KEY POINTS

# The ICHRA Model: A Major Disruptor in the Employer Health Insurance Market

The Individual Coverage Health Reimbursement Arrangement (ICHRA) is disrupting employer-sponsored health insurance in the U.S. by enabling the shift from a traditional group health plan model to a more flexible and personalised approach. Launched in 2020, ICHRA allows employers to reimburse employees for individual health insurance premiums and eligible medical expenses instead of providing a uniform group plan. Although ICHRA is a U.S. based initiative, it marks a significant departure from traditional employer-sponsored insurance (ESI), a model deeply embedded in the American healthcare system. As such, it offers valuable insights that may be relevant for insurers and policymakers in other markets with similarly entrenched ESI frameworks.

**How ICHRA Works**

ICHRA allows employers to determine a fixed contribution that employees can use to buy the health insurance that suits their personal needs. Employees select individual plans, and employers reimburse costs up to the defined allowance. This approach promotes greater flexibility and choice while shifting the focus to consumer driven healthcare. Unlike earlier health reimbursement arrangements (HRA), ICHRA has no set contribution limits and is open to employers of any size, making it a viable replacement for traditional group coverage.

**Key Features and Advantages of ICHRA:**

- **Cost Control for Employers:** Companies can tailor contribution levels, enabling predictable budgeting and effective cost management.
- **Increased Employee Choice:** Employees are free to choose from a wide array of plans on the individual market rather than a single employer-selected plan.
- **No Minimum Participation Requirements:** ICHRA avoids the thresholds typically required in group plans, offering more flexibility for employers.
- **Portability:** Employees retain their insurance even after leaving a job, as policies are not tied to employment.
- **Compliance with ACA Requirements:** ICHRA can be structured to meet the Affordable Care Act's employer mandate, maintaining essential coverage access.
- **Scalability for Businesses of All Sizes:** Whether for small startups or large corporations, ICHRA is adaptable to different workforce dynamics.

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## Impact of ICHRA on the U.S. Health Insurance Market

ICHRA is significantly reshaping the U.S. health insurance sector by driving more enrolment in the individual insurance market. As per the HRA Council, ICHRA usage rose by 29% between 2023 and 2024, with a notable 84% growth among Applicable Large Employers (ALEs). Many businesses previously unable to afford traditional group plans are now able to provide health benefits. The ability to segment eligibility by job type, location, or tenure further enhances its customisation potential.

## Pressure on Insurers' Traditional Business Models

ICHRA fundamentally disrupts legacy models by shifting from group contracts to fragmented individual plans. Revenue predictability declines, while competition and consumer expectations rise. Insurers must invest in digital platforms, data analytics, and customer support while managing costs, with failure to adapt potentially leading to exit from the market for less agile players.

ICHRA also reduces employers' liabilities by capping financial exposure and shifting cost risks to individuals and insurers. This offers employers budget certainty but increases the burden on insurers to offer cost-effective, high-quality plans without employer-led negotiations.

This structural shift challenges core insurance practices. Insurers used to managing risk at a group level must now price and underwrite policies for a more fragmented and unpredictable individual customer base. Acquisition costs are likely to rise, margins may tighten and service expectations will continue to grow. Yet, for agile insurers already operating via the exchange system ICHRA represents a major opportunity. As ICHRAs allow employers to reimburse employees for individual market premiums instead of offering traditional group coverage, in the U.S., millions of employees who were previously outside the U.S. Affordable Care Act (ACA) individual market could now be steered into it. Those with robust digital capabilities, user-centred design, and direct to consumer models are poised to emerge as clear winners.

## Global Implications of ICHRA

Though a U.S. model, ICHRA offers lessons for international markets with private insurance and varied employment types.

- **Stimulating Individual Markets:** Countries like Canada, Australia, New Zealand and Germany could adopt similar models to boost insurer competition and expand individual plan offerings.
- **Supporting Workforce Mobility:** ICHRA's portability aligns with globalised labour needs, offering flexibility beyond rigid employer-based systems.
- **Addressing Remote and Gig Work:** As traditional employment shifts, ICHRA like schemes could help freelancers and remote workers access tailored, independent health coverage.
- **Public Sector Integration:** Governments may explore reimbursement-based models to reduce employer obligations while preserving health mandates.
- **Easing SME Pressure:** For small employers, simplified reimbursement could make providing health benefits more feasible than managing group plans.

## Conclusion

The ICHRA model signals a potential reordering of employer-sponsored health insurance, replacing rigidity with flexibility, better cost control and personalisation. Though a U.S. initiative, by transferring risk and control to insurers and employees, ICHRA sets a disruptive precedent for health benefits delivery worldwide. Insurers attuned to the individual market and capable of rapid adaptation have an opportunity to take the lead in delivering affordable, consumer-centric healthcare in a transformed landscape.

**Key Resources:**

*Read more on disruptive insurance models:* ***Owning the Digital Front Door***

*Join our network to interact and share best practice with other members:* ***Customer Experience Member Network***

*Connect with others on this topic, visit:* ***Members Connect***

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