

ICHRA: where it works, and where it doesn't

A plain-language guide for small employers planning to grow, with what to ask before you choose an administrator.

The short version

1. An ICHRA gives each employee a fixed, tax-free monthly amount to buy their own individual health plan, on or off the exchange. You set the budget and they pick the plan. Since September 2026, CMS and the SBA also call it a "CHOICE Arrangement." Only the name changed.²
2. It fits small and growing companies well, especially ones with no group plan, staff in several states, or a mix of full-time, part-time and seasonal people. More than two-thirds of the small businesses that started one for 2026 had offered no health coverage before.^{3,9}
3. It fits poorly where the local individual market is thin or expensive, where people need broad PPO networks, and where owners want better coverage than their team.^{4,5,7,18,20}
4. C-corporation owners who work in the business can join their own ICHRA. S-corp owners above 2%, partners and sole proprietors cannot.⁶
5. Administration is a separate cost to budget for. One broker site lists typical fees of \$20 to \$45 per employee per month plus a \$40 to \$100 base, which is \$140 to \$325 a month at five enrolled employees. Ask what any quote includes.⁸

How it works, in eight lines

- You set a monthly allowance for each class of employee. The permitted classes are set by regulation and include full-time, part-time, seasonal, salaried, non-salaried, union, location, people in a waiting period, temporary placements and certain nonresident aliens.⁷
- Within a class, terms must match, though the allowance can rise with age (up to 3 to 1 from oldest to youngest). Ask your administrator about the other permitted variations.⁹
- Employees buy individual coverage, on or off the exchange, and are reimbursed tax-free up to the allowance.²
- There is no federal cap on the allowance. Its smaller cousin, the QSEHRA, is capped at \$6,450 single and \$13,100 family for 2026.^{10,11}
- There is no participation minimum, and employers of any size can offer one.^{5,11}
- You cannot offer the same class a choice between a group plan and the ICHRA.¹
- New hires do not wait for open enrollment. Gaining an ICHRA opens a 60-day special enrollment window.¹²
- It is a real group health plan. Expect a plan document and plan summary, a notice to employees (generally 90 days before each plan year, and to new hires when they become eligible) and an annual PCORI fee. Federal COBRA applies if you had 20 or more employees in the prior calendar year.^{1,12,13}

Where it works

Situation	Why an ICHRA fits
You have never offered coverage, or a group renewal is pricing you out	You choose the budget, and there is no participation minimum. Small businesses are 80% of 2026 adoption, and more than 2,200 of them previously offered nothing. ^{3,5}
Your team is, or will be, spread across states	Allowances can be set by state or rating area. With no group plan in the mix, one remote hire can be a class of one. ^{9,14}
A mix of full-time, part-time and seasonal staff	Each group can be its own class with its own allowance. ^{7,9}
You want a cost you can predict	Your cost is the allowance, not the carrier's renewal. In Colorado, 2027 small-group premiums rise 14% on average, against 10% for individual plans. ¹⁵
Higher earners	The enhanced marketplace subsidies expired at the end of 2025, and some people no longer qualify for help. Fewer employees give up a subsidy by taking an affordable ICHRA. ¹⁶
C-corp owner-employees who want tax-free coverage now	They are W-2 employees and can join. ⁶ Under DOL guidance, an HRA with fewer than two current-employee participants on the first day of the plan year is arguably exempt from the ACA market reforms, so it could reimburse individual coverage without meeting the ICHRA rules. Confirm that with a benefits attorney before relying on it. ¹⁷

Where it doesn't, or needs care

Situation	The problem
Thin or shrinking local markets	165 U.S. counties had only one marketplace insurer in 2026, up from 93 in 2025 (a 77% rise). Cigna leaves the individual market in 11 states for 2027, Colorado included. ^{18,19}
People who need specific doctors or a PPO	Individual plans lean to HMOs and EPOs with closed networks, and few offer out-of-network coverage. Deductibles tend to run higher than in group plans. ^{4,5}
Hires in high-cost states	In 2026 the cheapest silver plan for a 40-year-old averaged \$1,089 a month in Wyoming and \$535 in Colorado. The benchmark plan ranged from \$401 in New Hampshire to \$1,299 in Vermont, 3.24 times as much. ²⁰
Lower-wage staff	An ICHRA that counts as affordable ends their eligibility for marketplace subsidies. That can leave them worse off than buying with subsidies. ⁵
Older staff	Individual premiums rise with age. Unless the allowance rises with age too, older workers carry more of the cost. ⁵
Owners who want richer coverage than their team	There is no "owners" class. Owners get the same terms as everyone else in their class. ⁷

Can the owners participate?

Business type	Owners in an ICHRA?
C corporation	Yes. Owners who work in the business are W-2 employees.
S corporation	No for shareholders above 2%, and also their spouse, children, grandchildren and parents. Yes at 2% or less.
Partnership	No. Partners are self-employed.
Sole proprietor	No. The owner is self-employed.
LLC	Follows how it is taxed: a C-corp election works like a C corp, an S-corp election like an S corp.

Source for this table: 6.

How it scales as you hire

Stage	What to know
Owner-employees only (C corp)	Owners can take part now. ⁶ The DOL exemption above is counted on the first day of the plan year and covers fewer than two current-employee participants, so it does not apply with two or more owner-employees, and stops applying once a hire is a participant at the start of a plan year. The IRS would also likely treat several one-person plans as a single plan. ¹⁷ Ask any administrator whether it will set up a plan whose only members are owners.
First hires	Staff in the owners' class get the owners' terms. ⁷ New hires get the plan notice when they become eligible, and a 60-day enrollment window. ¹² A QSEHRA is the main alternative for employers with fewer than 50 full-time equivalent employees, but it is capped and cannot vary by state. ^{5,10,11,21}
Hiring in other states	Set an allowance per state and budget for the spread (see costs). ⁹ California, Massachusetts, New Jersey, Rhode Island and DC each enforce their own coverage mandate; ask your administrator what that means for your filings there. ²² Ask your payroll provider what a hire in a new state requires.
20 or more employees	Federal COBRA applies, based on the prior calendar year's headcount. ¹³
50 or more full-time equivalents	You become an "applicable large employer," based on the prior year's average headcount. ²³ To avoid the employer penalty, the ICHRA must be affordable. The employee's cost for the cheapest silver plan where they live (or, under a safe harbor, where they work), after your allowance, can be no more than 10.22% of household income for self-only coverage in 2027. ^{24,25,30} You also file Forms 1094-C and 1095-C. ²⁵
Adding a group plan later	You can, for different classes. That brings minimum class sizes (10 per class under 100 employees) for full-time/part-time, salaried/hourly and sub-state location classes. ¹⁴ Ask administrators whether they can run an ICHRA beside a group plan.

If you had employees last year: COBRA and large-employer status are both set by the prior year's headcount, not today's.^{13,23} A company that was larger last year can carry those obligations into a year when it is small.

What it costs

1. The allowance: your main cost

You decide the amount. One way to set it is to match the cheapest silver plan in each employee's area. Below is the allowance cost per employee per year if you match that plan for a 40-year-old. Administration is a separate cost, shown in the next table.²⁰

State (2026 average)	Cheapest silver, 40-year-old	Allowance per employee per year
Colorado	\$535 / month	$535 \times 12 = \$6,420$
U.S. average	\$611 / month	$611 \times 12 = \$7,332$
Wyoming	\$1,089 / month	$1,089 \times 12 = \$13,068$

For context, KFF puts the 2025 average group premium at firms with 10 to 199 workers at \$9,211 a year for single coverage (\$767.58 a month) and \$26,054 for family coverage (\$2,171.17 a month). Those figures include the employee's share.²⁶ Group and individual plans cover different things, and these are different years, so treat this as background rather than a comparison.

2. Administration

Enrolled employees	Typical administrator
1	\$60 to \$145 / mo
3	\$100 to \$235 / mo
5	\$140 to \$325 / mo
10	\$240 to \$550 / mo
25	\$540 to \$1,225 / mo

Typical range: \$20 to \$45 per employee per month plus a \$40 to \$100 base, as one broker site lists it. The low end is $20 \times n + 40$ and the high end is $45 \times n + 100$, where n is the number of enrolled employees. The listing does not say whether broker commission is included. Confirm current pricing before you sign.⁸

3. Your time

The work is real but small: plan documents, annual notices, the PCORI fee, and checking each year that allowances still fit local premiums.^{1,13} Ask any administrator which of these it handles for you.

Choosing an administrator

Compare the full monthly price at your headcount, not a headline rate, ask whether broker commission is included, and get the plan-year price in writing.

Questions to ask any administrator

Price and terms

1. What is the full monthly price at our headcount, and is there a monthly minimum?
2. Is broker commission included, and is the fee lower without a broker?
3. Is the price fixed for the plan year, and how much notice do you give before it changes?
4. Can you give references from employers our size?

Service and setup

5. Will you administer a plan whose only members are owners?
6. Which carriers in our area work with your enrollment process?
7. Do you serve every state we hire in?
8. What do you handle for us: the plan document and summary, employee notices, the PCORI fee, and any state or federal filings?

The market right now

- The enhanced marketplace subsidies expired December 31, 2025, and had not been restored as of late July 2026.¹⁶
- Insurer participation is thinning. Single-insurer counties rose 77% in 2026, and Cigna leaves 11 states' individual markets for 2027.^{18,19}
- In Colorado, 2027 premiums rise 10% on average for individual plans and 14% for small-group plans.¹⁵
- At the start of 2026, more than 20,000 businesses used an ICHRA as their main health benefit, up 53% from 2025, covering over 500,000 people.³
- H.R. 6703 would write CHOICE Arrangements into law. It passed the House on December 17, 2025, and was still pending in the Senate in early October 2026.²⁷ Earlier CHOICE bills included a small-employer tax credit; whether this one does is unconfirmed, and none of it is law.²⁸ Indiana and Mississippi offer state ICHRA credits.²⁹

Five questions to answer before you choose

1. Where will your next five hires live? That sets your cost more than anything else.
2. What do you want to spend per person per month, and should it rise with age?
3. Do your people need particular doctors or a PPO? Check the local individual plans before you commit.
4. Are the owners comfortable with the same coverage as the team? Under an ICHRA, that is how it works.
5. How many people did you employ last year? That decides COBRA and large-employer status this year.

If any of this doesn't match what you're seeing, push back. I would rather work from your numbers than from averages. Happy to walk through your hiring plans and turn this into a budget.

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General information as of October 6, 2026. This is not legal, tax or insurance advice. Rules, rates and vendor prices change; confirm plan design with a licensed benefits advisor, a benefits attorney and your CPA. Sources were reviewed through published summaries and excerpts.

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