nexben™

ICHRA Employer Contributions & Affordability

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By offering an ICHRA, the employer determines how much it will provide employees on a monthly basis for reimbursement. The defined amount represents the maximum amount for which the employee can be reimbursed through the ICHRA.

This allows for better budgeting, flexibility in plan design, and freedom for employees to choose from multiple coverage options.

With an ICHRA, employers:

- Establish the pre-tax contribution allowance per person, stabilizing the maximum out-of-pocket expenses for which the employer will be responsible.
- Provide employees the opportunity to shop and compare all individual coverage options available to them.

The **Nexben ICHRA Solution** allows employers to define the monthly contribution amount and addresses the following:

- Employer contribution is monthly with no carry over from month to month or year to year.
- Contribution amounts do not accumulate for the employee to use in a later month.
- Contribution amounts not used by the employee are forfeited and may be available to the employer to pay plan expenses.
- Payment facilitation for insurance premiums only, including:
  - Individual Insurance that is MEC (Minimum Essential Coverage)
  - Medicare Part C
  - Medicare Part D
  - Medicare Supplement

Note: While contribution amounts may be defined for all eligible employee's within the Nexben platform, Nexben's ICHRA Solution does not support the facilitation of premium payments for Medicare Part A and Part B. Premium payments for this coverage must be paid for by the individual employee and request reimbursement from the employer.

Designing Employee Eligibility Classes

Flexibility in designing the program to better fit the needs of employees is one of the most valuable features of an ICHRA. Employers may choose to structure the eligibility and contribution based on 11 different classes defined by ICHRA regulations. Please refer to the ICHRA Guide under Resources for additional information and guidelines.

Defining the Contribution Amount

The employer defines the contribution amount it will provide tax-free to the ICHRA. The amount can be as little or as much as the employer wants (no minimum or maximum contribution amounts are required). The contribution amount must be a fixed dollar amount.

Nexben's ICHRA Solution supports these employer-defined contribution strategies: Employee Only, Tier, and Relationship. In the following section, examples of how each contribution strategy option works are provided.

Defined Contribution by Employee Only

This option allows an employer to contribute the same amount to all employees or set different amounts based on their ages.

- Contribution amounts may be equal
- Contribution amounts may vary by age
- Contribution amounts may vary by employee classes (a class may be excluded from coverage under the ICHRA)

EXAMPLE 1

Employer Defines Equal Monthly Contribution Amount

The employer sets the same fixed contribution amount for employees only, for example, $350.

EXAMPLE 2

Employer Defines Monthly Contribution Amount by Age

Employers may contribute different amounts based on different age bands, for example:

AGE BAND	MONTHLY CONTRIBUTION
0–30	$200
31–40	$300
41–50	$400
51–60	$500
60+	$600

Individual market policies for older people typically cost more, so employers may elect to offer higher contribution allowances to older employees. Contribution allowances must be structured using a 1:3 ratio from the youngest to the oldest employee to be considered ICHRA compliant. For example, the employer may contribute $200 for a 24-year-old and $600 for a 64-year-old employee.

In either example, if the total monthly premium is less than the defined monthly contribution in an employee's age band, the contribution does not carry over to the following month. If the total monthly premium is more than the defined contribution, the employee is responsible for paying the remainder.

Defined Contribution by Tier

Contribution by tier is used when an employer would like to contribute to the overall total premium, including dependent premium cost. The contribution amounts for each tier are shared among all members of that tier and do not reflect contributions for each individual. The employer determines their health benefits budget and sets a fixed contribution amount, giving equal amounts to all employees regardless of age.

- Contribution amounts may be equal by tier
- Contribution amounts may vary by tier
- Contribution amounts may vary by employee classes (a class may be excluded from coverage under the ICHRA)

EXAMPLE 1

Employer Defines the Same Fixed Contribution Amount to All Tiers

TIER	MONTHLY CONTRIBUTION
Employee	$500
Employee + Child	$500
Employee + Spouse	$500
Employee + Children	$500
Family	$500

EXAMPLE 2

Employer Defines Different Fixed Contribution Amounts by Each Tier

TIER	MONTHLY CONTRIBUTION
Employee	$500
Employee + Child	$550
Employee + Spouse	$600
Employee + Children	$700
Family	$800

For tiers that include more than one person, the contribution amount is collectively shared by all members enrolled on that employee's policy.

In either example, if the total monthly premium is less than the defined tier contribution, the contribution does not carry over to the following month. If the total monthly premium is more than the defined tier contribution, the employee is responsible for paying the remainder.

Defined Contribution by Relationship

Contribution by relationship is used when an employer would like to contribute based on each household member. An employer may specify fixed contribution amounts for the employee, the employee's spouse, or the employee's child(ren).

- Contribution amounts may vary by relationship
- Contribution amounts may vary by age and relationship
- Contribution amounts may vary by employee classes relationship (a class may be excluded from coverage under the ICHRA)

EXAMPLE 1

Employer Defines Contribution by Relationship

TIER	MONTHLY CONTRIBUTION
Employee	$500
Spouse	$300
Children	$100

EXAMPLE 2

Employer Defines Contribution by Relationship and Age

	MONTHLY CONTRIBUTION		
AGE BAND	EMPLOYEE	SPOUSE	CHILD(REN)
0–30	$200	$100	$100
31–40	$300	$150	$100
41–50	$400	$200	$100
51–60	$500	$250	$100
61+	$600	$300	$100

Individual market policies for older people typically cost more, so employers may elect to offer higher contribution allowances to older employees. Contribution allowances must be structured using a 1:3 ratio from the youngest to the oldest employee to be considered ICHRA compliant. For example, the employer may contribute $100 for a 24-year-old and $300 for a 64-year-old employee.

In either example, if the total premium is less than the defined monthly contribution, the contribution does not carry over to the following month. If the monthly premium is more than the defined contribution, the employee is responsible for the remainder.

Affordability Calculation of the ICHRA

The Affordable Care Act (ACA) generally requires Applicable Large Employers (ALEs) employers with 50 or more full-time equivalent employees, to offer comprehensive health coverage to their full-time employees (30 hours per week) and dependent children known as the "employer mandate." Employers may be subject to steep penalties (i.e., shared responsibility payments) for failing to offer health coverage to substantially all of their full-time employees or for not offering full-time employees coverage that is affordable and provides a certain minimum level of coverage.

An ICHRA can help ALEs satisfy the employer mandate.

- First, by offering an ICHRA to substantially all (generally 95%) of its full-time employees, the employer can avoid the larger of the two employer mandate penalties.
- Furthermore, if the ICHRA offered by an employer to substantially all full-time employees is "affordable," then the employer can also avoid the second type of employer mandate penalty. If the ICHRA is deemed unaffordable, the employer may be subject to the second type of employer mandate penalty.

NOTE

Affordability is a key term for two separate purposes:

- **A group health plan**
- **The marketplace**

A formula is used to determine whether an employer-sponsored group health plan, including an ICHRA, provides coverage on an affordable basis. The formula is different from the way the marketplace determines affordability for purposes of subsidies.

PRIMARY SITE OF EMPLOYMENT

Instead of using the employee's residence, an employer may use the Location Safe Harbor to determine the employee's primary site of employment to identify the lowest-cost sliver.

- **For employees that have a primary work site to which they are assigned and where they are expected to perform services, that primary work site can be used as the location.**
- **For remote workers that have a work site available or at which they are expected to perform work, that location is used.**
- **For remote workers that do not have a work site available or at which they are expected to perform work, the worker's residence is used.**

An ICHRA is considered "affordable" for an employee if the monthly premium for the lowest-cost silver plan for self-coverage only (available through the marketplace in the employee's area of residence), minus the monthly amount made available to the employee under the ICHRA (not including any increased amount made available under the ICHRA based on the number of covered dependents), is less than 8.39% of $\frac{1}{12}$ of the employee's annual household income. The percentage rate applies in 2024 and is indexed yearly.

NOTE

These safe harbors are not used by the marketplace to determine affordability for subsidies. The marketplace looks at the individual's household income.

For purposes of the calculation described above, an employer *chooses one of three safe harbors* to determine annual household income (e.g., the W-2 safe harbor, the rate of pay safe harbor, or the federal poverty line safe harbor) for purposes of affordability under the employer shared responsibility provisions.

Monthly cost of lowest priced silver plan on the market − **Monthly contribution from company** < **8.39% of monthly household income**

The employer can use certain safe harbors to determine annual household income:

W-2 WAGES:

The reported income from Box 1 of W-2 form of the employee.

RATE OF PAY:

The hourly rate of an employee multiplied by 130 hours per month to estimate a monthly wage.

FEDERAL POVERTY LEVEL:

Assume the employee's income level to be equal to the federal poverty level.

ICHRA AFFORDABILITY EXAMPLES

Mary

W-2 Wages	$50,000
Lowest Cost Silver Plan	$600

Affordability Calculation

($50,000 / 12) X .0839 = $350

$600 – $350 = $250

The lowest allowance that can be considered affordable for Mary is $250. The employer contribution allowance must be ≥$250/mo. to be considered affordable. The employer's contribution is set at $375/mo., which is above the affordability limit. Mary must pay any difference for the coverage she selects.

Jack

W-2 Wages	$35,000
Lowest Cost Silver Plan	$650

Affordability Calculation

($35,000 / 12) X .0839 = $245

$650 – $245 = $405

The lowest allowance that can be considered affordable for Jack is $405. The company's contribution allowance of $375/mo. is below the affordability limit. Jack can opt out of the ICHRA, go to the marketplace to see if he qualifies for a subsidy. If he qualifies, he can choose not to participate in the ICHRA and instead get subsidized coverage through the marketplace.

Because the employer did not provide affordable coverage, the employer will have to pay a penalty.