

INDIVIDUAL COVERAGE HEALTH REIMBURSEMENT ARRANGEMENTS (ICHRA)

A new form of an HRA (Health Reimbursement Arrangement) - Effective in 2020

Overview

Starting in 2020 churches have a new option for providing medical insurance as a tax-free benefit. Churches and other small employers may find this a useful approach. It is called ICHRA (Individual Coverage Health Reimbursement Arrangement).

With the Affordable Care Act (2010) churches were unable to pay employee's medical insurance purchased in the individual market on a tax-free basis. In 2016 the Qualified Small Employer Health Reimbursement Act (QSEHRA) provided an option for some churches. But QSEHRA has significant limits and the rules are complicated. Starting in 2020, ICHRA provides an approach that can be used by more employers. It has fewer limits, is simpler and provides more flexibility. Subject to certain conditions, ICHRA provides churches and ministers an alternative to traditional group health plan coverage.

According to a government spokesman, "ICHRA is primarily about increasing employer flexibility and worker choice of coverage". ICHRA is really a newly added form of an HRA (Health Reimbursement Arrangement). In recent years an HRA could pay out-of-pocket health care expenses but those HRAs had to be integrated with other group health plan coverage that complied with certain legal requirements. With ICHRA, churches will be allowed to fund reimbursement of individual medical insurance premiums for employees not offered a group health plan. A major change that will benefit many pastors is that ICHRA's can be used to reimburse insurance purchased on the public exchanges that were formed under the Affordable Care Act IF the employee is not receiving a government subsidy for their plan.

The ICHRA Process:

1. The church sets a start date that works for the church and allows employees time to secure their individual coverage.
2. The church determines what classes of employees will be used and which employee classes will be eligible for an ICHRA benefit. (Descriptions of possible classes is included in the next section.)
3. The church determines what benefits will be provided for each class. This includes setting a maximum amount per year per employee. There are no maximum or minimum amounts. This also includes determining whether the plan will reimburse insurance premiums only, other medical expenses only, or both. The other medical expenses can include vision and dental.
4. The church creates a plan document. The plan document should include:
 - a. A statement of the purpose of the plan and that it is an "Individual Coverage Health Reimbursement Arrangement" (ICHRA) which is a form of an employer provided Health Reimbursement Arrangement
 - b. The starting date for the plan
 - c. A definition of the employee classes to be used
As an example, some churches may simply state that all employees will be assigned to one of three classes of employees: Full Time Ministerial Employees, Salaried Full Time Non-Ministerial Employees, and Part-Time (Hourly) Employees
 - d. The maximum dollar amount per year to be reimbursed for employees in each class of employees
This should include a statement of whether this reimbursement will be only for insurance premiums, for other medical expenses, or both.

- e. A statement reminding employees that payments for Medical Sharing Ministries do not qualify for reimbursement and that insurance premiums for coverage secured through the government exchange only qualifies for reimbursement if the employees rejects any government subsidies provided through those plans
 - f. A statement informing employees they are responsible for securing their insurance coverage and must document in writing that they have coverage and its cost
 - g. Information for the employee detailing the process they are to use for receiving their reimbursements
 - h. A statement that all persons handling the reimbursement information and details are to keep all information confidential
5. The church communicates plan details clearly to eligible employees at least 90 days before the start of the plan year. Employees then purchase an individual plan meeting their personal needs.
(For churches with multiple employees, it may be helpful to provide information to guide employees in securing their individual coverage. If employees buy their insurance through the government exchange they will have a new special enrollment period that will apply only for those to be reimbursed through ICHRA plans.)
 6. The plan must require substantiation procedures to verify enrollment in individual health coverage for the plan year. Employees can simply attest in writing to employers that they have qualified coverage.
 7. Employees submit claims for reimbursement. (Date, amount & description of product or service.)
 8. The church reimburses the employee tax-free for valid claims up to the maximum set by the plan.

ICHRA gives churches of any size a greater ability to control costs and provides employees more flexibility to choose an individual health plan that fits their needs.

ICHRA Plan Rules

IMPORTANT: Keep in mind that ICHRA is a form of an HRA = “Health Reimbursement Plan”. While there is flexibility, a key principal is that ICHRA benefits must be offered fairly to specific “classes” of employees. Many of the ICHRA rules are designed to avoid discrimination.

1. While ICHRA rules list 11 different classes, those most likely to be used by churches include:
 - a. Full-Time Employees *(Hours required to be considered full-time can be specified.)*
 - b. Part-Time Employees
 - c. Seasonal or Temporary Employees
 - d. Salaried Employees
 - e. Non-Salaried Employees (Hourly)
 - f. Combinations of classes. While benefits must be provided fairly to employees that fall within a specific class, the reimbursement amount can be different based on age and/or family size.
(An employer that also provides group coverage after a specific period of employment can include a “Waiting Period Class”.)
2. The church may offer as much or as little if it’s offered fairly to each class.
The QSEHRA plans that started in 2016 have an annual dollar limit on reimbursements. The new ICHRA plans starting in 2020 have no similar dollar limit.

3. The church can determine what will be reimbursed:
 - a. Insurance Premiums only
 - b. Insurance Premiums & Other Qualified Medical Expenses
 - c. Qualified Medical Expenses only
(Qualified Medical Expenses are defined by IRS Publication 502. They include copays, deductibles, non-covered expenses, vision & dental insurance, etc...)
4. The church can choose how to structure & fund the reimbursements to employees:
 - a. Give all employees the same amount
 - b. Vary available reimbursement amounts by family size
 - c. Vary available reimbursement amounts by employee age
The amounts for older employees is limited to no more than three times the reimbursement amount for the youngest employees.
 - d. Combination of family size and age
5. Different reimbursement rules can be applied to different classes but must be the same rules for all employees in a given class. Classes cannot be used to achieve discrimination. A church cannot offer a group plan and an ICHRA plan to employees in the same class. Employees should never have a choice between traditional group health coverage or an ICHRA plan.
6. If an employee secures their insurance through the government exchange plan and qualifies for premium tax credits to help pay for their insurance, they must choose between accepting the credits or using the ICHRA reimbursements. They cannot do both.
7. The church cannot vary the reimbursement amount based on a percentage of the employee's insurance cost or based on an employee's health condition.
8. If an employer is offering a group plan to one class and an ICHRA plan to another class, there are additional rules regarding minimum class sizes. For example, with less than 100 employees the class size must be at least 10 employees. These size limits do not apply if a traditional group insurance plan is not being offered by the employer.
9. Employers with over 50 employees have other rules regarding the plan being "affordable" or not. Most churches will not have to deal with these rules. Minimum class size rules (# 8 above) and the "affordability" rule are included to avoid potential abuses of using ICHRA plans. Churches that may be subject to either of these rules should seek further qualified guidance.
10. For an employee to participate in ICHRA, they must be covered by a qualified individual plan. There are two primary requirements to a qualified plan. First, it has no annual or lifetime limits on coverage. Second, it covers 100% of certain preventive health care services. Numerous "alternative plans" on the market do not qualify for reimbursement using ICHRA. This includes Health Care Sharing Ministries – they do NOT qualify for ICHRA reimbursement. Medicare and Medicare Supplement plans do qualify for reimbursement using an ICHRA plan.
11. Unused amounts may be carried forward from year to year, as long as carryovers are provided on the same basis to all employees in a class. This provision will most likely apply when the ICHRA plan is reimbursing for medical expenses outside of the insurance premium.

12. A church can administer the ICHRA plan. However, there are numerous third parties that specialize in administering HRA plans, including ICHRA plans. Advantages to a church include record keeping, up-to-date application of the changing rules in the health insurance coverage area, and protection of employee privacy. If using a third party, make sure they know the rules regarding churches. Some of the plan rules dictated by ERISA and COBRA laws may not apply.
13. If employees have a qualified high deductible individual insurance where they contribute to an HSA (Health Savings Account), having the ICHRA plan reimbursement for the insurance cost does NOT disqualify them from making contributions to their HSA.
14. If the employee does NOT buy their insurance through the government exchange plan and the ICHRA reimbursement does not cover all of the cost, the employer may permit the employee to fund the remaining cost on a pretax basis through a Flexible Spending Plan (Cafeteria Plan). (Cafeteria plan funds cannot be used for government exchange plan coverages.)
15. The church should not select or endorse any particular insurance coverage. The church should not receive any cash or gifts in connection with the employee's selection of individual coverage. The employee's purchase of an individual plan should be voluntary. If any of these three restrictions are violated it has the potential of negative stipulations for the church.

ICHRA rules also include a provision for an "Excepted Benefit HRA". This rule lets a church that provides a traditional group insurance plan provide an additional amount to reimburse employees for certain qualified medical expenses, including premiums for vision and dental insurance, COBRA continuation coverage, and in some circumstances short-term, limited-duration insurance.

The IRS has indicated that further clarification will be provided in the future on a number of the rules for ICHRA's. Churches should be diligent in making sure they continue to comply with the rules as these clarifications are issued.