

Health insurance premiums are skyrocketing for small businesses, making it increasingly challenging for them to offer quality and affordable health insurance. Half of firms with 3-49 workers cannot afford to provide health insurance to their employees. The median proposed 2026 premium increase among small group insurers is 11%.

Health Reimbursement Arrangements (HRAs) serve as a defined-contribution alternative to traditional small business health insurance plans, creating cost predictability and reducing administrative burden. Through these arrangements, small businesses provide their employees with funds to purchase health insurance individually. This structure creates cost predictability for small businesses, enabling them to offer benefits without bearing the volatility of group risk pooling. For workers, HRAs expand choice and flexibility, allowing employees to procure the coverage that they need, given their circumstances and the insurance products that work best for them.

Illinois should provide a two-year tax credit to small businesses that begin offering HRAs to their employees. Businesses with 50 or fewer employees will be eligible for the tax credit, which will be worth \$400 per employee in the first year and \$200 per employee in the second year. Targeted tax incentives will offset adoption costs for small employers and encourage broader participation, particularly among small businesses new to offering health benefits. This tax credit will help HRAs serve as a tool for small businesses seeking to remain competitive while still investing in employee well-being.

83%

of employers who offered an HRA to their employees in 2025 did not previously offer health coverage. Many small business owners who otherwise would not have offered health insurance to their employees found value in HRAs.

69%

of employees who received funding through an HRA chose silver or gold plans. Employees who are offered HRAs are selecting comprehensive health plans that meet the needs of themselves and their families.

While HRAs may not be the right option for all small businesses, they can prove to be a viable alternative for businesses that are attempting to hire or retain talent but struggle with the costs of health insurance. Illinois policymakers should take every possible step to make it more affordable for small businesses to begin offering health insurance benefits to their employees.