April 22, 2026
Issue #24

hr@work

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HR Insights

Beyond the Traditional Group Plan: 7 Smart Health Coverage Alternatives for Massachusetts Employers

Cost pressure is forcing employers to rethink health coverage. Here are seven practical paths forward.

Rising health plan costs are pushing many Massachusetts employers to reconsider the traditional fully insured group model. Today's benefits landscape offers practical alternatives that can improve cost predictability, expand employee choice, and provide access to lower-cost coverage. The right solution depends less on employer size and more on workforce demographics, budget goals, risk tolerance, and administrative capacity.

This issue highlights seven options:

1. Individual Coverage Health Reimbursement Arrangement (ICHRA)
2. Qualified Small Employer Health Reimbursement Arrangement (QSEHRA)
3. ICHRA + Health Savings Account (ICHRA + HSA)
4. High Deductible Health Plan + HSA (HDHP + HSA)
5. Association Health Plan (AHP)
6. Level-Funded Plan (LFP)
7. Massachusetts Health Connector for Business (MHCB)

For employers priced out of traditional group plans, these options can provide greater cost control, more flexibility, or access to lower-cost coverage models, depending on workforce size, health risk, and administrative capacity.

Start Here: What are you trying to solve?

IF YOUR PRIMARY GOAL IS TO…	THEN EXPLORE…
Set a fixed employer budget and maximize employee choice	ICHRA or QSEHRA
Maintain a traditional group plan feel at a lower cost	HDHP + HSA, MHCB, or AHP
Capture savings if claims are lower than expected	LFP
Combine reimbursement flexibility with tax-advantaged savings	ICHRA + HSA

Option 1: ICHRA

What is an ICHRA?

An ICHRA allows employers to reimburse employees, tax-free, for individual health insurance premiums and qualified out-of-pocket medical expenses instead of offering a group plan. Employers control costs through a defined monthly allowance, while employees purchase their own coverage.

Key Benefits for Employers

An ICHRA helps employees pay for health insurance without sponsoring a traditional group plan. In addition, the employer's cost for the ICHRA is predictable. The employer sets their own budget by deciding the exact allowance amount, thereby avoiding the unpredictable rising premiums of traditional group plans.

Key Benefits for Employees

Employees can choose a specific health plan that fits their personal needs instead of being tied to a single employer selected group plan. In addition, if the employee leaves the business, they can keep their individual insurance plan; only the employer's reimbursements stop.

How an ICHRA Works

- **Fixed allowance:** Your business sets a monthly allowance for each class of employees to whom you want to offer an ICHRA.
- **Employee contributions:** Employees cannot contribute to an ICHRA. ICHRAs are funded solely by the employer.
- **Reimbursements:** Employees pay expenses and submit proof for reimbursement.
- **Taxation:** Reimbursements are tax-free for employees and tax-deductible for the business.
- **Maximum Contribution and Annual Reimbursement Limits:** There are no maximum contribution and annual reimbursement limits for ICHRAs.

Employer Requirements?

Virtually any business entity with at least one W-2 employee can offer an ICHRA unless the one employee is a self-employed owner or the spouse of the owner. Other key requirements for offering an ICHRA in 2026 include:

- **No "Choice" Between Plans:** Employers cannot offer the same group/class of employees a choice between a traditional group health plan and an ICHRA. However, you can offer a class of employees a group health plan and offer a different class of employees an ICHRA.
- **Class Consistency:** If an ICHRA is offered to a specific class of employees (e.g., all part-time staff), it must be offered on the same terms to every member of that class.
- **Affordable Care Act (ACA) Affordability Requirement for Large Employers:** Companies with 50 or more full-time equivalent employees must ensure the ICHRA contribution is large enough to be considered "affordable" under the ACA guidelines to avoid penalties.

How the Class Consistency Requirement Works

In general your business can offer ICHRAs to all eligible employees or to only certain classes of employees that receive varying rates of reimbursement provided you meet the class consistency requirement. Examples of common classes include:

- Full-time or part-time status
- Salaried or hourly/non-salaried workers
- Seasonal or temporary staff (including staffing firm workers)
- Geographic location (based on insurance rating areas or states)
- Employees under a collective bargaining agreement

Employee Requirements

To be eligible to receive ICHRA reimbursements, employees and their dependents must be enrolled in a qualified health insurance plan that is not a group health plan and that meets the ACA Minimum Essential Coverage (MEC) requirements. Medicare plans comply with ICHRA requirements provided the individual has Medicare Parts A and B or C. In addition, the employee can purchase qualified health plan coverage for themselves and their dependents in the individual marketplace from the Massachusetts Health Connector or from a private insurance carrier or broker.

Employees offered an affordable ICHRA generally are not eligible for Marketplace premium tax credits. If the ICHRA is unaffordable, they may decline the ICHRA and seek Marketplace subsidies if otherwise eligible.

Option 2: QSEHRA

What is a QSEHRA?

A QSEHRA is similar to an ICHRA in that it allows small employers **with fewer than 50 employees** to reimburse employees for individual health insurance premiums and out-of-pocket medical costs.

Key Benefits for Employers and Employees

Same as an ICHRA.

How a QSEHRA Works

- **Fixed allowance:** Your business sets a monthly allowance. The amount set must be offered on the same terms to all eligible employees but can vary based on an employee's age or family size.
- **Employee contributions:** Same as an ICHRA. QSEHRAs are funded solely by the employer.
- **Reimbursements:** Same as an ICHRA.
- **Taxation:** Same as an ICHRA.
- **Maximum Contribution and Annual Reimbursement Limits:** The IRS limits for 2026 (adjusted annually for inflation) are $6,450 for self-only coverage and $13,100 for family coverage.

Employer Requirements?

- Must be a small employer with fewer than 50 FTE employees
- Cannot offer a traditional group major medical health plan to any employee who is eligible for the QSEHRA. Stand-alone dental or vision benefits may still be possible depending on how they are structured so it is important to confirm plan compatibility with a broker or counsel.
- Must provide employees with a notice about the QSEHRA
- Must report the benefit and any taxable reimbursements on employee W-2s.

Employee Requirements

Employees must meet the same requirements as those for an ICHRA. They cannot be in a group health plan, and the plan must meet the MEC requirements.

Option 3: ICHRA + HSA

Another potential lower cost option regardless of how many employees you have is to offer employees both an ICHRA and HSA. This arrangement can be attractive, however, the ICHRA and HSA must be carefully coordinated to avoid disqualifying employee HSA contributions.

What is an HSA?

An HSA is a tax-advantaged savings account that an employee can use to save and pay for out-of- pocket qualified medical expenses. An HSA provides a triple-tax advantage for employees. The employee's contributions can be made on a pre-tax basis through payroll, earnings on funds in the account grow tax-free, and reimbursements for out-of-pocket qualifying health expenses are nontaxable.

Key Benefits for Employers

- Predictable employer costs
- Works well for employers priced out of the group health plan market
- Aligns with Massachusetts' robust individual health insurance market

Key Benefits for Employees

- Employees can choose a plan that best fits their needs
- HSA triple tax advantage
- HSA covers current medical costs while building savings for long-term needs (e.g., retiree coverage)

How the ICHRA + HSA Works

1. Employer sets up the ICHRA and the fixed monthly allowance (e.g., $400/month). The ICHRA reimburses employees for only individual market health insurance premiums.
2. Employee buys health coverage under an HSA-qualified HDHP and opens an HSA.
3. Employee contributes to the HSA via pre-tax payroll contributions or directly. Employer may also contribute to the HSA.

Employer Requirements

- Plan documents must clearly state whether the ICHRA is "premium only" or "post-deductible"
- Employee must receive required ICHRA notices
- Proper substantiation of premiums required

Employee Requirements

The employee can participate in both the ICHRA and the HSA **only if**:

- The employee enrolls in an HSA-qualified HDHP, AND
- The ICHRA is structured as a "premium only" arrangement meaning the ICHRA can only be used to pay the premiums for the HDHP selected by the employee.

To preserve HSA eligibility, the ICHRA must generally be structured as either premium-only or post-deductible, so it does not reimburse first-dollar medical expenses before the HDHP deductible is satisfied.

Option 4: HDHP + HSA

What is an HDHP + HSA?

An HDHP paired with an HSA combines a lower-premium medical plan with a tax-advantaged HSA employees can use for qualified medical expenses. This is often one of the most budget-friendly group health options for small employers.

Key Benefits for Employers

- Lower premium cost than PPO/HMO plans
- Employer can choose whether to contribute to the HSA
- Strong recruiting value because HSA dollars feel like compensation
- Tax-deductible employer contributions

Key Benefits for Employees

- Lower paycheck premiums
- HSA triple tax advantage
- Funds in HSA roll over every year
- Employee owns the HSA account permanently
- Can build long-term healthcare savings

How the HDHP + HSA Works

- The employer offers an HSA-eligible HDHP.
- The employee can then open an HSA through the employer's HSA vendor, a bank, or financial institution.
- Both the employer and employee may contribute to the HSA up to annual IRS limits.
- The HSA can be used for deductibles, copays, prescriptions, dental, vision, and other qualified expenses.

Employer requirements

Employer must:

- Offer an HSA-qualified HDHP
- Avoid offering disqualifying first-dollar medical coverage
- Properly administer payroll deductions
- Communicate annual IRS contribution limits to employees
- Ensure plan design meets Massachusetts minimum creditable coverage (MCC) standards when offered as group coverage

Employee requirements

To contribute to the HSA, employees must:

- Be enrolled in the HDHP
- Have no disqualifying other medical coverage
- Not be enrolled in Medicare
- Not be claimed as someone else's tax dependent
- Stay within annual IRS contribution limits

Option 5: AHP

What is an AHP?

An Association Health Plan (AHP) allows multiple employers that belong to the same trade, industry, chamber, or professional association to band together to purchase health coverage as a larger group. This can improve bargaining power and sometimes lower premiums. Some examples of associations that may offer an AHP are:

- Local chamber of commerce plans
- Industry association plans
- Professional employer/member organizations
- Trade group benefit trusts

Availability of true association-sponsored health plans varies significantly by industry, sponsoring organization, and carrier participation.

Key benefits for Employers

- May reduce premiums through larger group purchasing
- Provides access to plan designs small employers may not get alone
- Can strengthen recruitment and retention
- Simplifies buying through an existing trusted association

Key Benefits for Employees

- Coverage that feels like a traditional group health plan
- Broader provider networks than some individual plan options
- May offer lower payroll deductions than standalone small-group coverage
- Enrollment process is easier than that for individual plans because employees can enroll through the employer-sponsored payroll process

How the AHP Works

- The employer joins an eligible association that sponsors a health plan.
- The association negotiates coverage, sets participation rules, handles plan administration or works with a carrier or broker.
- Employer then offers the plan to eligible employees similarly to a regular group plan.

Employer Requirements

Employer must typically:

- Be a member in good standing of the sponsoring association
- Meet the association's eligibility rules (industry, geography, size, etc.)
- Satisfy employer contribution requirements
- Meet participation thresholds
- Complete payroll and eligibility administration

- Confirm the plan satisfies Massachusetts MCC standards for Massachusetts employees

Employee Requirements

Employees must:

- Meet the employer's eligibility waiting period
- Be in an eligible class (for example, full-time employees)
- Enroll during initial eligibility or open enrollment
- Pay required payroll deductions
- Enroll dependents according to plan rules

Option 6: LFP

What is an LFP?

A level-funded plan (LFP) is a self-funded health plan designed for smaller employers where the employer pays a fixed monthly amount that covers expected claims, stop loss insurance, and administrative fees. It combines fixed monthly costs with potential savings from lower claims.

Key Benefits for Employers

- Lower monthly cost than many traditional group plans
- Fixed monthly budget amount
- Potential refund if claims run lower than expected
- Access to claims data and cost trends
- Often a good fit for healthier small groups

Key Benefits for Employees

- Traditional group health plan experience
- ID cards, provider networks, and copays work like traditional group health plan insurance
- Often lower paycheck deductions than fully insured alternatives
- More plan choice than individual reimbursement models

How an LFP Works

- The employer pays a set monthly amount each month.
- That amount funds expected claims, stop loss protection for high claims, third party or carrier administration fees.
- If actual claims are lower than expected, the employer may receive a year-end surplus refund, depending on contract terms.
- If claims run high, stop-loss insurance protects the employer from catastrophic exposure.

Employer Requirements

Employer typically must:

- Have enough enrolled employees to satisfy underwriting minimums
- Pass carrier underwriting/health-risk review
- Meet participation requirements
- Contribute at least the required percentage toward premiums
- Confirm who is responsible for Massachusetts MCC and Form 1099-HC reporting, since this may vary based on the carrier and level-funded arrangement design.

Employee Requirements

Employees generally must:

- Be in an eligible class
- Enroll when first eligible or during open enrollment
- Satisfy waiting periods
- Pay payroll deductions
- Use in-network providers where applicable

Option 7: MHCB

What is the MHCB?

The Massachusetts Health Connector for Business (MHCB) is a state marketplace for small businesses seeking affordable group coverage designed for small businesses with fewer than 50 employees.

Key Benefits for Employers

This solution offers several benefits including potential federal tax credits for businesses with fewer than 25 employees, employee choice, and wellness rebates. In addition, you can set a fixed contribution to the plan, thereby avoiding the unpredictable rising premiums of traditional group health plans.

How the MHCB Works

- **Fixed allowance and Employee Choice:** Your business can set a fixed contribution (i.e., the "reference plan") but allow employees to choose any plan from different carriers within a specific metal level (e.g., all silver plans).
- **Employee contributions:** Employees pay the monthly premium for the plan they choose less the employer's fixed contribution.
- **Taxation:** Businesses with fewer than 25 employees and average wages under approximately $65,000 may qualify for a federal tax credit of up to 50% of the premium cost.
- **Wellness rebates:** Participating employers can qualify for a 15% wellness rebate on their premium contributions.
- **Membership fees:** There are no membership fees for small businesses that use the Health Connector as the source for group coverage.

To learn more about this option, visit the Massachusetts Health Connector website at:
https://www.mahealthconnector.org/business

The website provides some excellent tools including the ability for both the employer and employees to compare plan options side by side. You can buy coverage through the Health Connector directly or through a broker. If you already have a broker for health coverage, we recommend that you consult your broker or consider one of the brokers listed on the website.

Final Step: Compare Your Best-Fit Options

Quick Comparison: Which Option Best Fits Your Organization?

Use the comparison table that follows to evaluate which option best aligns with your budget goals, workforce needs, and administrative capacity.

Option	Best Fit For	Cost Control	Employee Choice	Admin Complexity	Key Advantage	Watch-Outs
#1: ICHRA	Any size employer wanting predictable cost and maximum	Very High	Very High	Medium	Set a fixed budget and maximize employee choice	Class rules, notices, and ACA affordability for 50+

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Option	Best Fit For	Cost Control	Employee Choice	Admin Complexity	Key Advantage	Watch-Outs
	employee choice					
#2: QSEHRA	Employers with fewer than 50 employees not offering group plan	Very High	High	Low-Medium	Simple defined contribution model	IRS annual limits and no group plan coordination
#3: ICHRA + HSA	Employers wanting reimbursement flexibility plus tax-advantaged savings	Very High	Very High	Medium-High	Combines predictable budget with employee savings upside	Must preserve HSA eligibility through premium-only design
#4: HDHP + HSA	Cost-sensitive employers wanting traditional group coverage	Medium-High	Medium	Medium	Lower premiums with triple-tax employee savings	Higher deductibles may create affordability concerns
#5: AHP	Employers eligible through trade or professional associations	Medium	Medium	Medium	Pooled purchasing power and familiar group coverage	Eligibility, geography, and participation rules vary
#6: LFP	Healthy enrolled groups wanting fixed cost with refund potential	Medium-High	Medium	Medium-High	Fixed monthly cost with possible year-end surplus refund	Underwriting sensitivity and claims volatility
#7: MHCB	Employers under 50 FTE wanting MA marketplace choice	High	High	Low	Traditional group coverage with employee plan choice and possible tax credits	Limited to MA small-group market rules

The best health coverage strategy is rarely about choosing the lowest-cost option. The stronger approach is selecting the model that best aligns with your organization's budget goals, workforce demographics, employee expectations, and ability to manage ongoing administration. For many Massachusetts employers, the most effective path forward is a thoughtful shift away from the one-size-fits-all traditional group plan model.

If you decide to explore some of these options, we strongly recommend that you talk to a reputable broker. If you need a referral, feel free to contact us at 774-205-4018.

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