Why employees are declining company health insurance

Opting out of a company’s health insurance coverage is not uncommon for employees who want to see a doctor in a different network or who can obtain coverage from a spouse.

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Eschewing an employer’s plan means consumers must seek their own coverage and pay the full amount, said Anthony Lopez, senior manager of small business at eHealth.com, an online health insurance exchange based in Mountain View, Calif.

Rejecting coverage from a company used to mean extra cash for the employee. Before the Affordable Care Act was passed, some employers chose to offer employees a general "opt-out credit" which provided perhaps $250 in monthly taxable compensation to employees who were eligible for benefits and waived the medical plan, he said. The credit was often paid as taxable cash during each pay period. These reimbursement arrangements subsided over time.

"Under this arrangement, the opt-out credit was a flat dollar amount and was not tied to any underlying coverage the employee may or may not have purchased," said Zack Pace, a senior vice president for benefits consulting at CBIZ Benefits & Insurance Services in Cleveland. "Think of it as almost a monthly bonus compared to an increase to one's salary or hourly rate."

But now the decision is not strictly an economic one, as companies “typically” do not increase the wages of employees who turn down their plan or reimburse them for the extra cost through other benefits such as an increase in vacation time, he said.

Reimbursing employees for the cost of an individual or family plan which is not offered through the company’s plan will actually result in a company being fined, Lopez said.

“Companies who reimburse an employee for an individual or family plan may be subject to a $100 per day excise fee for every applicable employee under section 4980D of the Internal Revenue Code,” he said.

Federal rules and regulations are now in place to prohibit employers from “directly reimbursing” employees for their premiums even though the practice used to be more common in the past, said Pace.

But though there may be no extra cash-in-hand compensation for option out of your company's health plan, there are plenty of other reasons to do so.

Reasons Employees Do Not Want Company’s Coverage...

The number one reason employees do not want the current group insurance is because they currently have coverage elsewhere, often because they are eligible for their parents' plan or prefer a spouse’s or partner’s plan.

“Some individuals are able to get a better deal through the employer sponsored medical plan of their spouse or domestic partner or they don’t mind paying a little more to be on the same policy as their spouse or domestic partner,” said Pace.

Some employees are steering clear of their company's plan if they want to continue to see their current doctors or receive treatment at a hospital that are excluded from the current network.

“Generally, the contribution the employer makes toward monthly premiums for the group plan reduces the cost of the insurance for each worker," Lopez said. "In order to receive comparable coverage, consumers may need to pay more out of their own pockets towards premiums for their plan.”

While some employees skip the company insurance and buy their own on the marketplace, others are avoiding coverage altogether because they are healthy and deem the coverage unnecessary or can not afford it.

Some consumers are finding better deals through the private market, but for people who are employed, there are “several headwinds against this option making financial sense,” said Pace. Not only does the individual lose his employer contribution, but he is also paying for the premiums with post-tax dollars. Other people who are eligible for affordable coverage from their employer are unlikely to qualify for a subsidy through the ACA marketplace.

The marketplace does give more choices and can offer subsidies greater than the employer contribution, said Shawn Pynes, San Diego-based head of the employee benefits division of Barney & Barney, a Marsh McLennan Insurance Agency.

“The weight of these various options contributes to employee's decision regarding whether to take their company's insurance or to seek other options,” Pynes added.

Opting out of coverage altogether means consumers are subject to fines. Starting in 2016, the fine increases to $695 per person or 2.5% of his household income, whichever is greater. The maximum penalty is the cost of the national average for a bronze plan’s premium, according to Healthcare.gov.