

Should You Terminate Group Coverage?

Since 2010, when the Patient Protection and Affordable Care Act became law, speculation has abounded, with experts and non-experts alike debating whether employers would drop group health coverage. As the employer shared responsibility penalties approach in 2015, employers must decide whether they will offer employer-sponsored health coverage that complies with the Affordable Care Act (ACA) or drop coverage and face various penalties and repercussions.

While the initial reaction might be to drop, or disband, coverage to reduce health insurance costs, the issue is more complicated than that. Examining the pros and cons of maintaining versus dropping group coverage will help you determine the best course of action for your company.

Dollars and Sense

The financial implications of keeping or disbanding coverage are a huge concern for any company. For an employer, the primary advantage of dropping health coverage is that there will be no direct financial cost from providing health insurance and no concerns about coverage rates increasing each year. Dropping group coverage eliminates the need to spend time on health plan administration, which also costs your company money through the time HR spends on it.

However, disbanding coverage will incur various other expenses. You might decide to increase employee compensation to

offset loss of group coverage, shrinking the financial savings from dropped coverage. If you raise wages to offset the loss of group coverage, you will incur increased payroll costs as well as higher payroll taxes.

Additionally, ACA penalties for large employers that do not offer qualified health plans to employees will begin in 2015.

The direct financial impact on your employees from dropped group coverage is the loss of employer contributions, significantly increasing how much they will spend on health coverage. However, the advantage of dropped group coverage for some employees is a higher likelihood

Employees will also lose the tax benefits of pre-tax premium payments, and, if you do increase wages to compensate for the loss of coverage, their taxable income will go up. Conversely, employer contributions for health coverage are not taxable to the employee, thus reducing taxable income and saving the employee money when obtaining insurance through an employer-sponsored group plan.

Cost Isn't Everything

Although playing with the numbers is a basic approach to determining whether to keep or disband group coverage, the initial costs won't tell the whole story. Disbanding group coverage, especially if you don't increase employee wages, will

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of being eligible for Exchange subsidies. Employees are ineligible for Exchange subsidies if their employer offers a qualified health plan, although their eligibility for subsidies is also dependent on their level of income.

Dropped group coverage also leads to the loss of certain tax advantages for both the employer and employees. For the employer, dropping coverage means the company will no longer benefit from tax-free coverage contributions, and increased salaries will simultaneously cause higher payroll taxes.

be viewed as a reduction in compensation. This will likely have a negative impact on employee morale, possibly leading to lowered productivity and satisfaction. Eliminating group coverage will also cause you to forgo a powerful recruiting and retention tool. This could potentially increase your turnover rate and related costs, and possibly decrease your ability to attract top talent due to the lack of a valued benefit.

Your business runs on the quality of your employees—offering group health coverage indicates that you care about



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your employees, and it contributes to your employees' morale. If you drop coverage, employees will suffer the inconvenience of having to find and obtain insurance elsewhere, whether through a spouse or parent's plan or through the individual market.

The convenience and reduced cost of obtaining health insurance through an employer is a powerful and valuable benefit for most employees. When deciding to keep or drop your group health coverage, consider the value group coverage has as a retention and recruiting tool, helping you attract and keep the talented and motivated employees who contribute to the success of your company.

To Keep or Not to Keep

Ultimately, if you disband coverage, you benefit from reduced upfront health coverage costs, but are likely to end up paying significant amounts of money through penalties, increased wages and lost tax advantages. If you decide to keep group coverage, you and your employees will benefit from receiving various tax advantages, avoiding ACA penalties and ensuring higher employee satisfaction.

If you decide to keep your group health coverage but are looking for ways to reduce your costs, you can increase your employee health education and health care consumerism efforts to achieve your cost-reduction goals.

To aid you in your decision-making process, consult the chart on the next page. For more help evaluating your options and estimating potential penalties, as well as for access to information and resources regarding health care consumerism and employee education, please contact Colburn Group at 248-643-4800.

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