ICHRA Decision Guide

For Minnesota small businesses weighing an Individual Coverage HRA against a traditional group health plan.

1. What an ICHRA Is

ICHRA stands for Individual Coverage Health Reimbursement Arrangement, available to employers since 2020 under federal rule. Instead of buying one group plan for the whole company, you set a tax-free monthly allowance per employee. Each employee buys their own individual health plan, for example through MNsure, Minnesota's health insurance marketplace, and you reimburse their premium up to the allowance.

Set up correctly, reimbursements are tax-free to employees and tax-deductible for the employer. One condition: an employee must be enrolled in individual health coverage to be reimbursed.

2. How It Works in 5 Steps

1. **Set your budget.** Choose the monthly amount per employee. It only changes when you change it.
2. **Define employee classes.** Group your team into permitted classes and set an allowance for each. Allowances can also vary by age and family size within the rules.
3. **Put plan documents in place.** An ICHRA is a formal arrangement with required documents and employee notices.
4. **Employees pick their own plans.** Gaining ICHRA access opens a special enrollment period, so nobody waits for open enrollment.
5. **Reimburse tax-free each month.** Employees show proof of coverage and premium; you reimburse up to the allowance.

3. Employee Classes

You can offer different allowances to different classes, as long as everyone within a class gets the same terms. Common classes:

- Full-time employees
- Part-time employees
- Seasonal employees
- Salaried and hourly employees
- Employees in different locations or rating areas
- New hires versus current employees

4. ICHRA vs. Traditional Group Plan

	ICHRA	Traditional Group Plan
Who picks the plan	Each employee picks their own individual plan	Employer picks one plan (or a few) for everyone
Employer cost	Fixed monthly allowance set by the employer	Premiums set by the carrier, renegotiated at renewal
Renewal increases	None to negotiate; you control allowance changes	Annual renewal can bring significant increases
Minimum participation	None	Often required by the carrier
Minimum company size	None; works from one eligible employee up	Varies by carrier and plan type
Plan portability	Employees own their plans and can keep them if they leave	Coverage generally ends at departure (COBRA may apply)

The honest trade-off: an ICHRA asks employees to shop the individual market, which some find harder than being handed a plan. With one-on-one enrollment support from a licensed advisor, the shopping burden disappears and the choice becomes the advantage.

5. Questions to Answer Before Deciding

- ☐ What is our true monthly benefits budget per employee?
- ☐ What did our last group renewal add, and what will the next one add?
- ☐ Which employee classes do we have, and should allowances differ between them?
- ☐ How do individual plan prices in our counties compare to our group premium?
- ☐ Would any employees lose access to premium tax credits, and does the allowance beat them?
- ☐ Who will help each employee choose and enroll in a plan?
- ☐ Who will handle plan documents, notices, and monthly reimbursements?

Want both options modeled with real numbers for your team? The analysis is free.

Call MFIS Group: **(320) 448-8232** · mfisgroup.org

This guide is for general education only and is not legal, tax, or plan-specific advice. ICHRA rules include requirements not covered here; talk with a licensed advisor and your tax professional before making changes to employee benefits.