Vericred Report

The ICHRA Revolution

A NEW MODEL FOR EMPLOYER-SPONSORED HEALTH INSURANCE

INTRODUCTION

A Seismic Shift

Until World War II, most insurance was bought by individuals. But when the U.S. government froze wages during the war, employers started offering benefits as a competitive hiring tool. Those benefits were defined by the company—what healthcare would be paid for, what retirement benefits would be funded, etc. Typically, those benefits did not offer employees much in the way of choice or transportability. Over time, employers came to realize that the rise in costs of maintaining these "defined benefit" plans often outpaced inflation.

Legislation passed in 1981 allowed employees to contribute to tax-advantaged savings plans through salary deductions, ushering in the era of 401(k) plans. Within two years almost half of large companies were either offering 401(k)s or thinking about doing so. Employers liked 401(k)s because they were less expensive and easier to administer than pensions. Employees liked 401(k)s because they offered more investment choice and were transportable (that is, employees could take it with them when they changed jobs).

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Until recently, a similar shift in health insurance had been inhibited by the tax rules. Employers could "contribute" to health insurance that employees bought on their own, but such payments would be taxable to the employee. In 2019, **rules** were adopted that allowed for the creation of Individual Coverage Health Reimbursement Arrangements (ICHRAs), a new model for employer-sponsored health insurance. Under these new rules, an employer can reimburse individuals for health insurance without any tax consequences to the employee. A shift in health insurance from defined benefit to defined contribution was enabled. Whether ICHRAs establish themselves as a vehicle of choice remains to be seen.

This Vericred Report will explain how ICHRAs work before examining their long-term prospects for widespread adoption.

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ICHRAs Explained

IN A NUTSHELL

Employers design an ICHRA; employees shop for coverage in the individual market; employees submit subsequent claims—and their premiums—to the employer for reimbursement.

IN DETAIL

Although there are a number of rules governing ICHRAs, employers have substantial flexibility in how they choose to design their plans. One fundamental criterion, though, is that any design must be offered fairly to groups (classes) of employees.

There is no limit to how much employers can offer for reimbursement. They can reimburse for premiums only, qualified medical expenses only, or both. And they can structure reimbursements in various ways—setting one amount for all employees, varying reimbursement by family size or age, or by both family size and age.

Importantly, benefits can be applied differently to different defined classes of employees. Those classes include, but are not limited to: full-time vs. part-time, salaried vs. hourly, and geographic location. In addition, classes can be "stacked," that is, employers can combine multiple classes to create a newer, broader class. There are some limitations on class creation, including minimum size (a function of employer size, but in any case not fewer than 10 employees).

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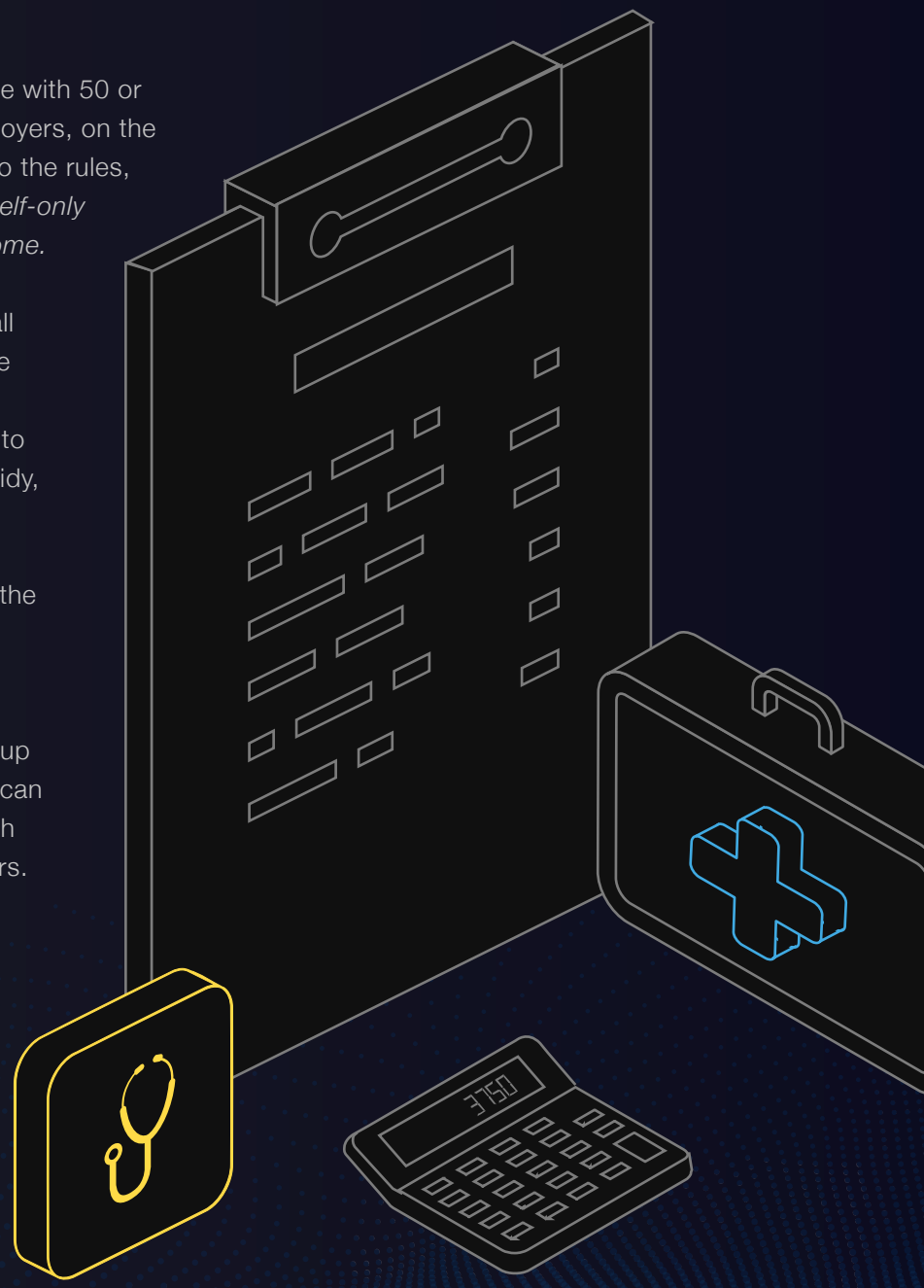
A key facet of ICHRAs is affordability. Specifically, large employers (typically those with 50 or more employees) must offer an "affordable" ICHRA or face penalties. Small employers, on the other hand, can offer an affordable ICHRA or an "unaffordable" one. According to the rules, *an ICHRA is "affordable" if the remaining amount an employee has to pay for a self-only silver plan on the exchange is less than 9.83% of the employee's household income.*

The ability to offer an affordable or unaffordable ICHRA is an opportunity for small employers. When a small-group ICHRA is "affordable," employees are not eligible for subsidies (more than 85% of enrollees are subsidy-eligible) on a government exchange (e.g., healthcare.gov). Some small-group employers may be only able to afford reimbursements less than certain employees may be eligible for as a subsidy, leaving them better off with the subsidy.

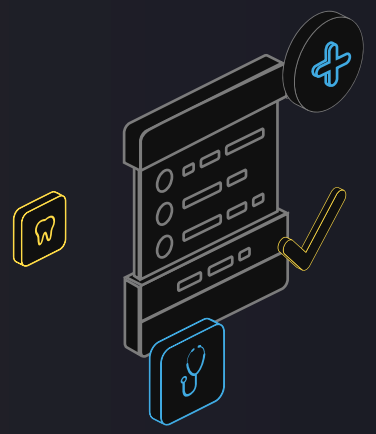
If small groups offer "unaffordable" ICHRAs, employees can "opt out" and go to the exchange to get their subsidy.

Finally, there is an interesting option for employers who want to offer the choice and transportability of an ICHRA while maintaining the veneer of a traditional group health plan: a so-called Section 125 plan. Under a Section 125 plan, employers can withhold the employees' portion of the health insurance premium, combine it with the employer's ICHRA reimbursement and pay the premium directly to the carriers. However, this arrangement requires employees to select off-exchange individual health plans.



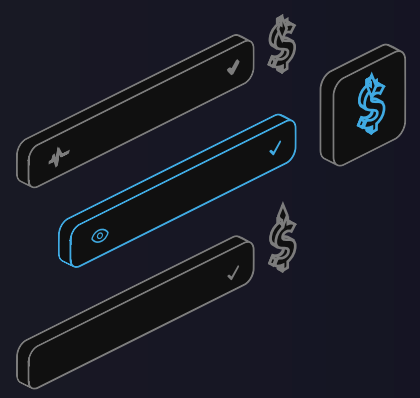
ICHRA Implementation

1. EVALUATION



Typically, any employer evaluating a move to ICHRAs must weigh the strategic costs and benefits, considering in particular the diversity of the employee base, historical costs (absolute and increases), and options available to employees (new design vs. existing plan, networks available, formularies, etc.) through the individual market. The goal of this step is a go/no-go decision.

2, PLAN DESIGN



Next, employers must consider potential classes of employees and the affordability for each class. Small employers must also decide if they want to offer an affordable or unaffordable ICHRA. The goal of this step is to determine the plan design that best meets both employer and employee needs.

3. PLAN SHOPPING

Once a plan has been designed, employees will need to shop for their coverage. Typical considerations include suite of benefits, participation of individual's preferred doctors and facilities, and the best coverage for ongoing prescription drug needs.

Early Adoption

Vericred's position in the marketplace offers a unique opportunity to get a sense of early ICHRA trends, including adoption. So far we are seeing three categories of employers notably interested in a defined-contribution approach to insurance. (Not surprisingly, we are also seeing technology partners focused on each of these.) The categories are:

1.

Small employers not currently offering coverage.

Some cannot afford to offer traditional health insurance but still want to do something for their employees. Others may simply not want the hassle of managing group benefits. ICHRAs are a solution in either case.

2.

Small employers currently offering coverage.

These employers seek a better health insurance experience—one with less of an administrative burden and better cost control for the employer, and that allows employees to choose the right plan based on their facts and circumstances.

3.

Large employers seeking to "class out" segments of their employees.

This has been the most active group to date. These often self-insured employers are looking for a way to move from defined benefit to defined contribution. Two "hot" areas here are pre-age-65 retirees and companies with a geographically diverse employee population.

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Tailwinds

Our unique vantage point also offers insight into the reasons why employers and employees are “ICHRA curious.” They include:

FOR EMPLOYERS

Reduced and predictable costs

ICHRAs allow employers to set a reimbursement rate that means they never have to pay more. This is a very attractive option for self-insured employers.

No minimum participation rates

Fully insured plans often require 50% or 75% participation whereas ICHRAs do not.
Less onerous benefit administration: ICHRAs shift the burden of managing benefits to the employee. This is particularly attractive to smaller employers.

Something rather than nothing

Some small employers would like to be able to contribute to their employees’ health insurance costs but can’t afford traditional fully insured plans. ICHRAs provide a way for them to provide some help.

Different solutions for different classes

ICHRA classes allow an employer to move certain classes of employees to the individual market. This may allow the employer to provide coverage, or better coverage, to certain classes.

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FOR EMPLOYEES

Choice

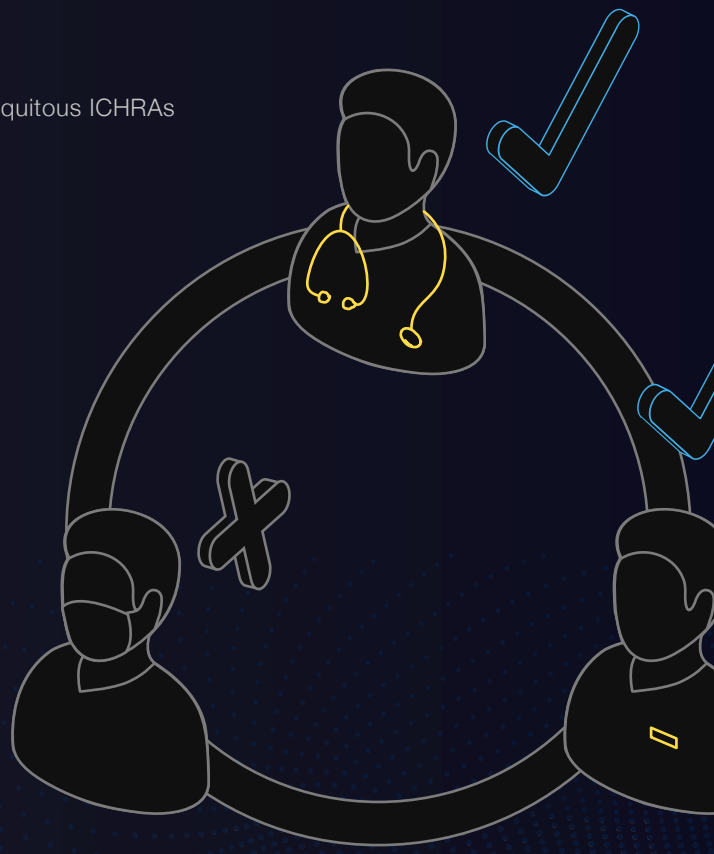
A healthy, single 25 year old has different needs than a 45 year old with children or someone with a chronic condition. ICHRAs give employees the choice of tens, or even hundreds, of health plans, allowing them to find one that best matches their particular needs.

Transportability

ICHRAs make it possible for an individual to leave an employer and still keep their plan. The more ubiquitous ICHRAs become, the more likely it will be that an employee could keep their plan over time.

Broader range of covered costs

ICHRAs can be used to pay for certain approved medical expenses in addition to premiums.



Headwinds

Despite the appeal of ICHRAs, a few issues loom as potential obstacles to widespread adoption, as with 401(k) plans. These issues include:

The future of the Affordable Care Act (ACA)

ICHRAs can only thrive in a robust individual market. Litigation seeking to invalidate the ACA could adversely affect ICHRA adoption.

Low or no broker commissions

Many carriers offer low- or no-broker commissions on the sale of individual health plans. ICHRAs could sideline brokers—particularly small-group brokers—who earn good commissions on group-plan sales. Those brokers, then, might be quick to bad-mouth ICHRAs to their clients.

Narrow networks

Group health plans typically offer broader networks. Carriers seeking to sell into the ICHRA market should consider pairing individual plans with broader networks.

Richer benefits

In an effort to keep premium increases small, individual-plan benefits have steadily become less attractive than those offered through the group market. Employers, especially large ones, will inevitably need to consider parity of benefits as they consider a potential shift to ICHRAs. Carriers, therefore, may need to offer richer, more attractive plans.

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Education

Most employers and brokers—and even many carriers—don't even know what ICHRAs are. As a result, brokers and carriers are often dismissive of the disruption ICHRAs might bring. (This feeling is exacerbated by biases against the individual market.)

Payments, billing, and administrative functions

Employers leveraging a Section 125 plan to make payments directly to insurance carriers for their employees' individual coverage typically don't have a way to manage individual products on a "group chassis." One common problem is how the carrier aggregates the premiums for a number of individual policies in order to bill the employer. Another: when an employee leaves, how does the carrier switch the billing for a policy from the aggregated group to the former employee?

Enrollment

Section 125 plans also require off-exchange individual health plans. Most enrollment for these plans is done through forms or broker portals. Digital connectivity will need to be built to support such enrollment at scale.

Cost of premiums

In most states, premiums in the individual market are more expensive than those in the small-group market. However, this discrepancy will likely be at least partly offset by the reimbursement allotments employees will receive.

Expanding Ecosystem

ICHRAs are attracting interest and innovation (see next section) from many technology companies that provide one or more functions for one or more market segments. Some play multiple roles, including third-party administrator (TPA) and broker. These companies include, but are not limited to:

TPAS

(helping employers and brokers design and administer ICHRAs)

- TakeCommand
- PeopleKeep
- NexBen

BROKERS

- TakeCommand
- Kind Health
- Savvy
- HealthSherpa
- Flyte HCM (ichra.com)
- Gravie

COMPLIANCE

- Benefit Comply

BENEFITS CONSULTANTS

- Willis Towers Watson

PAYMENTS

- Wex

In short, everyone is getting into ICHRAs.

Increased Innovation

As with the shift to 401(k) plans, ICHRA is the cause for a steady drumbeat of creativity in relevant sectors, especially technology. They include:

Employer (or broker) decision support tools.

To assist in ICHRA evaluation.

Employer administrator and compliance solutions.

To guide employers through these processes.

Employee shopping experiences.

Many of which exist today in the form of web-based entities (WBEs).

Payment solutions.

Particularly around binding payments and group billing of individual coverages under Section 125 plans.

Enrollment solutions.

For off-exchange plans.

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Looking forward, we also expect to see new benefit-administration platform support of individual products. We suspect that some existing BenAdmins will add this capability, but new ones will arise to meet this need as well. Reason: large employers will want a unified benefits destination and experience for their employees regardless of how those benefits are structured (group vs. individual). They also will want to avoid creating a caste system based on benefit delivery or exacerbate one that already exists. Further, they will want to provide the same experience for both ICHRA and non-ICHRA employees. Indications so far suggest that most large-group employers intend to keep their group ancillary benefits even if they migrate their medical coverage to ICHRAs.

CONCLUSION

Health Insurance's 401(k)?

Despite some uncertainty, the shift from defined benefit to defined contributions in the retirement savings sphere suggest that ICHRAs are likely to become the dominant option among employee health plans. The winners from this shift will be operators in all the relevant spheres who can provide the most seamless experiences for employers and their employees—even as they recognize that any transition of this magnitude will inevitably involve stops, starts, and reversals. The race goes to the swiftest, but market share goes to the most adaptable.

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ABOUT VERICRED

Vericred has built the first end-to-end quoting, enrollment and member management middleware (API) platform for health insurance and employee benefits. By simplifying the exchange of data between carriers and technology companies, Vericred is enabling the digital transformation of the health insurance and employee benefits industry. Vericred offers robust solutions for the employer market, as well as the under 65 individual, Medicaid and Medicare markets.

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To learn more about Vericred, please reach out to sales@vericred.com