



CHOICE Arrangement Employer Guide

End-to-End Playbook • formerly ICHRA

Heads Up: ICHRA Has a New Name

On September 3, 2026, CMS and the U.S. Small Business Administration announced that ICHRA is now officially referred to as the **CHOICE Arrangement**. *The underlying rules and regulations are unchanged — this is a terminology update, not a redesign of the benefit.*

What CHOICE Stands For

C

Custom

H

Health

O

Option

I

Individual

C

Care

E

Expense

Custom Health Option and Individual Care Expense Arrangement = CHOICE Arrangement (formerly ICHRA)

Throughout this deck, “CHOICE Arrangement” replaces ICHRA. You may still see “ICHRA” in vendor names, URLs, and older materials until the industry fully transitions.

CHOICE Arrangement 101 — What It Is and Why Employers Use It

An Individual Coverage Health Reimbursement Arrangement lets employers reimburse employees tax-free for individual health insurance premiums and qualified medical expenses.

Key Characteristics

- Employer-funded, with no employer contribution caps
- Works for any size employer, including ALEs
- Employees must be enrolled in individual coverage or Medicare (Parts A & B, or C — Part D reimbursement requires A/B or C first)
- Reimbursements are tax-free when compliant

Why Employers Choose CHOICE Arrangement

- Cost control and budget predictability
- Elimination of group participation and contribution rules
- Expanded employee choice
- Geographic and workforce flexibility
- Long-term ACA strategy for ALEs

Employee Classing Rules

CHOICE Arrangement eligibility is determined by IRS-approved employee classes. All employees within a class must be offered CHOICE Arrangement on the same terms.

Common Classes

- Full-time vs. part-time
- Salaried vs. hourly
- Seasonal
- Temporary
- Union vs. non-union
- Waiting period (up to 90 days)
- Non-resident aliens
- Geographic location — state, rating area, or ZIP-based

Important Rule

You cannot offer a traditional group health plan and CHOICE Arrangement to the same class of employees.

Minimum Class Size Requirements

Minimum class sizes apply only when carving employees out of a traditional group plan.

Employer Size	Minimum Class Size
< 100 employees	10 employees
100–200 employees	10% of workforce
200+ employees	20 employees



Critical Exception — Geographic Classing by State

- When an employer classes employees by state, no minimum class size applies
- Makes state-based classing the most flexible and defensible design, especially for multi-state employers, remote workforces, small carve-outs, and employers transitioning from group coverage
- **Applies only at the state level — not sub-state rating areas**

CHOICE Arrangement Compliance Overview

Core Compliance Pillars

- Written CHOICE Arrangement plan document + ERISA SPD
- Uniform availability within each class
- Substantiation of expenses
- Annual employee notice (90 days prior)
- ACA affordability (for ALEs)
- 105(h) nondiscrimination compliance when §213(d) expenses are allowed
- 6055 ACA reporting (Forms 1094/1095 B/C)
- COBRA
- PCORI fee + Form 720

NOT Required for CHOICE Arrangements

- RxDC reporting
- Medicare Part D notices

Employer Responsibilities

- Offer coverage properly
- Fund CHOICE Arrangement contributions and/or reimbursements
- Maintain documentation
- Ensure affordability if an ALE

ACA Affordability & Premium Tax Credits

Affordability Testing (ALE Employers)

- **CHOICE Arrangement must be affordable for at least one plan option**
- Test: employee-only contribution for the lowest-cost silver plan must not exceed 9.96% of income (2026)
- **Safe harbors:**
 - W-2
 - Rate of pay
 - Federal poverty level
- **If affordable → employer avoids 4980H(b) penalties**
- **If not affordable → employer exposed if the employee receives a subsidy**

Impact on Marketplace Subsidies

If a CHOICE Arrangement is deemed affordable, the employee does not qualify for Marketplace subsidies — a real concern for lower-wage employees who rely on premium tax credits to reduce cost.

If the CHOICE Arrangement offering is unaffordable, employees may still choose Marketplace coverage and remain subsidy-eligible, which adds complexity to the employer's decision.

CHOICE Arrangement Nondiscrimination Rules

CHOICE Arrangement nondiscrimination is design-based, not annual testing like a Section 125 plan. If the plan design allows reimbursement of §213(d) expenses, traditional NDT is required.

What's Tested

- Eligibility by class
- Employer contribution amounts

Allowed Variations

- Age-based (within a 3:1 ratio)
- Family status
- Geographic differences

Prohibited Practices

- Favoring highly compensated employees
- Individual negotiation of CHOICE Arrangement amounts

Owner Enrollment in CHOICE Arrangement

Business owners are sometimes ineligible for tax-free CHOICE Arrangement contributions from the company, but may enroll in an individual plan and write off premiums on their personal tax return. Entity type is the key factor.

Entity-by-Entity Overview

S-Corporation:

- owners and their immediate family members employed by the company are not eligible

LLC / LLP:

- owners or partners with an ownership interest are excluded, though eligible family members can participate if employed by the business

Partnerships:

- follow the same rule as LLCs/LLPs

C-Corporation:

- owners, family members, and employees may participate, provided the owner is a W-2/common-law employee — though excessive owner/family participation can affect nondiscrimination testing

Sole Proprietors:

- not eligible themselves, but employed family members may participate

Eligible Health Plans

Employees must be enrolled in one of the following to be eligible for CHOICE Arrangement reimbursement:

1

Individual Marketplace Plans

On-exchange or off-exchange major medical coverage purchased in the individual market

2

Medicare Parts A & B, or Part C

Employees enrolled in Original Medicare or a Medicare Advantage plan qualify

3

Student Health Plans

Coverage that qualifies as minimum essential coverage under a school-sponsored plan

4

Certain Other MEC

Other individual coverage that meets IRS minimum essential coverage standards

Coverage must be verified/substantiated for each plan year; employees relying solely on excepted benefits (e.g., dental/vision only) do not satisfy this requirement.

Eligible Expenses (IRC §213(d))

Always Reimbursable

- Individual health insurance premiums
- Medicare premiums (Parts B, C, D, and supplement)

Optional (Employer-Defined) Expenses

- Deductibles
- Copays
- Coinsurance
- Rx expenses
- Dental & vision

Expense eligibility must be defined in the plan document.

Contribution Allowance

Structuring Examples

- Give every employee a flat contribution amount
- Vary contribution amounts by family size
- Vary contributions by employee age — higher amounts for older employees, structured using a 1:3 ratio (e.g., a 21-year-old could get \$100 while a 62-year-old could get \$300)
- Vary by both age and family size

These contribution rules can be applied to all employees, or just to a defined class of employees.

Who Is a Good Fit for CHOICE Arrangement?

● Multi-State / Remote Employers

State-based classing avoids minimum class-size rules and simplifies compliance across jurisdictions

● Employers Facing Renewal Increases

Fixed, predictable budgeting replaces unpredictable group renewal swings

● ALEs Managing ACA Risk

A properly designed, affordable CHOICE Arrangement satisfies the employer mandate without a group plan

● Employers with Diverse Workforce Needs

Employees with different provider, network, or plan preferences get real choice

Special Enrollment Period (SEP)

Being newly offered a CHOICE Arrangement — or a change in the CHOICE Arrangement offer — triggers a 60-day Special Enrollment Period for the employee and their dependents to enroll in or change individual coverage outside Open Enrollment.

SEP Triggers

- Newly hired employee first becomes eligible for CHOICE Arrangement
- Employer newly offers a CHOICE Arrangement plan
- Employee moves into a new CHOICE Arrangement class (e.g., change in employment status or location)
- Change in the CHOICE Arrangement contribution amount

Broker Reminder

- The employer's CHOICE Arrangement notice (90 days prior to plan year) starts the SEP clock for existing employees
- Employees must act within 60 days of eligibility to avoid a gap in coverage

Salary Reduction

If any participant in a class of employees is allowed to pay the portion of premiums not covered by the CHOICE Arrangement using a Cafeteria Plan's salary reduction arrangement (Section 125 Plan), these terms must be made available to all participants in that class of employees.

Why It Matters

- A Section 125 salary-reduction feature is a natural pairing with CHOICE Arrangement to let employees pre-tax the gap between the allowance and the actual premium
- The uniform-availability rule applies just as it does to the CHOICE Arrangement contribution itself — offer it to the whole class, or not at all

CHOICE Arrangement Reporting Requirements

The IRS mandates CHOICE Arrangement reporting on Form 1095 B/C, regardless of company size. In 2021, the IRS added two 1095-C codes specifically for CHOICE Arrangement reporting.

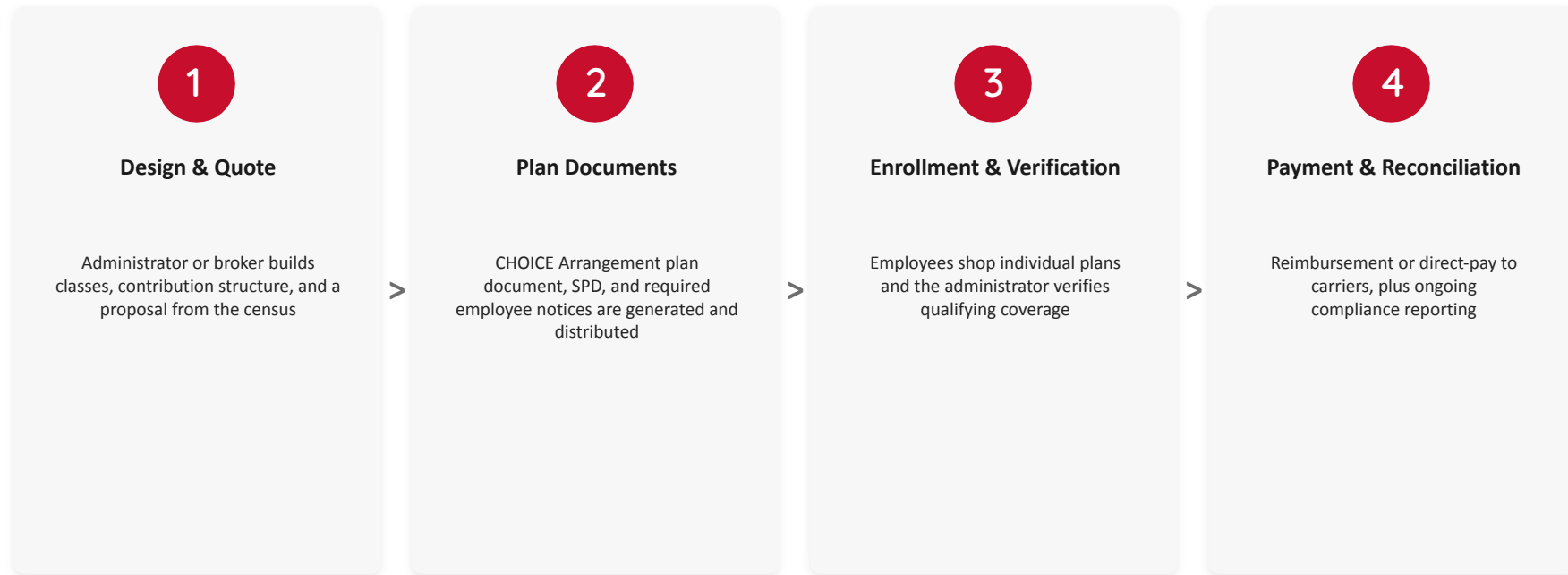
1T

The employee's primary residence ZIP code is used to determine the CHOICE Arrangement offered to the employee and spouse (no dependents), and affordability.

1U

The employee's primary employment site ZIP code affordability safe harbor is used to determine the CHOICE Arrangement offered to the employee and spouse (no dependents), and affordability.

How CHOICE Arrangement Administrators Operate



Employee Enrollment Experience

What Employees Do

- Receive the CHOICE Arrangement notice and allowance amount at least 90 days before the plan year
- Shop individual-market plans through the administrator's platform, HealthSherpa, or a licensed agent
- Submit or confirm proof of qualifying coverage
- Pay premiums via reimbursement, payroll deduction, or a direct-pay debit card, depending on the administrator

Where Support Comes From

- Administrator's in-house licensed agents or AI-assisted plan selection
- CRC Benefits ISD Referral Team for BOR-eligible groups
- The broker, for design and ongoing plan-fit questions

Broker of Record (BOR) Responsibilities

What the Broker Owns

Pre-sale:

- class design, contribution strategy, and administrator selection

Implementation:

- plan document review, notice timing, and census accuracy

Ongoing:

- annual affordability checks, renewal strategy, and monitoring premium payments/reconciliation

Compliance:

- coordinating COBRA, ACA reporting, and PCORI obligations with the administrator or TPA

Advocacy:

- being the employer's single point of contact when issues arise across carriers, administrator, and payroll

Monthly Premium Reporting & Reconciliation

Monthly Broker Review Best Practice

- Compare the CHOICE Arrangement administrator's payment report against the individual carrier invoice each month

What to Look For

- Employees who dropped coverage but are still receiving an allowance
- Mismatches between the reimbursed amount and the actual carrier premium
- New hires or terminations not yet reflected in the payment file

How to Quote CHOICE Arrangement

Required Information

- Employer name
- Total number of benefit-eligible employees
- Broker name and commission to add to administrative PEPM fees
- Desired CHOICE Arrangement effective date
- Proposed CHOICE Arrangement contribution structure (if known)
- Demographic census (salaries required for ALEs)

If the Client Has a Current Health Plan

- Health plan SBC (for most-enrolled plan, if the group offers more than one)
- Current plan invoice
- Current monthly premium cost per employee and employer
- Reason for quoting CHOICE Arrangement

Broker Value-Add Checklist



Design CHOICE Arrangement strategy



Ensure compliance alignment



Educate employer leadership



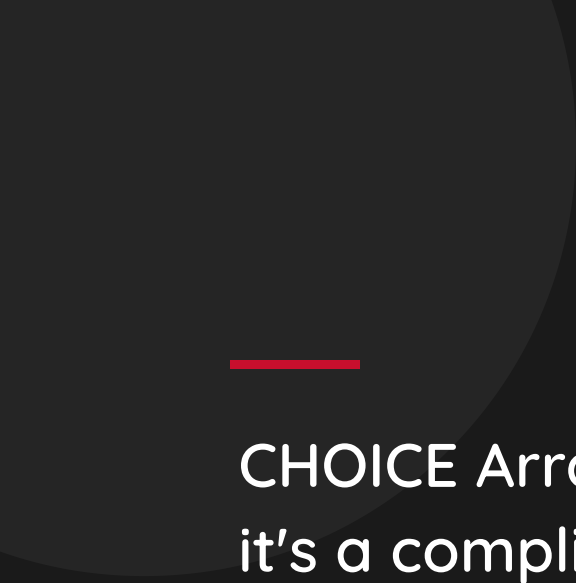
Support employees (direct or referral)



Monitor premium payments



Protect employer from ACA penalties



CHOICE Arrangement isn't a product — it's a compliance-driven benefits strategy.

*Brokers who understand design, affordability, and administration
become indispensable partners to their clients.*