhancements in the One Big Beautiful Bill Act would address many current limitations while expanding the arrangement's applicability and attractiveness to employers of all sizes.

The transformation of ICHRA into CHOICE arrangements, combined with permanent legal status and enhanced flexibility, positions this benefit model as a significant force in the future of employer-sponsored healthcare. As the legislation progresses through Congress, employers, employees, and industry stakeholders should prepare for a healthcare benefits landscape that increasingly emphasizes individual choice and defined contribution models.

The success of ICHRA and its evolution into CHOICE arrangements will ultimately depend on continued innovation in administration, employee education, and market development. Organizations that embrace these changes early and invest in comprehensive implementation strategies are likely to realize the greatest benefits from this transformative approach to healthcare benefits.

This white paper reflects current regulations and proposed legislation as of July 2025. Employers and benefits professionals should consult with qualified advisors for specific implementation guidance and stay informed about legislative developments.