

Can Employers Drop their Health Plan and Just Give Employees Cash Instead?

Labor & Employment Law Update

on July 23, 2019

Several years ago, a trend was emerging that consisted of third-party, private marketplaces where employers could have their employees purchase health care with an “allowance” of sorts. This “allowance” could be facilitated by an employer that set up a stand-alone Health Reimbursement Arrangement (HRA). The emerging trend was analogous to the way traditional pension plans evolved to 401(k)s. Then, before things could take off, the Affordable Care Act put a halt to it. Essentially, the ACA said that these stand-alone HRA plans broke the rules because they had annual limits. And, under the ACA, health plans were not allowed to have annual limits on the amount of benefits provided. So, employers moved on and tried to look for a different way to reduce the amount they were spending on health benefits for their employees.

Then, on June 13, 2019, the tide turned and the Department of Health and Human Services (HHS), the Department of Labor (DOL) and the Internal Revenue Service (IRS) issued a coordinated set of final regulations that essentially said they changed their mind.

To clarify a bit, the regulations are complex and a business is certainly not free to just start handing out cash to their employees instead of a health insurance card. However, with the right plan documents in place and the correct administration followed, an employer can set up a scenario where an employee has an “account” that covers all or part of the expense for that employee to purchase individual coverage on his/her own. In other words, an employer electing this path should make sure he or she is guided by the right attorney, insurance broker, and human resources team.

Why would this arrangement be helpful? Think of it in this scenario.... Each year most employers hold their breath just a bit while they wait for their renewal rates to be provided by their carrier. There is almost always some type of increase. And at that point, an employer must make tough decisions about how much of that increase, if any, they can absorb for the employee. Worse yet, most employees never really seem to understand or appreciate the full dollar amount the employer is paying on his/her behalf.

Now, in contrast, think about how an employer reimburses employees for cell phone expenses. The employee individually purchases whatever plan that they want, spending more if they want, buying a nicer phone if they want, etc. Each month, the employer simply reimburses each employee the same amount – regardless of whether they picked the basic or pricey plan. Most employees easily understand what cell phone benefits exist and exactly how much the company covers. It certainly makes things a bit clearer for an employee when they are involved in that transaction each month.

If a company can now potentially treat its health plan expenses the same way? It could be a game-changer in successfully managing health care expenses.

Can
Employers
Drop their
Health Plan
and Just
Give
Employees
Cash Instead?