Update on Small Group Health Coverage Options

Health coverage continues to be a confusing and challenging topic for churches, nonprofits, and other small employers, particularly in light of escalating costs as well as inconsistent advising. As a result, many small organizations provide no formal benefits or either utilize an outdated method that does not provide meaningful assistance to staff members and families. The good news is that these organizations have options to provide employees with coverage and tax savings, and this summary is designed to provide an overview of the three most common and effective current solutions.

Of course, which specific option is best for your entity will depend on employee count and demographics, along with financial and other factors. If I can assist you with questions or discussion of options, including a detailed planning analysis for the upcoming year, I am available to do so.

Is there a new magic bullet? No. In fact, I have observed in recent years a number of non-compliant arrangements that were falsely marketed as solutions. As an example, there has been a proliferation of so-called "wellness" arrangements that have been recently identified and targeted by the federal agencies. Alternatively, certain models such as Christian health care sharing cooperatives are within the bounds of the law but involve considerations such that they are not a fit for many individuals.

> *What is a "small group"?* In the benefits industry, a small group is generally considered to be an employer with fewer than 50 employees that is underwritten differently than a large employer. Under current rules, rates for an under-50 group in most states are dependent only on geographic location, age, and tobacco use. As a result, rates are fairly standard (inflated) for all small groups. This is different from the large group market, where an insurance carrier can incorporate additional data in underwriting, including health factors. There is much more deviation in large group rates, particularly in groups of 100 or more.
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> From a compliance standpoint, I typically view a small group as an employer that is not subject to the employer mandate of the Affordable Care Act, which applies to employers that had 50 or more full-time employees, including equivalents, during the prior calendar year. Small groups not subject to the mandate are not required to offer coverage or face potential penalties as 50+ groups are.

Primary Health Coverage Models for Small Groups:

(1) Group Health Insurance Plan – Fully Insured, Self-Funded, or Level-Funded

- This is the traditional approach, and I do not need to say much about it. Of course, small employers have very little leverage with the carriers, so the cost of the group plan will come down to plan design. There are a number of potential plan designs that are worthy of consideration, including not only deductible and out-of-pocket details, but also how the plan is funded for claims payments. Certain modern funding options allow employers to assume certain claims risk to lower costs. Separately, organizations have options when it comes to how much of the monthly premium is paid by the employer or by the employee.

- It continues to be true that a group insurance plan has great tax advantages - premium costs paid by employers are fully deductible, and premiums paid by employees are pre-tax through a Section 125 plan, including state/federal/FICA savings for employees and FICA savings for employers (7.65% on all employee dollars).

- A group health insurance plan may be paired with a Health Flexible Spending Account ("FSA"), Health Savings Account bank accounts ("HSA"), or Health Reimbursement Arrangement ("HRA") for additional coverage and tax savings. While HRAs must involve only employer dollars, Health FSAs and HSAs allow the option for the employee to contribute tax-free in addition to any employer contributions. HRA options are multiple, ranging from simple deductible/OOP reimbursement plans to HRAs designed to reimburse a specific expense not covered by the insurance.

- In most cases, it continues to be true that a qualified and trustworthy group insurance agent/broker is recommended to assist with a group plan. Employers may buy direct from some carriers, but there is typically no significant advantage.

(2) Individual Coverage HRA ("ICHRA")

- ICHRAs are accounts set up by an employer that provide an amount of tax-free dollars that can be used by employees toward the purchase of out-of-pocket medical, dental, or vision expenses, including private health insurance premiums or Medicare costs. ICHRAs have now been around for four years, but their popularity and use are increasing, particularly in states (like South Carolina) where individual premiums are lower than small group premiums for similarly situated individuals. The primary value of ICHRA is that it is the only method by which an employer can reimburse individual or Medicare premiums on a tax-free basis.

- ICHRAs work best in small groups for which either (a) the majority of eligible employees would not be eligible for Marketplace subsidies due to high income, or (b) the employer contribution will be significant enough to cover a meaningful portion of applicable premiums. For other groups, ICHRAs are not the best fit.

- I frequently assist employers and advisors with ICHRAs (including plan design and setup), and I can provide more details and options if helpful. For any organization that is considering an ICHRA or that has one in place already, I also have a new ICHRA Plan Design & Compliance Checklist that I will share upon request.

(3) Compensation Model

- If an employer does not sponsor a group plan or an ICHRA, it is not stuck with doing nothing. There is an option for the employer to use standard, taxable compensation in a strategic way to utilize and maximize compensation. Specifically, the “compensation model” is an intentional and cost-conscious way to direct employees to use coverage through spouse's coverage, individual Marketplace coverage (with subsidy in most cases), or Medicare. In fact, as I work with a number of small groups - particularly nonprofits and churches for which most employees either have a spousal option or are subsidy eligible - the compensation model is in many cases most effective.

- The compensation model involves great flexibility for employers, and it is especially effective in the current tax environment where employees everywhere are taking advantage of the highest standard deduction of all time. [*Churches can also factor in the substantial tax exemption allowed for ordained ministers above and beyond the standard deduction*.] In addition to overall flexibility, this option is viewed as the choice of greatest simplicity, as it requires no formal plan, contract, or premium payments. My typical recommendation is that the employer adopts a summary of its model (to have guidelines to follow) and decides on the best way to educate employees about how it will help them. Beyond that, communication and administration is as simple as executing through standard payroll practices.

- *One example/option*: An employer has 10 full-time employees. The employer adopts a policy to provide each full-time employee with $600 per month in compensation specifically to assist them with health insurance costs. [*For finance/payroll professionals, this can be "Line 2" paystub compensation, typically shown as "Benefits Stipend" or equivalent*.]

    - Four of the 10 employees have a coverage option through a spouse's employer. Since premiums for the spouse's family will be made on a pre-tax basis by the spouse from his/her payroll deductions, the coverage for the family is tax-free. $600 in compensation will go a long way toward paying for the family coverage and even potentially some out-of-pocket costs beyond the premiums.
    - Two of the employees are Medicare eligible and signed up for both Medicare and Medicare Supplement coverage. Those employees utilize the compensation to pay for Medicare premiums and potentially additional out-of-pocket costs.
    - The remaining four employees seek individual (private) coverage through the Health Insurance Marketplace for which they are eligible for generous premium tax credits (subsidies to offset premiums paid). For these individuals, the amount of compensation will offset premiums paid and potentially other out-of-pocket costs as well.

- The example above is only one option. The employer has full flexibility on how and how much to provide. As an example, employees do not have to receive equal amounts. Employers commonly vary amounts by individual or by category of position. There are multiple ways to utilize the model for maximum effectiveness.

Note: The above summary is specifically directed to staff members or personnel responsible for making finance and benefits decisions for churches, nonprofits, or other small businesses. If you are an individual that needs to assess best coverage options for yourself or your spouse, a separate summary is available and written for the individual/personal perspective.

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