THATCH

Introduction

Employers face significant regulatory compliance burdens, particularly regarding health benefits. Individual Coverage Health Reimbursement Arrangements (ICHRAs) introduce unique interactions with these regulations. Thatch employs a software-driven approach to ensure regulatory adherence, specifically addressing the interplay between Affordable Care Act (ACA) affordability rules and ICHRA plan design constraints.

Regulatory Framework

ACA Affordability Rules

Applicable Large Employers (ALEs) must offer coverage that meets minimum value standards at an affordable rate. Given Individual and Family Plans (IFPs) inherently meet minimum value, the primary focus shifts to affordability.

The IRS annually establishes an affordability contribution rate; for 2025, it is 9.02%. Employees must be able to purchase offered coverage while spending no more than 9.02% of their annual income. In the context of ICHRAs, where employees have diverse plan choices, the lowest cost Silver plan (LCSP) serves as the benchmark for minimum contribution. The calculation is as follows:

Minimum Allowance = (LCSP Premium - (Household Income x 0.0902)) / 12

Source: https://www.ecfr.gov/current/title-26/part-1/section-1.36B-2#p-1.36B-2(c)(5

ICHRA Class Restrictions and Affordability

Once the minimum contribution is determined, adjustments may be necessary to comply with ICHRA class restrictions. ICHRAs allow for varying contributions based on employee classes defined by location, employment type, or pay type. Within these classes, allowances can vary based on age and family size, subject to specific limitations.

- **3:1 Rule:** The highest allowance for the oldest employee within a class cannot exceed three times the allowance for the youngest employee.
    - *Source: https://www.ecfr.gov/current/title-29/part-2590/section-2590.702-2#p-2590.702-2(c)(3)(iii)(B)(2).*

- **Age Rule:** Allowances must increase with age. An employee aged 40 cannot receive less than an employee aged 20.
    - *Source:* *https://www.ecfr.gov/current/title-29/part-2590/section-2590.702-2#p-2590.702-2(c)(3)(iii)(B)(*1).

Potential Penalties

Understanding the risk associated with unaffordable allowances is crucial. ACA penalties, known as 4980H penalties, apply when employees receive premium tax credits (PTCs).

- **4980H(a):** This penalty is incurred if:
    - Over 5% of full-time employees are not offered minimum essential coverage (MEC).
    - At least one employee receives a PTC.
    - The penalty is $2,970 annually ($247.50/month) per full-time employee, excluding the first 30. (ICHRA offers fulfill MEC requirements.)
- **4980H(b):** This penalty is incurred if:
    - An employee receives an unaffordable allowance.
    - The employee receives a PTC.
    - The penalty is $4,460 annually ($371.67/month) per full-time employee receiving a subsidy, up to a maximum equal to the 4980H(a) penalty for not offering healthcare at all:

Maximum Penalty = (Full-time Employees - 30) x $2,970

Source: https://www.law.cornell.edu/uscode/text/26/4980H