# Cash In Lieu: What Should You Do?

A common practice for many public entities is to offer employees an opt-out payment for declining an offer of health insurance coverage. These payments are commonly referred to as a "Cash In Lieu" option. Cash In Lieu (CIL) programs are a complex subject and could use further examination.

In Wisconsin, CIL options were popularized, especially in the public sector, approximately 25 years ago as a means to shift enrollees between employer plans. Over time the practice has evolved and now is generally implemented as an attempt to curtail a single employer's costs. The practice is often perceived as a positive benefit by current and potential employees due to the cash payment.

One way some public entities have traditionally tried to meet the goals of lowering costs and creating a benefit for employees is offering a CIL program for those choosing to waive health coverage.

Before adding or subtracting such a program, an employer needs to know that offering a CIL program can be a mixed bag.

**The Current Environment**

Employers consistently battle with the balance of meeting budgets and attracting/retaining talented staff. Public entities are currently working with tight budgets, increased employee mobility, and the implementation of health care reform. This can make providing quality public services a challenge.

Entities are now pressed to find strategic ways to attract and retain talented employees to staff public services. As entities position themselves as employers of choice, controllable factors such as culture, working conditions and compensation matter more than ever. Public entities need to design an overall compensation package which positions them to attract and retain talent.

**Here is a brief overview of some of the advantages and disadvantages of such a program:**

**Advantages**

An opt-out program can have two major advantages that can be attractive to an employer:

- **Attractive to employees:** As an employee (or potential employee) a CIL program for waiving benefits can be quite attractive. Employees with other options for obtaining coverage can utilize the program as extra revenue. It is not uncommon for these incentives to provide $500 per month for opting out of employer coverage. What employee wouldn't see an extra $6,000 per year as a good benefit?
- **Reduce your overall health insurance costs:** Logically most employees who would waive coverage, especially in the age of the federal individual mandate, have other options available to them. That generally means coverage from a spouse or a parent (under 26). The cost of providing CIL likely is less than the cost of coverage in either scenario, hence lowering your overall spend on employee coverage.

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**Disadvantages**
Entities which offer a CIL program should note that there are some potential disadvantages to such an option for employees, including:

- **Increased per employee cost***:* Any option provided to exit, or barrier to enter an employer's health insurance plan creates a factor called "adverse selection." Data shows that people who make their health plan elections solely for financial reasons (versus benefit quality) tend to have lower than average utilization. Over time this factor can raise the cost per enrollee, causing rates for those remaining in the plan to rise more than the normal rate of medical inflation.
- **Administrative burden:** Between tax liabilities and documentation, a CIL program can create a larger administrative burden by offering CIL. Factors such as documentation, disbursements, and annual enrollment can add administrative complexities to offering such a benefit.
- **Taxable income:** Unlike insurance benefits, a cash benefit for declining coverage is taxable income for an employee (and the employer). So while providing a payment for an employee can be a nice benefit, that amount must be budgeted to include employer taxes as well.

**Potential ACA ramifications:**
With the implementation of the Affordable Care Act (ACA) there are new regulatory factors to consider such as:

- **Affordability provision:** An immediate area of concern is related to determining an employer's plan "affordability" under ACA rules. For purposes of determining an employee's required premium contribution for affordability calculations, offering a CIL benefit would have the effect of increasing an employee's contribution for health coverage beyond the amount of any payroll deduction amount. This could endanger your plan as not meeting the affordability standard.
- **Non-discrimination concerns:** There are concerns that pending regulations could create discrimination-related issues with cash opt out payments. Many employers provide these benefits on a basis that could be legally defined as discriminatory. There is risk because of the way such incentives are structured by greatly benefiting certain demographic segments over others.

**What Should You Be Doing?**

- When assessing your benefit plan, it is wise to see if your offerings meet your strategic employment and financial goals. A CIL program may or may not be part of the formula that helps you to achieve your goals. Understanding the pros and cons help you determine the value of a CIL.
- Keep in mind that a CIL program can be an easy-to-enter, but difficult-to-exit program in terms of employee engagement. If creating a CIL, employees would likely see the new benefit as a net plus that would be immediately accepted. If planning to exit a CIL program, a bit of thoughtful change management is wise, with an open and transparent employee communication strategy explaining the exit plan is a best practice.

Regardless of your approach, we encourage your utilizing resources, such as your carrier and M3 advisor to help assess your situation. They have industry expertise, data and knowledge of trends which can guide your decision-making process. Ultimately, they want to help you meet your strategic goals to ensure that you remain successful.

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