ICHRA/QSEHRA CONSIDERATIONS FOR HEALTH PLANS IN 2025

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ICHRA/QSEHRA Consideration for Pricing Actuaries

Individual Coverage Health Reimbursement Arrangements (ICHRAs) and Qualified Small Employer Health Reimbursement Arrangements (QSEHRAs) are recent additions to the employee health benefit landscape. They offer employers alternatives to traditional group health plans, providing tax-advantaged funds to employees for purchasing individual market coverage or reimbursing associated medical expenses. To the extent that the employer HRA contribution renders the employee portion of the premium ‘unaffordable’, the employees can become eligible for advanced premium tax credits further enhancing their ability to purchase coverage. If this happens, the employer may be subject to a penalty depending on the employer size. While still evolving, ICHRAs and QSEHRAs hold significant potential to impact the individual and small group (I&SG) market, warranting consideration by health plan actuaries involved in product development and pricing strategies.

ICHRA Overview

ICHRAs are available to employers of all sizes who do not offer traditional group plans. Employers contribute a defined amount to employee accounts, allowing them to choose individual health plans on the individual marketplace. ICHRA plans can be HSA compatible.

Key limitations include:

- Employers can offer ICHRAs to specific employee classes but cannot individually target employees (predefined segments include salaried v. non-salaries, full-time versus part-time, temporary employees, employees covered by a collective bargaining agreement, employees under the age of 25, employees in different geographic areas, employees who have not met a waiting period requirement, nonresident aliens, and the combination of any of the above groups).
- Contribution amounts must be the same within each employee class but can vary by age and family size.

QSEHRA Overview

QSEHRAs are specifically designed for small employers (fewer than 50 full-time employees) who do not offer traditional group plans. Compared to ICHRAs, QSEHRAs have:

- **Limited employee opt-out option:** Employees generally cannot opt out of QSEHRAs.
- **Employer size restriction:** Only available to small employers with under 50 FTEs.

- **Contribution limits:** Defined contribution limits for single and family coverage, with the ability to exclude certain employee classes.
- **No COBRA continuation:** Unlike ICHRAs, QSEHRAs are not eligible for COBRA continuation coverage.
- **HSA compatibility:** Not HSA compatible.

Target Markets

States with lower individual premiums compared to small group premiums naturally may see early adoption of ICHRA/QSEHRA plans.

States with reinsurance programs may experience lower individual premiums. As small group members migrate into the individual market, the cost of the reinsurance program will grow which may in turn impact the reinsurance parameters.

Adversely selected small group markets may also be prime targets for ICHRAs and QSEHRAs, potentially leading to carrier exits from the small group market.

Adoption to date has been slow. A few drivers of slower adoption have been:

- General lack of awareness of these plans and their value proposition amongst stakeholders (employers, employees, brokers)
- Operational complexities were still being solved
- Risk of employer penalties

However, a number of these roadblocks have since been removed and ICHRA/QSEHRA membership is starting to grow. Certain carriers that operate in only individual market are turning their attention to these plans to gain market share from group business without the additional cost of launching a group product.

As actuaries, it’s crucial to understand these nuances and stay abreast of market developments for pricing.

Actuarial Considerations

Migration of members from small group to individual market may impact the individual market in several ways that the actuary will need to consider:

Morbidity: If there is adverse selection in the small group market, then this migration will result in worsening morbidity in the individual market which will need to be factored into claims cost projections. To the extent that a particular carrier attracts more of these members than the market, there can be a change in the risk adjustment transfers of that carrier.

Plan Selection: Small group members’ plan selections in the individual markets may differ from typical individual market members. For example, if an employer that used to offer Gold-level benefits switches to ICHRAs and sets its HRA contributions based on a Gold plan, then its employees may shop within the universe of Gold plans. Such plan selections can change the historically observed profitability dynamics by metal level. Carriers may want to rethink the competitiveness of each metal level through the lens of potential ICHRA enrollment.

Demographic Changes: To the extent that the typical small group carrier offers or does not offer dependent coverage, the resulting enrollment may modify the demographic mix of the plan(s) receiving ICHRA/QSEHRA enrollment.

Broker Commissions: When ICHRA members purchase coverage, broker commissions may or may not apply. Some ICHRA administrators charge employers for their services, others collect the broker commissions from individual carriers based on which plans the member purchased, and some use a hybrid approach.

Product Portfolio Considerations

Carriers will need to evaluate their existing product portfolio to be compliant with the needs of ICHRA/QSEHRA shoppers. Reviewing popular plan selections in the existing small group markets and comparing them to existing product portfolio may be a good place for carriers to start.

This may be further complicated by the limitation to have only standard plans plus two non-standard plans at each metal level on the exchanges. Carriers may want to leverage the two non-standard options to bring meaningful differentiation from standard offering to attract employer segment.

Carriers may want to re-visit the network breath offerings to appeal to small group employers. In the past, to offer coverage to larger employers, carriers needed larger networks. However, ICHRAs/QSEHRAs erode the value proposition of PPO plans because each employee can purchase a plan that best suits their provider access needs wherever they live. Switching from PPO to ICHRA/QSEHRA may produce additional savings for employers and may have implications for the national payers.

Carriers may also want to consider off-exchange market as a platform for ICHRA/QSEHRA plan offerings.

Carriers may want to review their non-EHB benefits to align with employer market needs.

Operating a group product in a market facing slow secular membership decline carries unique financial risks. Low membership products have limited upside potential. Profits are capped through MLR requirements and low premium volume makes even the profitable years immaterial to overall company bottom line. However, the membership on these products carries risk of catastrophic claims. Large claims risk is increasing each year with the rise in new expensive treatments. A single large claim can negate a low-membership product's multi-year profitability even after reinsurance is considered.

ICHRAs and QSEHRAs present both challenges and opportunities for health plans. Given the potential advantages such ICHRAs could have for employers, the Departments of Labor, Health and Human Services, and Treasury estimated that by 2029 around 800,000 employers will offer ICHRAs and approximately 11.4 million individuals will receive ICHRAs. Understanding their impact on the I&SG market is crucial for actuaries to develop effective product strategies and pricing models in the evolving healthcare landscape.

If you have any questions please contact Karan Rustagi at karan.rustagi@wakely.com or Michael Cohen at michael.cohen@wakely.com to follow up on any of the concepts presented here.

OUR STORY

Five decades. Wakely began in 1969 and eventually evolved into several successful divisions. In 1999, the actuarial arm became the current-day Wakely Consulting Group, LLC, which specializes in providing actuarial expertise in the healthcare industry. Today, there are few healthcare topics our actuaries cannot tackle.

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Broad healthcare knowledge. Wakely is experienced in all facets of the healthcare industry, from carriers to providers to governmental agencies. Our employees excel at providing solutions to parties across the spectrum.

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