This analysis was commissioned by Nexben, an end-to-end cloud-based platform connecting all aspects of the benefits industry, and published by Ezer21, a consulting and advisory firm.

ICHRA MARKET INVESTIGATION

AN IN-DEPTH ANALYSIS DERIVED FROM INTERVIEWS WITH BROKERS, TECHNOLOGISTS AND REGULATORY LEADERS

Health Reimbursement Arrangements have been around for several years, providing a tax-advantaged way to fund healthcare expenses. In June of 2019, the Departments of Treasury, Labor, and Health & Human Services published a final rule that expanded the use of HRAs.

Effective on January 1, 2020, this new rule allowed for employers to fund individuals' health insurance premiums and qualified medical expenses. It was projected this new arrangement would benefit approximately 800,000 employers and 11 million beneficiaries. In addition, it was projected this would expand coverage to 800,000 previously uninsured individuals.

While individual coverage HRAs provide employers with an additional option for providing health coverage to their employees and should significantly expand employee choice of coverage, they are still at their infancy, with many unknowns and challenges. To help address this uncertainty, ezer21 conducted a series of in-depth interviews with stakeholders including brokers, technology leaders and regulatory experts. Its goal is to provide a qualitative and quantitative evaluation of the ICHRA space based on data collected via these interviews. Insights uncovered the key advantages and disadvantages companies find by transitioning to an ICHRA and what this means to overall market adoption.

RESPONDENTS DID NOTE UNCERTAINTY REGARDING HOW THE BIDEN ADMINISTRATION WILL REGULATE ICHRAS AS THE BIGGEST FACTOR WEIGHING DOWN MARKET OPTIMISM.

SUMMARY OF FINDINGS

- ICHRAs offer greater flexibility over traditional group major medical plans in meeting the needs of employees and eliminating the volatility of medical spend for employers. Eighty-two percent said flexibility is the top advantage, adding that ICHRAs can provide better benefit options for their employees vs. traditional group major medical plans. Respondents noted that ICHRAs hold an advantage for employers with historically higher-risk/higher-cost medical-expense trends.

- Analysis of responses shows a 19% year-over-year compound annual growth rate of the ICHRA market over the next five years.
- ICHRA adoption, they said, would likely face headwinds in rural geographic areas where the individual market may not have as many choices or from employers that currently offer higher-end employee benefit packages. Thirty-six percent pointed to individual markets with smaller and poorer quality networks, especially in more rural areas, as being a problem. Differences in interstate markets can present hurdles to implementation.
- Forty-five percent highlighted employers' lack of awareness and understanding of ICHRAs and the need for more education.
- Forty-five percent emphasized the need for a full-service technology platform to drive growth and promote flexibility and ease of use. Key features include seamless data connectivity among insurance carrier, broker, employer and employee, and accommodation for payroll deductions to fund the individual product premium rather than the employee managing it on their own.

ADVANTAGES AND CHALLENGES

Interviewees were asked what they considered to be major advantages and challenges offered by ICHRAs. Below is a list of the top four advantages, challenges and features and the percentage (%) interviewed that put them in the top four.

Advantages

✓ 82% – Provide better benefit options for employees vs. traditional group major medical plans

✓ 73% – Ability to reduce cost uncertainty for the employer

✓ 18% – Fulfill the mandate for employers to provide health insurance for their employees

✓ 9% – Avoid group participation requirements and cap spending

Disadvantages

✔ 45% – Employers' understanding and knowledge of ICHRAs is delaying adoption decisions

✔ 36% – Provider networks under individual plans are not as attractive vs. group, especially in rural geographies

✔ 11% – Direct-pay infrastructure needs improvement to avoid out-of-pockets expenses, with later reimbursement

✔ 11% – ICHRAs place a heavier cost and decision burden on employees.

Must-Have Features

✔ 45% – Strong technology platform to facilitate flexibility and ease of use

✔ 36% – Ability for transaction settlement of employer contributions

✔ 36% – Enrollment, including marketplace decision tools based on income, geography, and rating

✔ 18% – Ability to work with multiple carriers

MARKET OPPORTUNITY

Interviewees were asked to score on a scale of 1 (poor) to 10 (great) the following:

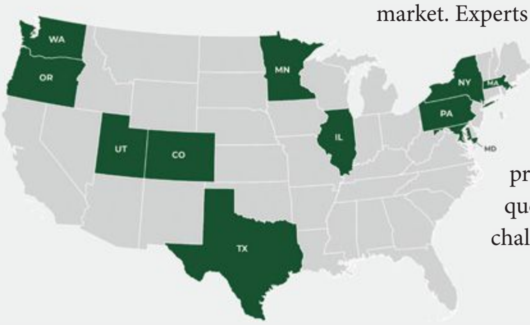
The ICHRA market opportunity:	7.7
The potential ICHRA market growth over the next five years:	8.0

We are forecasting 19% CAGR (mean) over the next five years, with a range of five percent to 30%, based on participant answers. Respondents did note uncertainty regarding how the Biden Administration will regulate ICHRAs as the biggest factor weighing down market optimism. Several respondents did add there is support from the insurance industry lobby and bipartisan support from both the Democrat and Republican parties for ICHRAs.

MARKETS REPRESENTED

ezer21 conducted interviews with insurance providers, brokers and technology providers. Candidates were selected to participate based on their active involvement with deploying ICHRAs. The result was a diverse range of opinions and market insights.

Participants had an average of 18.5 years of insurance health industry experience, with 6.3 years of experience in the individual market. Experts were located in Colorado, Illinois, Maryland, Massachusetts, Minnesota, New York, Oregon, Pennsylvania, Texas, Utah and Washington.



Each interview was scheduled for 30 minutes, combining both qualitative and quantitative questions. The beginning of each interview involved broad qualitative questions meant to capture top of mind developments in the field with little to no prompting from the interviewer. The second section focused on detailed quantitative questions covering variables such as pricing and value scoring for advantages and challenges of interest.

Respondents were asked which niche industries and populations were well-served by ICHRAs. Below is a list and the percentage (%) of interviewed stakeholders that emphasized them.

ICHRAs are well-suited for:

- 27% – Industries with blue collar, hospitality or low-wage employees
- 27% – Employers with mixed risk pools
- 27% – Smaller employers (20-50 lives)
- 9% – Remote workers (e.g., distant employees do not need to travel to receive health benefits)
- 9% – Higher-paid industries (e.g., doctors, lawyers, technologists, etc.)

Challenges to adoption:

- 55% – Uncertainty regarding how or what changes the Biden Administration will make
- 45% – Rural geographies where the individual market may not have as many choices or be as price competitive compared to urban counties
- 45% – Existing group plans with richer benefit designs
- 18% – A lack of efficient transaction infrastructure between employer, employee and insurance
- 18% – Carrier networks, especially when healthcare providers are in other regions
- 9% – Attracting low-wage earners who qualify for state-based Medicaid programs
- 9% – HIPAA privacy issues with third parties

KEY STATISTICS

The average group size was 444 lives across brokers' books of business. The range of employer size was 50 to 50,000 lives.

- 25% – Underinsured (high out-of-pocket costs relative to income) and uninsured employees (range: 4.5 to 50%, standard deviation: 23.1%)
- 50% – ICHRAs could not match existing benefits provided by employers.
- 33% – The individual market may become unsustainable due to the dumping of uncertainty from group plans.
- 100% – Believed that they will earn less revenue for ICHRAs than for traditional group plans.

TECHNOLOGIST EVALUATION

Technology leaders involved with ICHRAs were asked to identify gaps that can be solved by technology. Below is a list of the gaps technologists identified and the percentage (%) of interviewees:

- 50% – Communication of data
- 50% – Decision tools
- 25% – Lack of data standardization
- 25% – Lack of robust plan-design tools
- 25% – Insufficient mobile technology platform capabilities (Fifty percent of the benefit enrollment last year went through mobile technology.)
- 25% – Lack of robust payroll deduction and billing infrastructure

According to respondents, technology platforms must have these capabilities:

1. Make purchasing insurance and enrollment easy
2. Seamless information transfer among employer, employee and payer
3. Report analytics of claims and income
4. For brokers: use of census data to optimize plan design
5. Ability to sell enrollments to a third-party platform

Technologists were asked to rate how much ICHRA technologies can affect the following (1-10):

✔ Ease of implementation: 8.0

✔ Employer contribution to healthcare expenses: 7.9

✔ Employee premium levels: 7.9

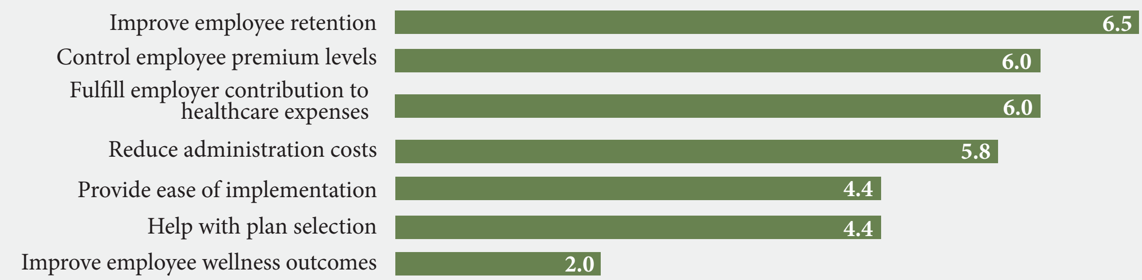
✔ Employee wellness outcomes: 7.8

✔ Plan selection: 7.8

✔ Improving employee retention: 7.8

✔ Administrative cost reduction: 3.8

BROKER EVALUATION: Brokers were asked how well ICHRAs do the following on a scale of 1 (poor) to 10 (great):



Respondents scored the ability of technology to overcome these challenges. "Now" scored 7.8 and "over the next five years" scored 8.0.

Respondents highlighted the following companies as the key innovators in creating the necessary capabilities for ICHRA adoption:

Nexben/Trovia solution (founded 2015, Minneapolis, MN, <50 employees): digital insurance platform

Take Command Health (founded 2014, Dallas TX , <50 employees): an HRA platform provider

Vericred (founded 2011, New York, NY, <50 employees): aggregator of sales and rates

PeopleKeep (founded 2006, Salt Lake City, UT, <50 employees): an HRA platform provider

Remodel Health (founded 2015, Indianapolis, IA, < 50 employees): an ICHRA platform provider

BenefitMall (founded 1979, Dallas, TX, 1000-1500 employees): a broker and brokerage platform provider

Warner Pacific Insurance (founded 1982, Westlake Village, CA, <500 employees): a broker and health insurance agent technology provider

Regulatory experts selected and rated on a scale (1-10) design features that would improve demand for an ICHRA product:

DESIGN FEATURES	RATING (1-10)
Transparency	9.5
Information flow between providers	9.0
Process improvements	9.0
Privacy	9.0
Coverage network	8.0
Ability to take benefits to retirement	7.0

Savvy Benefits (founded 2015, Minneapolis, MN, <50 employees): a discount plan organization

REGULATORY EVALUATION

Legal/regulatory/compliance stakeholders were asked to identify regulatory issues that may impede ICHRA adoption. They noted:

1. Uncertainty regarding how the Biden Administration will regulate ICHRAs is tempered by industry and political support.
2. Parity to ensure employees have the same access to healthcare and providing clarity with what will be covered and reimbursed. Beneficiaries will need that clarity and agencies will need more guidance.
3. Generally, respondents anticipated there would be smaller incremental changes to regulations (i.e., "fine-tuning") vs. any large-scale moves within the next two to three years.

Interviewees scored the ability of the following to make the individual market more attractive for ICHRAs (1-10):

✔ Adjust essential health benefits (remove those w/o medical evidence): 9.5

✔ Adjust preventive-care benefits (remove those deemed ineffective): 8.0

✔ Increase price transparency for medical services and prescriptions: 7.5

✔ Increase premium tax credits and subsidies: 6.6

✔ Change the age band from five to one: 5.5

Adjusting essential health and preventive-care benefits would have the greatest impact on the individual market for ICHRAs.

All regulatory stakeholders were asked about 1332 waivers, which loosen ACA regulations governing minimum coverage in order to gain longer-term increases in coverage. One-hundred percent of respondents felt that there would be an increase in waivers, but only 33% agreed that this would reduce market premiums.

In further detail, regulatory stakeholders ranked in order of importance the following features driving employers' decisions toward adoption of an ICHRA benefit plan solution:

✔ Cost 9.3

✔ Ease of use 6.2

✔ Cost-prediction tools 6.1

✔ Effective dashboard 5.6

✔ Advanced analytics 4.1

✔ Machine learning 3.6

SUMMARY

There is strong support across brokers, technology providers and regulatory experts on the opportunity ICHRAs provide employers and their employees. Regulatory changes are needed to bolster individual markets, especially in rural areas, to provide a more competitive benefit offering. The top recommendation is to remove essential and preventative benefits that are not deemed effective. There are concerns the current administration may not fully address these gaps, which will have a depressive effect on the market growth rate.

In addition, technology providers continue to invest in platforms that will deliver more seamless and convenient solutions for brokers, employers and employees. These investments will improve the ease of implementation, deliver better and more accurate data flow, and create more transparency for employer and employee decision making. To ensure broader market adoption and stabilization, it will be critical for technology companies to deliver on these key attributes.

Lastly, across all the interviews a common theme was the advantages of an ICHRA product largely outweigh the challenges. Market growth will be buoyed by improvements in technology, increasing broker familiarity and experience with ICHRAs, and regulatory changes that improve the attractiveness of the individual market.

Should the market achieve regulatory stability, deliver needed technology improvements, and create better awareness, it is expected the five-year CAGR could reach or exceed 30%. This level of growth will require coordinated efforts among all industry stakeholders.

Ezer21 LLC is a Minnesota-based innovation consulting and advisory firm that services emerging growth startups, venture capital firms, and corporate innovation and venture teams. It specializes in increasing the quality of deal flow and partnering with emerging startups to accelerate growth through the use of next-generation data and intelligence tools, development and execution of market development strategies, and the latest business model design principals.

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