# The next big thing?

By John Barkett

**Could ICHRAs do for health care what 401(k)s did for retirement? Some believe the individual coverage HRA could be the biggest shift in how employees access health insurance since WWII.**

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In 1978, the U.S. was introduced to the 401(k). With it came new vocabularies, personal wealth calculators, the need for employees to learn about investing, and a major shift in the employer-employee contract. At the time, more than half the workforce had a traditional defined-benefit pension, with investments and distributions controlled by their employer. Forty years later, pension retirement programs have dropped dramatically, and 80 million Americans actively participate in a 401(k).

The shift significantly altered how employees rely on their employers for financial security in retirement, and it improved employees' access to personal investment information, giving them more control over—and responsibility for—their own savings outcomes.

Recently, a new tool has been created on the health care side of benefits that some believe could alter the employer-employee contract in similar ways, reframing the relationship once again.

The tool is a new way for employers to subsidize health insurance without sponsoring a traditional group health insurance plan. Like a 401(k), it promises to give employees flexibility and responsibility by requiring them to hold the reins. For employers that adopt the individual coverage health reimbursement arrangement, or ICHRA, it could be the biggest shift in how employees access health insurance since employer-sponsored group health plans first gained traction after World War II.

ICHRA is an acronym that few currently know—as few knew, in 1978, that "Section 401(k)" was a new part of the Internal Revenue Code that created the now popular retirement savings vehicle. As of December 2019, no one was enrolled in an ICHRA. But in just five years, it could be how 10 million Americans access health insurance, according to government estimates. Today, 160 million people have some form of employer-sponsored health insurance, leaving plenty of room for growth in ICHRA adoption. The companies that are early adopters of ICHRAs in the coming few years may be at the forefront of a trend that eventually supports millions.

### How does an ICHRA compare to 401(k)s?

With a traditional group health insurance plan, employers review a broad range of health insurance options and then offer a selection of one or more options for employees to choose from. Employers set the plan design and determine what level of subsidy to provide. With the ICHRA model, individual employees receive tax-free employer funds to purchase their own plan, and they can choose their plan from a much broader range of options on the individual health insurance marketplace. The funds are made available through a defined financial contribution, which employers can provide via a health reimbursement arrangement (HRA). An employer cannot offer both an ICHRA and a traditional group health plan to the same class of employees.

In numerous ways, it is a shift similar to the way in which employers moved from providing a defined-benefit pension to providing a defined contribution retirement plan via a 401(k). Let's look at these side by side:

• **Cost certainty.** Both 401(k)s and ICHRAs let employers more predictably budget for—and honor—their employee commitments. With an ICHRA, an employer plans for the predictable costs of their subsidy of employees' health plan premiums, rather than the unpredictable costs of employees' health care.

• **Portability.** In both a 401(k) and an ICHRA, the employee can carry the underlying asset with them to other jobs; they just stop receiving regular contributions from the former employer. Joe keeps the savings he's accrued in his 401(k) (once he's vested), no matter where he's working, though he may have to roll the funds into another plan. In the case of an ICHRA, Joe would be able to carry the health plan he purchases with an employer-funded HRA to another employer; only the source and employer-specific rules of funding for his plan would change.

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• **Tax advantages.** Both structures also carry tax advantages to the participant, but the tax benefits of an ICHRA far outpace the tax advantages under a 401(k). A traditional 401(k) defers the employee's tax burden, while the funds an employee receives via an HRA are entirely tax-free.

• **Empowered employees.** Both models give employees more choices to tailor their benefits, but both also require them to shoulder the consequences of a poor choice. An individual's 401(k) can fall short if the individual doesn't save enough or choose prudent investments. Similarly, with an ICHRA, employees will need to research the health plan options most appropriate for their family's coverage and cost needs and make a proactive decision during open enrollment, rather than being placed into a ready-made plan designed by the employer.

### Choice is good. Informed choice is better.

The adoption of 401(k)s taught us that more employee choice demands more employee guidance. Consider the investment management advice available now that wasn't available in the 1970s: fund types, marketing materials, online retirement calculators. Today, we even see personalized tech tools that model how each small increase to savings translates to long-term retirement funding.

As part of the change management effort, many 401(k) providers also leveraged behavioral economics to nudge employees toward positive savings habits. Think of auto-enrollment, auto-escalation (increasing a contribution by a percentage each year), and target date funds (which adjust participants' asset allocation appropriately as they age). As Vanguard noted last year, "Faced with an array of choices and competing priorities, many employees will be content to stick with the default choices provided by their employer. Inertia helps drive participation rates and savings levels, especially in automatic enrollment plans."

And while auto-enrollment to encourage participation would be the exact opposite of the ICHRA's intent to provide more flexibility in choice, watch to see how employers manage this new change by collaborating with ICHRA administrators to help employees get the most out of their health plans. ICHRA employers will create new opportunities to build plan choice navigation tools and concierge support to help employees select the "right-sized" insurance plan. Many workplaces are already offering such decision-support resources with their traditional group plans. The ICHRA tool may be



new, but deploying it will feel familiar to benefits administrators that have already built configurable communication tools and helped millions of employees transition to individual health insurance.

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Watch, too, for employees learning to compare ICHRA funding across employers in the same way they compare wage rates or 401(k) matches; employer contributions to such funds will be very transparent, making it easier for job applicants to compare one company's ICHRA value to another's.

Finally, this new transparency and the need for new educational resources will create a new coalition of health insurance purchasers: well-informed workers. The businesses and other early adopters that employ them will become direct stakeholders in any efforts that affect access to health plans on the individual marketplaces. Since individual market plans are governed by state departments of insurance as well as federal rules, purchasers can be confident they're not buying into junk plans, and lawmakers and regulators within these markets will be further encouraged to continually improve those marketplaces for an expanding constituency.

### Who should offer ICHRAs?

Employers are permitted to offer an ICHRA to specified classes of employees including full-time, part-time and union employees represented by collective bargaining agreements. We believe that some employers will put both feet on a single path by adopting an ICHRA (and ending group plan sponsorship) for their entire health benefit eligible population. And while 95 percent of employers representing over 11 million workers say they expect to continue to provide employer-sponsored health insurance in five years, according to Willis Towers Watson's 2019 Best Practices in Health Care Employer Survey, we're closely watching those numbers now that this new option redefines what it means to provide access to a health plan.

We expect smaller, geographically concentrated businesses and companies with distinct benefit offerings for specific subgroups of employees (e.g., part-time, seasonal or hourly workers, higher-turnover populations, and the like) to be some of the earliest adopters of this model.

While we don't expect to see many large employers make the early moves to this health care model, recall that, similarly, the early movers on 401(k)s weren't usually the ones already known for rich retirement benefits. It's possible that some new companies never choose to offer traditional group health coverage at all and instead go straight to ICHRAs. Companies founded in the 1970s and 1980s (e.g., Dell, Home Depot) never created traditional pensions in the first place; they just offered a 401(k) as their retirement benefit from the outset.

As ICHRAs gain popularity, it will be interesting to see the impact of this new vehicle on the employer-employee contract, the evolution of Americans as health care consumers and plan diversity in the individual health insurance marketplace.

John Barkett is senior director of policy affairs at Willis Towers Watson, a global risk-management company and insurance brokerage.

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