

CHOICE made simple

ICHRA is being renamed to CHOICE Arrangements.
This is a straightforward guide to giving your employees
more health insurance choices, while keeping costs
predictable and control in your hands.



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Employer-sponsored health insurance has long been a cornerstone of employee benefits, but with rising costs and complex administrative requirements, businesses of all sizes are seeking more flexible alternatives.

One solution gaining traction is the Individual Coverage Health Reimbursement Arrangement (ICHRA). It allows businesses to offer employees a pre-tax stipend to purchase their own health insurance, providing more control, flexibility, and personalization.

This shift is especially timely as healthcare costs continue to rise. In fact, 93% of small business owners express concern about the sustainability and affordability of offering traditional benefits packages.

Small business owners stressed about employee benefits

93%

of small business owners who provide employee benefits worry their current plan won't last.

Source: Thatch, 2024

36%

of them say the cost of health benefits is their biggest challenge.

Source: Thatch, 2024

An ICHRA presents significant advantages for businesses, whether small startups or large enterprises. It allows for predictable costs by setting fixed monthly contributions for employees, shifting away from the volatility of traditional group health insurance plans, where premiums can rise unpredictably year over year. Instead of absorbing unpredictable premium increases or adjusting coverage to manage costs, employers can set a defined pre-tax contribution that remains stable, ensuring better financial planning and budget control.

This approach also empowers employees by giving them the flexibility to choose the plan that best fits their individual healthcare needs. Rather than being limited to a one-size-fits-all group plan, employees have a set amount to put toward the coverage that aligns with their personal preferences, provider networks, and budget. This means they can choose the right plan without paying out of pocket and waiting for reimbursement.

As a result, more businesses are adopting ICHRAs to provide competitive benefits without the complexity of traditional health insurance.

This guide is meant to help business owners, HR teams, and benefits decision-makers in navigating the ICHRA landscape. Employee benefits brokers will also find value in understanding ICHRA's advantages and how they align with their clients' needs.

In the following chapters, we'll walk you through how to set up an ICHRA with confidence — explore the cost implications, navigate compliance and legal considerations, and discover how Thatch simplifies everything with a streamlined approach.

01

Understanding ICHRA

In this section, we'll explore how ICHRAs compare to traditional group health plans and how they can help businesses overcome common challenges in providing affordable, personalized coverage.

01.1

What is ICHRA?

An ICHRA, or Individual Coverage Health Reimbursement Arrangement, is an employee benefit plan that offers employers a flexible way to provide a pre-tax stipend for employees to purchase their own health insurance and cover eligible medical expenses. It differs from traditional group health insurance plans by shifting away from offering a defined benefit to a defined contribution, where employers set a budget and employees choose their own health coverage.

01. You set the budget

Adjust by employee class, age, or location anytime.

02. Employees choose their plan

Real plans from top carriers, filtered by their own doctor, hospital, or prescription.

Health budget	Est. cost	Remaining budget
\$1600/mo	-\$976/mo	\$624/mo

03. They spend what's left of their health budget, their way

From copays, lab test prescriptions, therapy, GLP1s, and more.

Instead of offering a traditional group health insurance plan, employers utilizing an ICHRA establish a fixed monthly allowance for each employee. This defined contribution model provides businesses with predictable and controllable benefits costs. Employees then gain the flexibility to use these funds to select an individual health insurance plan that best aligns with their unique healthcare needs and preferences, whether prioritizing lower premiums, broader provider networks, or more extensive coverage. To access the full benefit of the ICHRA, employees are required to have an active individual health insurance policy, as the funds are specifically intended for health insurance premiums.

Beyond just premiums, employees can also use their ICHRA funds to cover qualified medical expenses, such as copays, prescriptions, and other out-of-pocket healthcare costs, depending on how the employer structures the reimbursement. This model gives employees more autonomy in managing their healthcare benefits while allowing employers to offer customizable, tax-free benefits without the constraints of a traditional group plan.

**The evolution of
Individual Coverage HRAs**

2010	The Affordable Care Act (ACA) passed, laying the groundwork for the individual healthcare marketplace.
2016	21st Century Cures Act passed. Qualified Small Employer Health Reimbursement Arrangement (QSEHRA) introduced. (SMBs up to 50 employees)
2019	ICHRA regulations are finalized. (Any size employer)
2024	Growth of individual insurance plans, 24 million enrolled and growing.

01.2

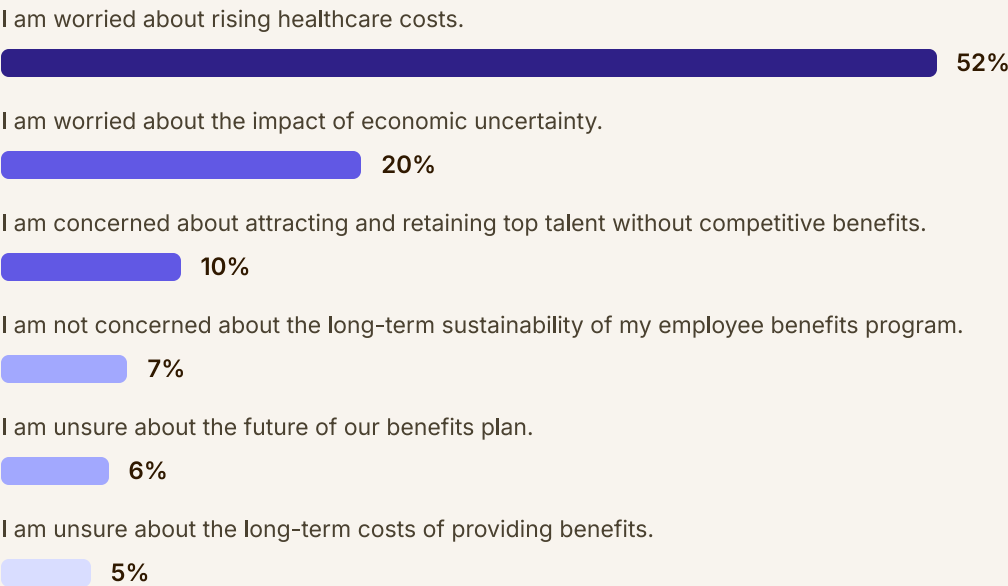
Health insurance challenges for small and mid-sized businesses

Rising healthcare costs and administrative burdens make it increasingly difficult for small and mid-sized businesses to offer competitive employee benefits.

A Thatch survey about challenges small businesses face found that affordability is the top concern for 36% of owners, followed by high premiums (14%) and administrative costs (10%). These financial pressures force many businesses to reconsider their approach to health benefits.

Sustainability is another major issue. 93% of small business owners worry about whether they can maintain their current benefits in the long term.

Small business owners worry benefits programs won't last



Source: Thatch, 2024

Over half (52%) cite rising healthcare costs as their biggest challenge, while 20% are concerned about economic uncertainty. With employer health insurance costs projected to rise nearly 8% in 2025, these concerns are only growing.

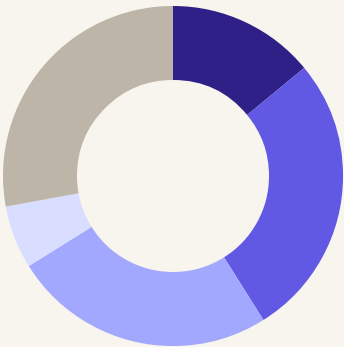
Despite these challenges, offering benefits remains a priority. While 73% of small business owners say competitive benefits help their businesses succeed, many struggle to balance cost control with attracting and retaining employees.

Traditional group plans often have rigid participation requirements and unpredictable renewal rates, making them an imperfect fit for smaller companies.

Many small and mid-sized business owners are still unfamiliar with ICHRAs, even though they offer a cost-effective and flexible approach to employee benefits. In fact, 28% of surveyed business owners admitted they don't know what an ICHRA is, while another 6% weren't sure if they had even considered it.

Have you considered or implemented an ICHRA as a strategy for providing more flexible and cost-effective employee benefits?

- Yes, we have implemented ICHRA. 14%
- Yes, we have considered ICHRA but have not implemented it. 27%
- No, we have not considered ICHRA. 25%
- Not sure if we've considered ICHRA. 6%
- I don't know what ICHRA is. 28%



Source: Thatch, 2024

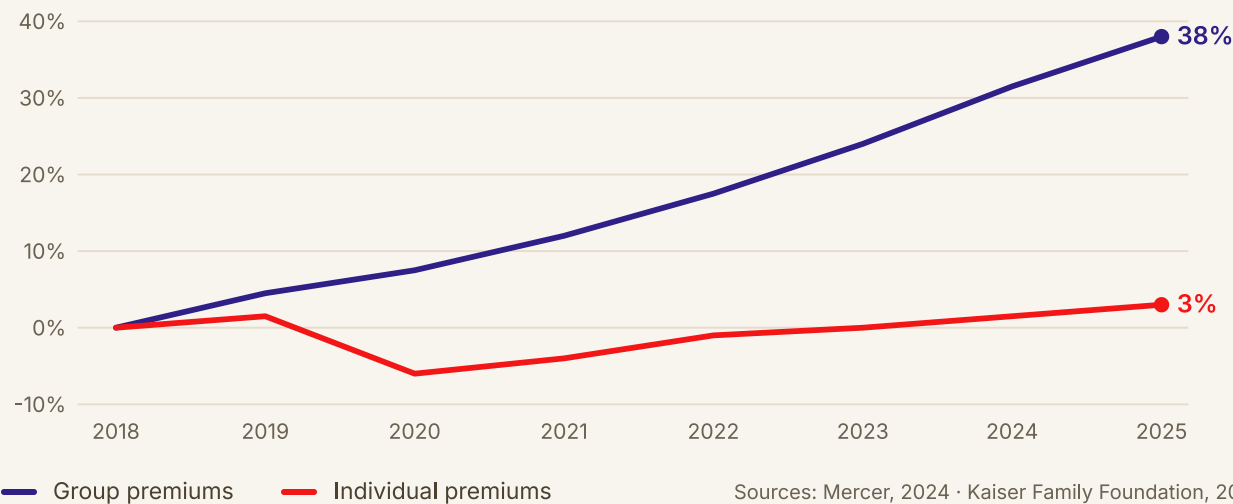
Even among those who are aware, adoption remains relatively low — only 14% have implemented an ICHRA, while 27% have considered it but haven’t taken action. This gap in awareness and adoption suggests that many businesses may be overlooking a valuable opportunity to provide competitive health benefits while managing costs more effectively.

01.3

ICHRA vs. traditional health insurance models

Traditional group health insurance is purchased by the employer and offered to employees. Historically, it’s been a popular option because it used to offer lower costs per person. However, now that the individual market is 24 million people strong... that’s not always the case.

Growth of group vs. individual premiums since 2018



Choosing a plan that meets all employees’ needs can be a significant decision for employers, potentially impacting employee satisfaction and the bottom line. In many cases, employers offer their workers a single group plan. A minority of employers, mostly larger firms, may offer employees a choice between two or more plans.

Unlike traditional group benefits, an employer who sets up an ICHRA is no longer in the business of choosing which benefit plans to offer; instead, the employee makes that decision.

How do ICHRA and traditional group health plans differ?

	ICHRA	TRADITIONAL
Flexibility	Employees have more choices for individual plans	Employees are limited to a small menu of group plans
Control	Employers control contribution amounts but less control over plan details	Employers control plan design and network access
Cost	Variable based on employee choices	More predictable due to negotiated rates

Key differences between ICHRAs and traditional group health insurance include:

Flexibility

ICHRAs offer significantly more flexibility for both employers and employees. Employers can set contribution levels, while employees can choose individual health insurance plans that best suit their needs. In contrast, traditional group coverage typically restricts employees' choices to a limited number of employer-selected plans.

Cost control and risk reduction

ICHRA eliminates the open-ended risk of premium increases while still allowing employers to reassess their contributions annually. Instead of being subject to unpredictable rate hikes, employers set fixed contribution amounts each year, maintaining cost control without being locked into rigid renewal rates.

Contribution adjustments

Employers have the flexibility to adjust contributions as needed, whether to remain competitive in the job market or to align with budget priorities. However, they are never obligated to increase their contributions due to insurer-driven premium hikes.

Administration

Compared to traditional group plans, ICHRAs often involve less administrative burden for employers. There's less paperwork involved as employees manage their own plans. However, employers still have some responsibility for record-keeping and compliance with ICHRA regulations. This is an area where an ICHRA administrator can help simplify the process — handling compliance, documentation, and reimbursement tracking to ensure everything runs smoothly.

Employee empowerment

With an ICHRA, employees have the freedom to select their own individual health insurance plan, ensuring their coverage aligns with their unique healthcare needs, budget, and provider preferences — something traditional group plans often overlook. Instead of being limited to a one-size-fits-all employer-sponsored plan, employees can choose the right level of coverage, preferred provider network, and deductible structure that works best for them and their families.

This personalized approach not only improves employee satisfaction but also enhances benefits equity, as individuals with different medical needs, family sizes, or geographic locations can access plans that truly fit their situation. Ultimately, the decision between an ICHRA and a traditional group health insurance plan depends on an employer’s specific goals and budget.

01.4

ICHRA employee classifications

When structuring an ICHRA, an employer can offer different terms to different classes of employees, based on 11 different classifications including type of compensation, location, and employment structure. These classifications allow for tailored benefits while ensuring compliance with IRS regulations.

An employer must offer the same benefits to all participants within a class, but can set different contribution amounts for different classes.

EMPLOYEE CLASS	DESCRIPTION
Full-time employees	Work hours meet the employer’s full-time threshold
Part-time employees	Work fewer hours than full-time employees
Salaried employees	Paid a fixed salary rather than hourly wages
Hourly employees	Paid based on hours worked

EMPLOYEE CLASS	DESCRIPTION
Seasonal workers	Work only during specific seasons
Employees in the same geographic area	An insurance rating area or state
Union employees	Covered under a collective bargaining agreement
Employees in a waiting period	Awaiting eligibility for benefits
International employees	Non-U.S. nationals working for a U.S. company abroad
Temporary employees	Hired through a staffing agency
Combination of two or more classes	Employers can blend multiple classifications

Employers can structure ICHRA plans to provide different contribution levels for different employee groups while ensuring fairness and regulatory compliance. An ICHRA administrator will also help guide you through these financial decisions and help ensure you remain in compliance.

Employers can vary contributions within a class based on an employee's age and family size to account for premium variations. They can set different allowances within a class, provided (a) that the allowances don't decrease with age and (b) that the oldest employee doesn't receive more than three times what the youngest employee receives.

If an employer offers both ICHRA and a traditional group plan, minimum class size requirements apply:

COMPANY SIZE	MINIMUM CLASS SIZE FOR ELIGIBLE EMPLOYEES
Fewer than 100 employees	10 employees
100–200 employees	10% of total workforce
More than 200 employees	20 employees

Important: These rules do not apply if an employer offers only ICHRAs across all employee classes.

Key features include:

- Employers can assign different contribution amounts to different classes
- Employees within the same class must receive equal treatment regarding benefits
- ICHRAs cannot be offered alongside a traditional group health plan to the same class

Exclusions

- Employees reimbursing a spouse’s group plan
- Owner-employees of S-corps and certain pass-through entities

02

Is an ICHRA right for your business?

Now that you have a solid understanding of what an ICHRA is and how it works, the next step is determining if it's the right fit for your business.

An ICHRA offers a unique way to control costs while giving employees more choice in healthcare coverage — but it’s not a one-size-fits-all solution. Let’s explore the key factors that can help you decide if an ICHRA aligns with your company’s needs.

02.1

Comparing ICHRA to other health insurance alternatives

Traditional group health plans are not the only option for providing employee benefits. Here’s how ICHRAs stack up against other common health insurance models:

01 Fully insured plans

How it works	Employer purchases a fixed-cost group plan from an insurer	
Cost control	Low	Costs rise annually
Flexibility	Low	One-size-fits-all approach
Best for	Companies looking for competitive rates and comfortable with potential high renewals	

02 Level-funded plans

How it works	Employer pays a set monthly amount, with potential refunds if claims are lower than expected	
Cost control	Moderate	Potential for savings, but costs can fluctuate
Flexibility	Moderate	Some customization available
Best for	Businesses comfortable with some risk	

03 Self-funded models

How it works	Employer pays claims directly, assuming full financial risk	
Cost control	High	Only pay for actual claims
Flexibility	High	Plan designed specifically for employees
Best for	Large companies with financial stability	

04 PEO (Professional employer organization) plans

How it works	Employer joins a pooled plan through a PEO, sharing risk with other businesses	
Cost control	Low	Rates set by PEO
Flexibility	Low	Limited customization
Best for	Small businesses needing HR and benefits support	

05 ICHRA

How it works	Employer sets a budget for employees to purchase individual health plans	
Cost control	High	Employer sets and controls costs
Flexibility	High	Employees choose their own plans
Best for	Companies wanting cost predictability every year and employee choice	

02.2

How ICHRA pricing works

Unlike traditional group health plans, where employers receive a single premium quote for a company-wide policy, individual health plans paired with ICHRAs use individual market rates and premiums can vary based on factors like employee location, age, and plan selection.

Step-by-step guide to ICHRA pricing

- 1 Employer sets a budget with help of ICHRA administrator**
Determines a fixed monthly allowance for employees
- 2 Employees shop on the individual market**
Use their allowance to choose individual health insurance plans
- 3 Reimbursement & potential employee contribution**
Employer reimburses up to the set allowance · Employees may pay the difference via payroll deduction
- 4 Specific pricing based on individual factors**
Plan costs vary depending on: Age · ZIP code · Chosen coverage level (Bronze, Silver, Gold, Platinum)

Here's how it works:

1. Employer sets a budget

Employers determine a fixed monthly allowance they will reimburse employees for their health insurance — either a fixed dollar amount, or an amount that ensures equitable buying power across different locations and age.

This budget can be the same for all employees or vary by class (e.g., full-time vs. part-time, geographic region, family size).

Employers can also choose to reimburse for premiums only or include qualified medical expenses.

2. Employees shop for plans on the individual market

Employees use their ICHRA allowance to purchase an individual health plan through a platform like Thatch.

Plan costs depend on age, ZIP code, and coverage level (bronze, silver, gold, platinum).

3. Pricing & reimbursements adjusts to employee demographics

Unlike group plans, ICHRAs provide reimbursement for employee-selected plans that are priced based on the employee's age and location.

In higher-cost areas, premiums tend to be higher. Thatch helps you offer equitable contributions based on age and location, rather than a flat amount that doesn't account for regional differences in buying power.

If an employer's contribution does not cover the full premium, employees pay the difference via a payroll deduction facilitated by Thatch.

02.3

How we work with your existing benefits consultant

If you already have an employee benefits broker, an ICHRA administrator like Thatch will work alongside them to ensure a smooth transition to ICHRA.

We collaborate with your consultant by:

- Providing a data-driven financial quote to compare an ICHRA strategy compared to your current plan
- Assisting with employee education and enrollment support
- Ensuring regulatory compliance and ongoing plan administration

By working together, Thatch can help you maximize the value of ICHRA while ensuring a seamless experience for your business and employees.

[Get started](#)[Visit thatch.com](https://thatch.com)

03

Four key steps of setting up your ICHRA

Choosing an ICHRA administration partner like Thatch is an important step in the process. This ensures a seamless experience for every other step along the way for both employers and employees. In this chapter, we'll walk you through the key steps to successfully implement your ICHRA.

Step 1: Choose an ICHRA administration partner

The right ICHRA administration partner is crucial for managing this process. A good partner will serve as a strategic adviser and have a robust platform that streamlines administrative tasks, provides support, and helps ensure compliance with IRS guidelines.

Look for a platform that offers:

- Employee management tools for plan enrollments, renewals, and financial tracking
- Integration with payroll systems for seamless deduction processing
- A support team to troubleshoot your questions
- Automated compliance checks

Choosing the right software will streamline your ICHRA management, and allows your HR team to focus on more strategic tasks while employees experience a smoother benefits process.

Step 2: Determine who is eligible and your class strategy

The next step in setting up your ICHRA is defining which employees are eligible to participate and determining the specific employee classes that will receive benefits. This segmentation is something your ICHRA administrator will help you devise, and allows you to tailor offerings that also meets your specific business needs.

Key details to consider include:

Employee classes

Under ICHRA rules, you can group employees into 11 classes, including full-time, part-time, and salaried. Each class can have different benefits and contribution limits, allowing flexibility in your plan design. (See Chapter 1 for more details on employee classifications.)

Eligibility rules

To ensure compliance, follow IRS regulations when setting eligibility. Employees must meet specific requirements, such as being enrolled in an individual health insurance plan. Employers should also clearly define classes and apply the eligibility criteria consistently to avoid discrimination. Again, your ICHRA administrator can assist here.

ALE status and compliance

If your business qualifies as an Applicable Large Employer (ALE) — meaning you have 50 or more full-time equivalent employees — you must offer coverage to at least 95% of your full-time workforce to avoid penalties under the Affordable Care Act (ACA). Additionally, your ICHRA contributions must meet affordability requirements to ensure compliance with employer mandate regulations. Your ICHRA administrator can assist in structuring your plan to align with these requirements.

Defining eligibility and employee classes ensures your ICHRA plan is tailored to your workforce's needs, all while maintaining compliance with IRS guidelines and avoiding potential risks. This step is key to creating a plan that works for both your business and your employees.

Step 3: Design your contribution amounts

Designing your ICHRA plan involves customizing it to fit your company's unique needs while also ensuring compliance with additional IRS rules. Here's how to tailor your plan effectively:

Customizing contribution amounts

Set contribution amounts based on employee classes. For example, you might allocate higher contributions for full-time employees compared to part-time workers. Within each class, contributions must follow one of two approaches to ensure fairness: a flat dollar amount (everyone in the class gets the same stipend) or a buying power approach (adjusted amounts based on factors like age or family size to help equalize affordability).

Structuring reimbursement policies

Clearly define what the ICHRA will cover. You can reimburse employees for premiums, deductibles, and other Qualified Medical Expenses (QMEs).

Tax benefits

ICHRA provides tax advantages for both employers and employees. Employers can deduct ICHRA contributions as a business expense, while employees enjoy tax-free contributions for eligible healthcare costs, including premiums and out-of-pocket expenses.

Understanding the meaning of Qualified Medical Expenses-On vs. Qualified Medical Expenses-Off

QME-On

Employee can use funds on premiums, out-of-pocket healthcare costs like copays, prescriptions, and deductibles.

QME-Off

Employee can use funds on premiums only.

Step 4: Communicate ICHRA benefits to employees

Effective communication ensures your employees fully understand their ICHRA benefits and how to make the most of them. Follow these steps to ensure clarity and engagement:

Navigating open enrollment periods

Open enrollment is a critical time for ICHRA participants. Work with your ICHRA administrator to provide clear timeline reminders on when employees can choose their plans. Unlike a traditional group plan, health plans in ICHRA can't be backdated, so these deadlines are critical, especially when a new employee is joining outside of Open Enrollment.

Educating employees on individual plan selection

Employees will review, and enroll in their own health insurance plans through an ICHRA administrator, like Thatch. They will also have the option to meet with someone one-on-one, if they'd like to discuss their specific needs and get free support.

Providing support

Your ICHRA administrator can supply easy-to-understand materials that explain the ICHRA process, including contribution amounts, eligible expenses, and timelines. They can also provide FAQs addressing common concerns and clarifying rules around QMEs, reducing the burden on employers.

A well-structured ICHRA communication plan will reduce confusion and help employees feel confident in their health benefits decisions. This leads to greater participation and satisfaction with your ICHRA offering.

04

Compliance and legal considerations

Ensuring employees have the right coverage is just one part of a successful ICHRA — staying compliant is just as important. In this chapter, we'll clarify how ICHRAs align with ACA requirements and identify key tax and legal considerations businesses must consider to ensure they remain compliant.

04.1

ICHRA and ACA compliance

ICHRA plans are designed to meet ACA requirements while providing flexibility to employers. Here's how they do it:

Employer mandate

ICHRA's allow businesses to satisfy the ACA's employer shared responsibility mandate. By offering an ICHRA, employers fulfill the requirement to provide health insurance as long as employees enroll in plans that meet Minimum Essential Coverage (MEC) standards.

MEC and affordability

For compliance, employees offered ICHRA plans must obtain coverage that meets the MEC requirements, which includes coverage purchased in the individual market, whether on an ACA Exchange or directly from a carrier. Additionally, the ICHRA must meet the ACA's affordability guidelines, ensuring the employee's contribution to their health plan does not exceed 9.12% of their income for 2025. An ICHRA platform will help you calculate this to help you stay in compliance.

04.2

Tax and legal considerations

When setting up and administering an ICHRA plan, there are essential tax and legal considerations to keep in mind. Your ICHRA partner should help you along the way to help you stay in compliance:

IRS reporting requirements

Businesses must meet IRS reporting obligations, including submitting forms such as Form 1095-C (Employer-Provided Health Insurance Offer and Coverage) to the IRS. Your ICHRA administrator, like Thatch, will help you track and report contributions to avoid penalties.

Common compliance mistakes

One of the most frequent errors is failing to properly define employee classes, which can lead to discrimination issues. Another is not ensuring that all employees in a class meet the MEC requirement, which could jeopardize the plan's compliance. Again, your ICHRA administrator will help ensure you set up a compliant ICHRA for your business.

05

Managing and scaling your ICHRA

Once your ICHRA plan is up and running, ongoing management is key to keeping it effective and adaptable. This chapter covers strategies for adjusting contributions as your business grows.

05.1

Ongoing plan management

Your ICHRA administrator handles the day-to-day management of your plan, ensuring compliance, tracking reimbursements, and making adjustments as needed. However, it's still important for employers to stay informed about how the plan is performing in relation to business goals.

Here's a useful strategy to stay engaged:

Adapting to employee needs

As your company evolves, your ICHRA administrator will help review employee enrollment trends and ensure contribution structures remain competitive. They can assist with adjusting contribution amounts or modifying employee classes to better align with workforce demographics and industry standards.

05.2

How to adjust contributions over time

As your business and workforce grow, adjusting ICHRA contributions will help keep your plan sustainable and fair. Here's how to approach this:

Budgeting for contributions

Start by assessing your business's budget and understanding rate increases in relevant regions. Consider how employee classes may change and adjust contribution amounts to fit within your financial and benefit goals.

Scaling for growth

As your business scales, consider adjusting your contributions to remain competitive or introduce new employee classes as operations expand. Aligning ICHRA benefits with company growth ensures employees remain satisfied.

06

Implementing ICHRA with Thatch

Successfully managing an ICHRA requires the right tools and support. That's where Thatch comes in. Thatch simplifies ICHRA setup, automates compliance, and provides hands-on support to ensure businesses can offer a modern, flexible benefits solution with minimal administrative burden. Here, we'll explain why Thatch stands out, what to expect in the setup process, and how to effectively manage your plan.

06.1

Why choose Thatch for ICHRA?

Thatch is designed to remove the complexity of ICHRA administration while providing a smooth, intuitive experience for employers and employees. Here’s what sets Thatch apart:

FEATURE	BENEFIT
Simplified setup and admin	Get ICHRA up and running quickly with Thatch’s guided setup process
Payroll integration	Syncs with payroll systems to automate deductions
Thatch card	Employees can use the Thatch card for seamless premium and out-of-pocket payments
Managed enrollments and payments	Thatch supports plan enrollments and the payments to carriers
Personalized employee support	Employees get guidance on selecting the right health plan and understanding their benefits
Integrated compliance and reporting	Thatch keeps your plan compliant with ACA, IRS, and state regulations

With these features, Thatch helps employers offer competitive health benefits without the complexity of traditional group plans.

06.2

What to expect in your Thatch sales journey

Setting up ICHRA with Thatch follows a streamlined process to ensure the plan meets your business’s needs:

- 1

Initial consultation & needs assessment
Understand your company’s size, budget, and employee needs. Identify key goals for offering ICHRA.
- 2

Plan design & contribution modeling
Determine contribution amounts for employee classes. Ensure compliance with affordability guidelines.
- 3

Enrollment & employee onboarding
Employees receive clear guidance on selecting and enrolling in individual plans. Thatch provides onboarding support to answer employee questions.
- 4

Ongoing support & compliance management
Thatch handles regulatory updates and annual plan adjustments.

How Thatch billing works

Employee healthcare premiums
Gross premium costs for enrolled employees, billed for the upcoming month
Billed on the 15th

Thatch license fees
Monthly fee for each onboarded employee who opted in
Billed on the 1st

07

FAQ

07.1**Can ICHRAs be combined with other benefits?**

Yes, ICHRAs can be combined with other benefits, such as health savings accounts (HSAs), dental and vision insurance, and supplemental coverage like accident or critical illness policies.

However, to maintain HSA eligibility, employees must choose a Qualified High Deductible Health Plan (HDHP) and ensure their ICHRA is structured as QME-Off (meaning it only reimburses premiums, not out-of-pocket expenses).

Employers can also offer retirement benefits, wellness programs, and other perks alongside ICHRA for a more comprehensive benefits package.

07.2**What happens if an employee doesn't enroll in a plan?**

If an employee doesn't enroll in an individual health plan, they won't be able to receive reimbursements through ICHRA. Since ICHRA funds can only be used for eligible health insurance premiums and medical expenses, employees must have a qualified individual coverage plan to participate.

Employers are not required to provide alternative benefits, but employees may explore coverage options during special enrollment periods if they miss the initial deadline.

07.3**What is considered a Qualified Medical Expense (QME) with ICHRA?**

QMEs under ICHRA include health insurance premiums for individual coverage and IRS-approved medical expenses, such as doctor visits, prescriptions, and diagnostic services.

Employers can customize their ICHRA to reimburse premiums only (QME-Off) or both premiums and medical expenses (QME-On) based on their plan design. For a full list of eligible expenses, refer to IRS Publication 502.

07.4**How does ICHRA affect pre-tax savings like HSAs and FSAs?**

Depending on the plan design, ICHRA can impact pre-tax savings accounts like HSAs and FSAs. Employees stay HSA-eligible if their ICHRA is QME-Off (reimbursing premiums only) and paired with a Qualified High Deductible Health Plan (HDHP).

If an ICHRA reimburses both premiums and out-of-pocket expenses (QME-On), employees lose HSA eligibility. Employers offer FSAs alongside ICHRA at their discretion.

07.5**How do reimbursements work?**

With Thatch, employees typically don't have to pay out of pocket and wait for reimbursement. Instead, in most cases, their health insurance premiums are deducted directly from their paycheck, simplifying the process and eliminating upfront costs. This approach ensures employees can access their benefits without financial strain.

Thatch further streamlines the process by automating expense tracking and reimbursement management within its platform. Employers can set contribution amounts, and Thatch handles the rest — ensuring compliance, managing payments, and making the entire experience seamless for both employers and employees.

07.6**Can employees on Medicare participate in an ICHRA?**

Yes, employees on Medicare can participate in an ICHRA as long as they are enrolled in Medicare Parts A and B or Part C (Medicare Advantage). However, unlike traditional group insurance, Medicare-eligible employees cannot purchase an individual health insurance plan through the marketplace — they must enroll in Medicare to qualify for ICHRA reimbursements.

ICHRA funds can reimburse Medicare premiums and other qualified medical expenses, making it a flexible option for employers with Medicare-eligible staff. Employees should ensure their Medicare coverage meets minimum essential coverage (MEC) requirements to stay compliant.

07.7**What happens if an employee moves to another state?**

If an employee moves to another state, they can continue participating in an ICHRA as long as their new health plan meets the minimum essential coverage (MEC) requirements and aligns with the employer's ICHRA plan design.

Employers should update employee records and ensure the new health plan is eligible for reimbursement. Coverage options may differ by state, so employees may need to review available plans that comply with ICHRA guidelines.

**Learn more on
Thatch.com:**

What is ICHRA?

ICHRA for SMBs

ICHRA for startups

ICHRA for enterprises

08

About Thatch

Thatch is redefining health benefits for modern businesses, making it easier than ever to offer personalized, flexible coverage. With our intuitive platform and expert support, employers can easily set up and manage ICHRAs — giving employees the freedom to choose the health insurance plans that best fit their needs.

Join the growing number of businesses using Thatch to provide better benefits while maintaining cost control and compliance. Book a demo today to see how Thatch can help you transform your approach to employee health benefits.

[Book a demo](#)[Visit thatch.com](https://thatch.com)