

# Opting Out, Cash In-lieu, And Benefits as Salaries - A Primer

**Opting Out:** Some districts and unions are considering a policy or have adopted a policy that allows individual employees to voluntarily decide whether they wish to participate in their district health plan. This is often called "Opting Out."

**Cash In-Lieu:** In conjunction with "opting out", some districts and unions are considering or have adopted policy providing for compensation to employees for not participating in the districts health plans. This is often called a "cash in-lieu" alternative.

**Benefits as Salaries:** Another option that some districts and unions have considered or adopted is putting additional money on the salary schedule in lieu of enrolling employees in a health plan. Typically the district then offers a plan or plans that employees can voluntarily buy into to cover themselves and their families. The employees are also typically free to purchase health care coverage elsewhere (or not at all).

**Basic Principle of Group Health Plans:** Group health plans pool the ages and illness records of all persons in the plan in order to determine the cost of the plan. All employees, regardless of age or health condition, are treated the same. All employees are likely to fall into each of these categories at some time in their employment.

Currently, salary is seen as an individual benefit. Health benefit protection, on the other hand, is a group benefit. The group as a whole, as well as the district, benefits from the overall health plan. It is available when needed. It is a safety net for all.

**Employee Appeal:** Some employees find the above options appealing because it will mean more money in their pockets (absent large medical costs). If the health money is put on the salary schedule, employees' retirement benefit will be increased based on a higher final salary. The higher salary effect on retirement is only based on the last few years of employment. Some employees like the idea of being able to pick and choose in order to meet their own current needs.

**District Appeal:** Districts may save money in the short term by choosing one or more of the options above. Some districts would like to get out of the health care business altogether. Furthermore, if health care money is put on the salary schedule, districts can advertise for new employees based on this higher salary.

**Impact of Cash In-lieu or Opt-Out:** These programs tend to increase the premium paid for each employee covered by the plan because those who stay in the plan tend to be those more likely to need and use the coverage. This is called "adverse selection." Healthier, younger employees are most likely to leave the plan. When employees need better coverage, such as when they are sick or injured, they come back into the plan. Adverse selection increases the premium rates because it costs more to cover the needs of those

who remain in the pool. Cash in-lieu and opt-out options also take dollars away from the health plan which results in decreased bargaining power with providers. This can also lead to higher premium rates.

One possible scenario over time is that the health care plan will lose stability and crash as it ends up only insuring "bad risk" employees. At that point, coverage that is needed will no longer be available. The only employees who benefit from this breakdown of group coverage are those who are never seriously ill or injured during their employment lives.

**Example:** Current California law requires that employees be allowed into the employer health plans at certain points in the year. One scenario that could occur is the following: An employee whose health care is covered by a spouse decides to take cash in lieu of benefits. The spouse is laid off and they both lose coverage. The employee develops a serious illness or injury (or a dependent of the employee does). The employee asserts his or her rights to District coverage. The employee is allowed to rejoin the plan but no contribution has been made for the coverage up to that point in the year. The rate for the next year goes up for everyone. In short, the "group" part of group coverage has not been applied.

**Impact of Benefits on the Salary Schedule:** When benefits are placed on the salary schedule, the group no longer exists. Employees access benefits for themselves and their dependents at their own expense. The district will not be able to get the same agreement with the health carriers as it currently does since it cannot guarantee that all employees will participate. The amount put on the salary schedule most likely will not pay for the coverage of those most in need of health care. Also, health care inflation is much higher than normal inflation, so the amount of money put into salaries for health care will grow much slower than the increased cost of health care coverage. So, over time, the amount put on the salary schedule may not be enough for employees to cover their health care needs. Another consequence often overlooked is that when the health care money is put into salary, the employee and the district will then be required to pay taxes and PERS/STRS contributions on that money.

**Purpose of Health Care Coverage:** A basic question in health care coverage is its' purpose. Is it a part of compensation or is it intended to be protection? The options listed above do not provide protection for employees throughout their work lives. These options treat health care like compensation-as a value provided to each individual employee. Health care, on the other hand, has traditionally been bargained for and agreed to as a group benefit that can be used when needed and will protect the health of the whole.

**Caution: Adopt opting out, cash in-lieu or benefits as salary at your peril.**