

NINE OPTIONS TO ADDRESS THE ADVERSE SELECTION OF WORKING SPOUSE CLAIMS ON YOUR EXPERIENCE-RATED OR SELF-INSURED MEDICAL PLAN

OVERVIEW

Current law requires most employers to offer medical coverage to their full-time employees. Consequently, this means many more spouses and registered domestic partners have healthcare coverage available at their own place of work. When an employer-plan sponsor provides coverage to working spouses or partners who have other coverage available to them where they work, this creates higher costs for the employees of the plan sponsor. As a result of higher claims being paid for working spouses and partners who have coverage available to them by their employers, there is less money available for next year's wages, training budgets or retirement plan contributions. The result of offering medical insurance with an unlimited coverage amount or a specific limitation up to your self-insured retention limit (specific stop loss deductible) is that you create adverse selection.

ADVERSE SELECTION

Adverse selection, also known as anti selection, refers to a situation which the buyers and sellers of an insurance product do not have the same information available, and in health insurance this occurs when a person waits until they know they are sick and then applies for coverage. This situation represents a classic example when both employee and spouse are employed and have coverage available to them where they work but one of the spouses chooses to enroll in the other spouse's employer's medical plan creating additional risk in claims exposure for the employer-plan sponsor as well as increasing the costs to the actual employees of the employer-plan sponsor every single year.

The vast majority of employer-plan sponsors believe that all employers should be equally responsible for paying the medical plan costs of their own employees. By continuing to provide primary health coverage for working spouses or partners, employers, including unions, are inadvertently subsidizing other employers' healthcare claims responsibility which is blatantly unfair and fiscally irresponsible since it increases the cost to the organization's employees and slashes the money available for wages and employee benefits.

Alternatives to address working spouses have been available for more than 30 years. Depending on the survey and the region of the country, at least one out of five employers already uses some form of strategy or tactic to reduce working spouse claims. Additionally, every survey published shows that more than half of employers are looking at making changes to include such tactics or strategies starting this year or next.

Alternatives to address adverse selection created by working spouses:

- 1 Cash in lieu of benefits.
- 2 Arbitrarily increasing the premium contributions for dependents in order to create higher rates that cause spouses and families to shop their health plan options.
- 3 The Affordable Care Act spousal exclusion.
- 4 Spousal surcharge.
- 5 Working spouse carve out.
- 6 The working spouse carve out based on a specific contribution or dollar amount that's being charged by the spouse's employer.
- 7 Dependent audits.
- 8 Modifying the number of rate tiers available to increase the number of premium contribution options to charge employees and their dependents. For example, changing from two tiers to three or five tiers.
- 9 SIHRA: Spousal incentive health reimbursement arrangement.

Employees and their dependents are typically free to choose the plan that best meets their needs. In most cases, the employees and family make a choice after reviewing their payroll cost of coverage (contributions), the potential out of pocket costs (plan design) and access to providers. This ability to choose benefit plans between spouses helps foster employee attraction/retention initiatives, but also creates an economic drain on employers who offer more comprehensive benefit levels (higher plan design features and lower payroll cost) as employees typically select the benefit plan that's most beneficial to them. We know from behavioral science that human beings will tend to act in their own financial self interest and do so far more to achieve a gain than they will to avoid a loss. Consequently, employees and spouses, with knowledge about their personal health conditions, typically choose the plan that they feel will benefit them the most financially.

According to SHRM, approximately 33 percent of employers are expected to utilize a spousal surcharge in 2019 with a median surcharge price of \$100.00 per month. Additionally, approximately 13 percent of employer-plan sponsors utilize cash in lieu of benefits. In addition, close to one out of ten employers is utilizing a working spouse carve-out currently, depending on their size and location.

SUMMARY

In conclusion, an alternative spousal eligibility program is one potential tool for employers to help control the cost of providing health coverage.

A growing number of employers have adopted surcharge plans and mandatory working spouse carve-out plans. A greater number of employers are considering adopting such plans for their future. Employers that have market average or below market benefit plan designs and contribution cost structures will likely see fewer economic benefits by implementing such programs. However, employers in traditionally more benefit competitive industries or employers who traditionally charge little or nothing for healthcare will experience greater economic incentives from implementing alternative spousal coverage programs. Based on the pros and cons involving administrative implications, plan design, financial inequity and financial implications, the SIHRA has proven to be far superior in its optics, administrative simplicity, almost zero noise and significant financial impact compared to all other options available heretofore.

Consider all these tactics and strategies and the implications applicable to each before you make a decision to do nothing, keep everything the same and remain with the status quo. Keeping everything the same, taking unnecessary risk and paying too much is not conservative...it's causing your employees and their families financial stress, reducing their wages and spreading financial inequity throughout the workplace.

Adverse selection is a confiscatory tax on business and working Americans.