REPLACING THE LOST VALUE OF MEMBERS' HEALTH INSURANCE BENEFITS

In two circumstances, due to the Affordable Care Act, we may need to reduce the value of insurance benefits, or eliminate it entirely.

1. High-value plans, which otherwise may hit the 40% excise tax threshold, may need their value reduced. This could mean options like HMOs or wellness, which restrict the behavior of workers, but barring that, this is likely to be due to increases to cost-sharing such as copays, coinsurance, or deductibles.
2. In the case of employers where it may make sense to eliminate insurance entirely and move onto the individual exchange, the premium contributions required by the federal government (after subsidies) will in many cases be higher than old employer-provided plans, and cost sharing may be higher as well.

In both cases, we can ensure that our members do not make substantial concessions, but only if we judiciously determine what combination of wages and benefits helps the majority of the shop come out ahead. Outlined below are the main options.

Wages:

In most cases, increased wages are a bad idea to replace lost health insurance benefits.

For plans facing the excise tax, it may seem to make sense to pay for a $1,000 deductible with a $1,000 increase in wages. However, there are both employer and employee tax costs associates with wage increases. Typically, for the lowest paid workers, you need around 38% more employer expense to ensure a set level of post-tax benefit. This means that for every $1, you'd need another $0.38 to account for employer and employee FICA taxes (Social Security, Medicare, unemployment), and employee income tax charges. This is already skirting very close to the 40% excise tax. Most shops with high-value insurance do not have very low paid workers, hence replacing health benefits above the threshold with wages is *more expensive than doing nothing*.

For shops looking to drop employer coverage and go onto the individual exchange, there is not only the additional tax cost outlined above, but a further complication. As household income rises, the subsidies a family gets for insurance falls. In a shop with members close to the 400% income threshold, this is particularly dangerous, as some people may get an upward bump in their hourly wage and discover they have to pay 100% of the insurance premium (e.g., with no government subsidies) in the following year.

That said, there are certain select cases where wage increases may make sense. In shops where a few classifications (say skilled trades) make much more than others, a huge wage bump in reclassification makes sense. This way the employer can ensure those positions have wages high enough to pay for the individual exchange premiums without relying on any government subsidies, while not giving large raises to other shop members, who would gain additional benefit elsewhere.

Flexible Spending Accounts (FSAs):

Flexible Spending Accounts are tax-advantaged financial accounts that can be set up by the employer. FSAs have traditionally been thought of as being exclusively funded by (pre-tax) employee contributions, but the employer can contribute unlimited annual amounts as well. The most important thing to remember about FSAs is they operate under a "use it or lose it" rule. Accounts begin accruing on January 1, and if you do not use your entire account before the end of a year, all money (even if it's your own wages!) is lost. Generally speaking, we would desire FSAs with employer-funded contributions, as although there is lost benefit if the member doesn't use up the entire account value, no actual wages would be lost (and the employer might actually consider it a feature if it can roll unspent money back into operations).

There are several types of FSAs, but we will generalize about two types below:

Medical FSAs:

Traditionally, medical FSAs could be used to pay for any type of medical care not covered by insurance. This included both cost-sharing like deductibles, coinsurance, and copayments, as well as non-covered medical expenses (bandages, crutches, etc). In some cases, medical premiums could also be paid for with FSA accounts.

For plans facing the excise tax, medical FSAs are a bad idea, because the dollar value of the FSA counts towards the total medical plan value. Indeed, some unions suggest elimination of an FSA as a way to reduce plan value under the excise tax threshold.

In certain cases, however, medical FSAs make a great deal of sense with individual exchange plans. The type of medical FSA which can be used to pay for insurance premiums (cafeteria plans) cannot be used with the individual exchange. However, medical FSAs can pay for individual exchange deductibles, coinsurance, and copays. *This seems to be the only way that an employer can partially subsidize their workers if they chose to go onto the individual exchange.*

Non-Medical FSAs:

FSAs can be set up for a host of different reasons besides medical care. As these are not medical benefits, they don't count towards excise tax thresholds, and can be useful to replace lost benefits due to the excise tax. By far the most common type is Dependent Care FSAs. These provide for care under the age of 13, children of any age who are disabled, or adult day care/long term care for seniors. They can only be used for those claimed as dependents on tax returns.

The appeal of a dependent care FSA is it provides a good deal of benefit to those with families, while providing little to no benefit for those without. In a case where a shop is considering elimination of health insurance, it is likely that those in the shop with dependents will face higher premiums and out-of-pocket costs, hence a benefit which accrues only to them helps to even the score.

Individual Retirement Accounts:

In the tax code, there are many different types of employer-provided individual retirement accounts (IRAs), which are largely treated similarly, 401(k) plans for the private sector are most well known, but there are also 403(b), 401(a), 457(b), and 457(f) plans, which apply to either government employees, nonprofit employees, or both.

Contributions to all such plans, by the employer or the employee, are pre-tax. This makes it very easy to replace lost insurance benefits. If a plan needs to be reduced by $1,000, you bargain an additional $1,000 in contributions. Additionally, all such plans not only have annual rollover, but can be cashed out into a standalone tax-free IRA in case an employee quits or is terminated.

Overall, an IRA is the most sure-fire way to ensure everyone in the shop maintains an equal level of benefits. However there is one big downside. The increased benefit does nothing to help members deal with increased costs related to higher premiums and cost sharing in the present – not unless they withdraw from the account early and pay a hefty penalty. Thus despite looking like the best deal on paper, the longer-term nature of the benefits may not appeal to everyone in the shop.