SIMPLYHRA | EMPLOYER GUIDE

CHOICE (ICHRA) Employer Overview Guide

Employer classes, same-terms compliance, division of duties, and 2026/2027 ACA affordability benchmarks -- Reviewed November 2026

1. Clear Division of Responsibilities

Employer Decisions & Duties	SimplyHRA Administration ($29/enrolled employee/mo)
• Define permitted employee classes and monthly allowance amounts • Choose Premiums-Only vs. Premiums + Medical Expenses design • Keep employee roster current and authorize monthly funding • Retain plan sponsor oversight and statutory employer obligations	• Generate written ERISA/IRC plan documents and annual notices • Deliver licensed 1:1 specialist help for employee plan shopping • Verify qualifying coverage and fund pre-funded virtual carrier cards • Substantiate IRC Section 105(b) receipts and prepare payroll reports

2. Employee Classes, Same-Terms Rules & Age Ratio Limits

Federal rules allow employers to differentiate benefits across **11 statutory employee classes** (for example: full-time, part-time, salaried, hourly, seasonal, waiting-period, geographic rating area, collectively bargained, or remote/non-resident workers).

- **No same-class group plan overlap:** You cannot offer employees in the *same class* a choice between a traditional employer group health plan and CHOICE (ICHRA).
- **Minimum class size rule:** Applies only when pairing a traditional group health plan for one class with CHOICE (ICHRA) for another (`10` employees for <100 staff; `10%` for 100 to 200 staff; `20` employees for >200 staff). Employers ditching group plans altogether have zero minimum class size.
- **Same-terms & 3:1 age ratio:** All employees within a class must receive the same allowance terms, except permitted variations by family size and age (older employee allowance cannot exceed `3x` the youngest adult allowance in that class).

Tax Treatment Note for Owners: C-corporation shareholder-employees may participate in CHOICE (ICHRA) as W-2 employees. Sole proprietors, partners, LLC members taxed as partners, and >2% S-corporation shareholders (plus certain family attribution relatives) cannot receive tax-free Section 105 reimbursements.

2026 & 2027 ACA Affordability & Compliance Rules

Applicable Large Employer (ALE) affordability percentages, IRC Section 4980H penalties, and notice timing -- Page 2 of 2

3. 2026 & 2027 ACA Affordability Benchmarks (ALEs: 50+ FTEs)

Under IRS Notice 2018-88 and ACA Section 4980H safe harbors, an ICHRA is affordable for an employee when the employee's required self-only Silver plan cost after subtracting the employer's CHOICE allowance stays below the annual IRS affordability percentage:

Benchmark Metric	2026 Plan Year	2027 Plan Year
ACA Affordability Threshold	`9.96%` of household income (W-2, Rate of Pay, or FPL safe harbor)	`10.22%` of household income (per IRS Rev. Proc. 2026-26)
IRC § 4980H(a) Penalty (Failure to offer MEC to 95%)	**$3,340** annualized per full-time employee (minus first 30 FTEs)	Indexed annual federal adjustment on same § 4980H(a) statutory base
IRC § 4980H(b) Penalty (Unaffordable offer + PTC)	**$5,010** annualized per full-time employee claiming a Marketplace PTC	Indexed annual federal adjustment per subsidized full-time worker
ICHRA Safe Harbor Plan	Lowest-Cost Silver (LCS) plan in employee's residence (or work-site) rating area	Lowest-Cost Silver (LCS) plan in employee's residence (or work-site) rating area

4. Notice Timing & Year-End Reporting

- **90-Day Annual Employee Notice:** Employers must distribute written CHOICE (ICHRA) notices at least **90 days** before the plan year starts (for a **January 1, 2027** effective date, the 90-day deadline is **October 3, 2026**). Newly eligible hires receive the notice by their start/eligibility date.
- **Small Employers (<50 FTEs):** Exempt from ACA employer mandate penalties and Forms 1094-C/1095-C, though PCORI fee filing (Form 720, due July 31 annually) still applies to self-funded HRAs.
- **ALEs (50+ FTEs):** Must still file annual Forms 1094-C and 1095-C (using ICHRA affordability codes `1L` through `1U`) to document Section 4980H compliance.

Ready to Model Your Budget & Classes? Schedule a consultation at **simplyhra.com/schedule-consultation**, call **(909) 284-1673**, or email **info@simplyhra.com**.