

Yes—but how you do it matters. A small business can set a monthly budget for employee health coverage, but simply reimbursing workers for individual insurance premiums can create tax and compliance problems. To offer a defined amount in a structured way, employers commonly look at a health reimbursement arrangement (HRA), such as a QSEHRA or ICHRA. Another **tradersdna.com** option is to offer a small-group health plan.

The right choice depends on your business's size, where employees live, whether you already offer a group plan, and what coverage is available in each employee's area. Start with a practical question: **Who is in-network for our employees' ZIP codes?** A low monthly price does not help much if a worker's doctors and hospitals are out of network.

What Does “Giving Employees a Set Amount” Mean?

Employers often use the phrase “defined contribution benefits” to mean setting a fixed amount of money aside for each employee's health coverage. For example, a business might budget up to \$400 per month for eligible employees, rather than choosing one group plan and paying a percentage of its premium.

That budget can be delivered in different ways, and the distinction is important:

- **Taxable pay:** You can generally increase an employee's wages and let them buy coverage themselves. The payment is treated as compensation, with payroll-tax and income-tax implications. It is not the same as a tax-free premium reimbursement.
- **Formal HRA:** The business establishes a compliant arrangement that reimburses eligible expenses, subject to plan rules, documentation, and applicable federal requirements.
- **Small-group plan:** The business purchases group coverage, with the employer and employees sharing the cost according to the plan and applicable rules.

Be cautious about an informal promise to “pay back” an employee's individual insurance premium outside a compliant arrangement. Depending on how the program is structured, that approach may violate federal rules for employer payment plans. Ask a benefits professional or tax adviser to review the setup before you offer it.

Why Small Businesses Look Outside the Marketplace

Small employers usually begin with a budget question, but affordability is only part of the decision. A traditional group plan can be difficult to manage or too expensive for a small team, particularly when employees have different doctors, family needs, or home ZIP codes. Some employers also find that the available group plans do not offer a network that works well for their workers.

An individual-market approach may give employees more choice. Each person can shop for coverage through the public health insurance marketplace exchange or directly from an insurer, depending on state and plan availability. Employees may be able to choose a plan that fits their own household and provider needs. The tradeoff is that employees may face different premiums, networks, deductibles, and plan options.



Marketplace coverage may also involve premium tax credits. Whether an employee can receive those credits depends on their circumstances and, among other things, whether they have access to certain affordable, minimum-value employer coverage. HRA rules can affect eligibility, so employees should check their situation before enrolling or accepting a benefit.

For a small business, the key question is not simply “Which option is cheapest?” Compare what employees can actually buy, the provider networks in their ZIP codes, their out-of-pocket exposure, and the administrative work required to run the benefit.

Broker vs. Direct-to-Carrier Shopping

You can explore small-group plans through a licensed broker or by contacting carriers directly. The best route depends on how much help you need, how many employees you have, and how complicated your workforce is. If employees live in multiple states, make that clear at the beginning: a network that works in one area may not be available—or useful—in another.

Shopping route	Potential advantages	Questions to ask Broker
A broker can compare carriers, explain enrollment and participation requirements, and help coordinate renewals or employee questions. Are you licensed in every state where employees live? Which carriers and plan types do you represent? How are you compensated? Will you check networks by ZIP code?	Direct to carrier	You can request information and quotes from insurers without relying on a broker to gather options. Can you compare the carrier’s options with alternatives? Who will help with eligibility, enrollment, and renewal paperwork? Are the quoted networks available where employees live?

A broker can save time, but do not assume one quote represents the whole market. Ask for a clear comparison of premiums, employer contributions, deductibles, out-of-pocket maximums, prescription coverage, and provider networks. Direct shopping can be useful too, but the business still needs to verify plan details and handle enrollment steps.

For every carrier conversation, keep a one-page comparison sheet. Record the plan name, service area, employee and family premiums, network type, deductible, out-of-pocket maximum, participation rules, and renewal date. That makes it easier to compare like with like rather than choosing based on a headline premium.

Small-Group Plan Eligibility and Participation Rules

Before comparing small-group prices, find out whether your business and employees qualify. Small-group eligibility and participation rules vary by state, carrier, and plan. The insurer or broker may need to confirm that the business has eligible employees and meets applicable requirements before issuing coverage.

Ask about these items early—not after you have settled on a plan:

- **Employer eligibility:** What counts as a small employer in your state? Which employees qualify, and what documentation is required?
- **Full-time-equivalent calculations:** Does the carrier or program use a specific method to count employees? Do not assume your payroll headcount is the only relevant number.
- **Participation:** Must a minimum share of eligible employees enroll? How are employees with other qualifying coverage treated?
- **Employer contribution:** Is there a minimum amount or percentage the business must contribute toward employee-only coverage?
- **Enrollment timing:** What are the initial enrollment and renewal windows? Are there rules about when coverage can begin?
- **Geography:** Can the plan cover employees who live in different counties or states, and does each location have a suitable network?

These rules can change the outcome. A business may receive a quote that looks attractive but later learn that its employee count, contribution level, or participation rate does not meet the carrier's requirements. Get the rules in writing and confirm how employees who waive coverage are counted.



How HRA Reimbursement Works

An HRA is an employer-funded arrangement that reimburses eligible healthcare expenses under written plan rules. Employees generally submit documentation showing that an expense is eligible and was incurred by an eligible person. The employer or its administrator reviews the claim and reimburses it up to the employee's available allowance. The arrangement is not an insurance policy and does not itself provide a network of doctors.

With **individual health insurance reimbursement**, an employer may use an HRA designed to reimburse qualifying individual coverage premiums and, depending on the arrangement, other eligible medical expenses. The employer sets the allowance within the rules for that type of HRA. Reimbursements are generally tax-advantaged only when the arrangement meets applicable requirements and the employee provides the required substantiation.

QSEHRA: For Certain Small Employers

A Qualified Small Employer Health Reimbursement Arrangement (QSEHRA) is generally available to eligible small employers that do not offer a group health plan. Federal rules set conditions for who may offer one, who can participate, and how annual reimbursement limits work. The limits are indexed and can change, so verify the current year's rules with the IRS or a qualified benefits professional.

QSEHRA reimbursements may affect an employee's eligibility for marketplace premium tax credits. Employees should receive clear information about the benefit and check how it interacts with their household's coverage and tax-credit eligibility.

ICHRA: More Flexibility, More Design Decisions

An Individual Coverage HRA (ICHRA) can be offered by employers of different sizes, subject to applicable requirements. Employees generally need qualifying individual health insurance coverage to receive reimbursements. Employers can set different allowances for permitted employee classes, but class rules and other design requirements apply. ICHRA also have rules affecting employees' ability to claim marketplace premium tax credits.

Both QSEHRAs and ICHRAs require thoughtful setup. Employers need plan documents, notices, claims procedures, and a way to verify expenses and coverage where required. Many businesses use an HRA administrator or benefits adviser to manage the process.

How to Compare Your Options

1. **Map employee locations.** List each employee's ZIP code and identify whether workers are in different counties or states.
2. **Check networks first.** Ask carriers or a broker which doctors, hospitals, and pharmacies are in network for those ZIP codes. Verify important providers directly with the carrier and provider.
3. **Set a realistic budget.** Decide what the business can contribute per employee and whether that amount will be the same for everyone under the chosen arrangement.
4. **Compare group coverage with an HRA.** Include employee premiums, deductibles, out-of-pocket limits, tax-credit considerations, administration, and employee choice.
5. **Confirm eligibility and participation.** Get state- and carrier-specific group-plan rules, or confirm the employer and employee requirements for the HRA.
6. **Explain the employee experience.** Tell employees what the benefit covers, what they must pay themselves, how to submit claims, and where to get help.

When comparing individual plans for an HRA, employees can use the public marketplace exchange to explore available plans and potential financial assistance. They can also check insurer information for off-exchange options. Plan availability and networks vary by location, so an employee should confirm that the plan covers the providers they use before enrolling.

Use Reliable Sources—Then Confirm the Details

Rules and plan availability can change. Start with official sources such as IRS guidance for HRA tax and reporting information, HealthCare.gov for marketplace information, and your state’s insurance department for state-specific coverage and small-group rules. A licensed broker or benefits administrator can help apply those rules to your business, but ask them to point you to the underlying documents.

You can also use Google’s Preferred Sources feature to make trusted sources easier to find in Search. When Google presents the “follow” or “add to preferred sources” prompt, consider adding authoritative sources such as government agencies, your state insurance department, and reputable benefits organizations. Search features may differ by account, location, or availability; treat search results as a starting point and verify important decisions with official guidance.

Bottom Line

Yes, you can give employees a set monthly amount toward health coverage—but decide whether you mean taxable compensation, a formal HRA, or an employer-sponsored group plan. Do not improvise premium reimbursements without checking the rules. Compare networks by ZIP code, confirm small-group eligibility and participation requirements before relying on a quote, and explain how the benefit could affect employees’ marketplace choices or tax credits.

A defined contribution approach can give a small business more control over its budget and employees more choice. It works best when the arrangement is compliant, the networks fit the workforce, and employees understand exactly what the monthly amount does—and does not—cover.