

Benefits Insights

Debunking ICHRA Myths



Individual coverage health reimbursement arrangements (ICHRA) are trending up and becoming a more viable health plan alternative for employers to offer. A health reimbursement arrangement (HRA) is a type of account-based group health plan funded solely by employer contributions that reimburses eligible employees for medical care expenses, up to a maximum dollar amount for a coverage period. HRAs are an attractive option for employers and employees due to their tax-favored status. ICHRAs are a type of HRA that allow organizations to offer employees a monthly allowance of tax-free reimbursements to buy health care services that fit their unique needs.

As employers continue to navigate rising group health premiums and growing expectations for personalized benefits, many are reevaluating whether a traditional plan for all classes of employees still aligns with their goals. With more employers exploring or expanding ICHRAs, it can be helpful to know how to separate myth from fact. This article highlights the growing popularity of ICHRAs and debunks six common myths about them.

The Rise of ICHRAs

Employer adoption of ICHRAs has surged over the past several years. Early [2026 data](#) by HealthSherpa revealed that roughly 400,000 to 800,000 U.S. residents are using cash from ICHRAs to pay for their health insurance this year—that's 2.8 times higher than just a year ago. HealthSherpa helps agents and brokers enroll people in individual, family and Medicare coverage. The firm supported about one-third of Affordable Care Act (ACA) exchange plan enrollments in 2025.

HealthSherpa analysts believe there are early signs that the number of people using ICHRA plans or a similar type of plan, the qualified small employer health reimbursement arrangement (QSEHRA), to buy coverage could triple again in 2027. The report noted that when more insurers and ICHRA program managers post their numbers or send them to the HRA Council for its annual reports, HealthSherpa will use the new data to improve its own estimates.

Debunking Common Myths About ICHRAs

ICHRA usage is rising as more plan sponsors consider ways to control health benefits costs and offer individualized employee benefits. Despite their growing popularity, employers may still have misconceptions about these arrangements. Here are six common myths and facts regarding ICHRAs.

Myth #1: ICHRAs are only for small employers.

Fact: While small organizations were early adopters, ICHRAs are increasingly being adopted by employers of all sizes, including mid-sized and some larger organizations. In many cases, these employers offer ICHRAs only to specific classes of workers, such as part-time or seasonal employees. This is largely because they offer flexibility, cost control and a modern benefits approach that aligns with evolving workforce expectations.

Keep in mind that small employers without group health plans may establish standalone HRAs to reimburse employees for medical care expenses. For eligible small employers, this arrangement is known as a QSEHRA. Although QSEHRAs and ICHRAs both reimburse individual health coverage and medical expenses, QSEHRAs are a separate and distinct type of HRA governed by different eligibility rules, contribution limits and compliance requirements.

Myth #2: Employees don't want to choose their own insurance.

Fact: Employees are showing strong interest in selecting their own coverage, and many appreciate the ability to tailor their plans to their personal needs when provided with clear guidance and meaningful employer support. ICHRAs offer flexibility for employees and employers alike.

When employees are supported with decision tools, education and access to guidance or advisors, choice becomes a benefit, not a burden. Many employees are already accustomed to selecting coverage through the individual market, especially remote, younger or job-changing workers. ICHRAs meet employees where they are by pairing autonomy with structure, helping them feel more confident in their health care decisions while reinforcing the employer's role as a sponsor and advocate, not just a plan selector.

Myth #3: ICHRA employee classes are restrictive and limit flexibility.

Fact: ICHRAs do allow employers to decide which employee classes are eligible and how much they contribute for each class. Employers may also continue to offer a traditional group health plan if the ICHRA and the traditional group health plan are offered to different classes of employees. Examples of eligible classes include full-time employees, part-time employees, salaried employees and nonsalaried employees. Employers may offer an ICHRA to new employees (e.g., those hired on or after July 1, 2024) while grandfathering existing employees in a traditional group health plan to help employers transition from offering a traditional group health plan to an ICHRA. However, the ICHRA must be offered on the same terms to all participants in the new-hire subclass.

This means employers aren't forced into a one-size-fits-all approach. Instead, they can tailor their benefits strategies. For example, they can offer a group plan to full-time employees while providing an ICHRA to part-time, remote or seasonal workers.

Myth #4: ICHRAs force employees into low-quality plans.

Fact: The individual market now offers competitive networks, strong plan options and tailored access. Market competition in the individual space is intense, driving insurers to create purpose-built networks and manage costs through narrower networks and plan designs that differ from traditional group offerings. Employees use ICHRA funds to select high-quality coverage, as suggested by data showing a large share choosing gold-tier plans. Rather than limiting options, ICHRAs may increase both affordability and variety for some employers.

Myth #5: ICHRAs are too complex to manage.

Fact: Administering an ICHRA may seem daunting, but many employers hire a third-party administrator (TPA) to manage the benefits' day-to-day administration.

Today's ICHRA platforms and support systems are designed to streamline administration, making it manageable for employers while giving employees easy-to-navigate tools to enroll in plans that work for them. According to ADP, modern benefits platforms automate up to 80% of enrollment, payments and compliance reporting through integration. These systems also include built-in ACA affordability checks and IRS reporting, which can significantly reduce employers' administrative burdens.

Myth #6: ICHRAs are a compliance workaround, not a long-term strategy.

Fact: Employers increasingly view ICHRAs as a foundational part of a longer-term benefits strategy. In fact, these arrangements are gaining long-term policy support in addition to insurers, benefits consultants and investors betting big on the ICHRA model.

The ACA employer shared responsibility rules, also known as the "pay-or-play" rules, require applicable large employers (ALEs) to offer health coverage that is affordable and provides minimum value to their full-time employees or risk paying a penalty. ALEs may use ICHRAs to provide health coverage to their full-time employees without risking a pay-or-play penalty if the arrangements are considered affordable. ICHRAs aren't simply about meeting ACA requirements; they're about budget predictability, competitive recruiting and benefits personalization.

Most recently, the One Big Beautiful Bill Act, which was signed into law in 2025, codified ICHRA regulations into federal statute, providing employers with the long-term legislative certainty that this is not a temporary or easily reversible benefit strategy.

Conclusion

Many employers are now considering ICHRAs as a proactive strategy rather than a last resort, recognizing that shifting to a more flexible benefits model that offers different cost tiers can improve satisfaction and long-term cost stability. ICHRAs are a scalable benefits strategy that balances employers' cost control with employees' flexibility and choice. With adoption at record highs and continued growth expected into this year and beyond, employers who understand the facts behind ICHRAs will be better positioned to build modern, sustainable benefits packages.

As a flexible alternative to traditional group health insurance, more employers are implementing ICHRAs to meet the unique needs of today's diverse workforce. However, ICHRAs involve trade-offs compared to other employer-sponsored health care plans and may not be the right option for every employer or for all classes of employees. As such, employers should continue to monitor trends to make informed benefits decisions for their organizations and employees. Contact us for more resources.
