CHOICE (ICHRA) Medical Reimbursement Handbook

Qualifying coverage rules, IRC Section 213(d) expense categories, common exclusions, and documentation standards -- Reviewed November 2026

Terminology Note: CHOICE stands for Custom Health Option and Individual Care Expense Arrangement, the term now used by CMS alongside **ICHRA** (Individual Coverage Health Reimbursement Arrangement). Written plan documents govern all individual benefits and reimbursements.

1. Qualifying Individual Coverage Comes First

An employee and any covered dependents must maintain qualifying individual medical insurance for each month an expense or premium is incurred. Without active qualifying coverage, CHOICE (ICHRA) reimbursements are not permitted.

- **Qualifying plans:** Individual major medical policies bought on or off the HealthCare.gov / state Marketplace, Medicare Parts A and B together, or Medicare Advantage (Part C).
- **Non-qualifying coverage:** Standalone dental or vision coverage alone, coverage under a spouse's employer group health plan, short-term limited-duration plans, indemnity policies, and healthcare sharing ministries.

2. Written Plan Design: Two Structural Options

Plan Type	What the Written Plan Reimburses
Premiums-Only Plan	Reimburses qualifying individual health insurance premiums only (and dental/vision premiums only where explicitly enabled by plan terms). Useful when coordinating with HSA contributions.
Premiums + Section 213(d) Medical Plan	Reimburses qualifying insurance premiums plus out-of-pocket medical care defined under Internal Revenue Code Section 213(d) for covered persons, dates, and remaining monthly allowance.

3. Eligible vs. Excluded Out-of-Pocket Expenses (Section 213(d))

Eligible Categories (When Plan-Permitted)	Excluded or Restricted Expenses
• Medical office copays, deductibles, and coinsurance • Prescription medications and insulin • Qualifying OTC medicines and menstrual care products (CARES Act) • Eligible dental exams, fillings, crowns, and orthodontia • Vision exams, prescription glasses, contact lenses, and LASIK • Durable medical equipment and diagnostic laboratory fees	• General wellness, vitamins for general health, and gym dues • Elective cosmetic procedures (unless meeting IRS medical exceptions) • Expenses incurred outside active plan or coverage dates • Dual-purpose items without a Letter of Medical Necessity (LMN) • Expenses already paid or reimbursed by insurance, FSA, or HSA

Claim Substantiation & Tax Coordination Rules

Required IRS Section 105(b) substantiation details, Marketplace tax credits, and HSA coordination -- Page 2 of 2

4. Three-Step Claim Substantiation Process

Under IRC Section 105(b), tax-free employer reimbursements require third-party proof that each expense represents qualifying medical care incurred during active coverage.

1. **Keep an itemized receipt or EOB:** Credit card slips or unitemized bank lines are insufficient because they do not prove what medical item or service was purchased.
2. **Verify all 5 required IRS claim elements:**
   - Name of the patient receiving care (covered employee or eligible dependent)
   - Name of the licensed provider, pharmacy, clinic, or merchant
   - Clear description of the medical service, prescription, or item (plus LMN if dual-purpose)
   - Exact date of service or coverage month (not only the payment date)
   - Exact dollar amount owed or paid after insurance adjustments
3. **Attach proof of active qualifying coverage:** Maintain current individual health insurance binder/policy documentation for the month of service and submit directly in SimplyHRA.

5. Marketplace Tax Credits (IRC Section 36B) & HSA Rules

Marketplace Premium Tax Credit (PTC) Rule: An employee offered an *affordable* CHOICE (ICHRA) cannot claim Marketplace Premium Tax Credits for any offered month -- even if the employee waives the HRA. If the offer is unaffordable under ACA thresholds (`9.96%` of household income in 2026; `10.22%` in 2027 per IRS Rev. Proc. 2026-26), the employee must affirmatively opt out of the HRA to claim a Marketplace subsidy. Active enrollment in a CHOICE (ICHRA) blocks tax credits for all covered months.

Health Savings Account (HSA) Coordination (IRS Pub. 969):

- General-purpose CHOICE (ICHRA) coverage reimbursing first-dollar Section 213(d) expenses makes an employee ineligible to contribute to an HSA -- even if zero claims are filed.
- An employer can preserve employee HSA eligibility when paired with an HDHP by designing the CHOICE (ICHRA) as **premiums-only**, **limited-purpose** (dental/vision), or **post-deductible**. Medicare enrollment also ends HSA contribution eligibility.

Questions Before Buying? Ask your SimplyHRA benefits team before purchasing dual-purpose items or elective care: email **support@simplyhra.com**, call **(909) 284-1673**, or book a 1:1 session at **simplyhra.com/benefits-consultation**.