

**A REPORT BY  
THE 2012-2013 CONTRA COSTA COUNTY GRAND JURY**  
725 Court Street  
Martinez, California 94553

**REPORT 1304**

**HEALTHCARE INSURANCE  
WAIVERS**

**THE "OPT-OUT" APPROACH FOR COUNTY CONTAINMENT OF  
HEALTHCARE INSURANCE COSTS**

APPROVED BY THE GRAND JURY:

Date: 5/14/2013

  
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ACCEPTED FOR FILING:

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JUDGE OF THE SUPERIOR COURT

Contra Costa County Grand Jury Report 1304

## **HEALTHCARE INSURANCE WAIVERS**

### ***THE "OPT-OUT" APPROACH FOR COUNTY CONTAINMENT OF HEALTHCARE INSURANCE COSTS***

**TO:** Contra Costa County Board of Supervisors

#### **SUMMARY**

Contra Costa County (County) offers a number of healthcare insurance plans to its employees. Permanent employees regularly scheduled to work twenty or more hours per week are required to participate in one of the plans which the County offers. Both the employee and the County pay a portion of the premium cost for the plan chosen by the employee. In those cases where an employee has access to alternative healthcare, the County and the employee would both financially benefit by allowing the employee to waive, or opt-out of, County-provided healthcare coverage. Currently, the County does not offer such waivers to its employees.

#### **METHODOLOGY**

Information in this report was obtained from interviews, online documents, and County websites. The Memoranda of Understanding (MOUs) of some counties and cities, both in and out of the County, were reviewed.

#### **BACKGROUND**

The County currently offers its employees a choice of healthcare insurance plans for the coverage of both the employee and his/her spouse/qualified domestic partner, and children. Permanent employees regularly scheduled to work twenty or more hours per week are required to participate in one of the healthcare insurance plans offered. Both the employees and the County pay a portion of the resulting premium costs. The number, type, and terms of the plans offered, the premium costs for each plan, and the employee and County shares of the premium payments, vary among the County's bargaining units.

The County has in the recent past successfully negotiated with a number of its employee bargaining units several measures that reduce the County's healthcare insurance costs. Those measures include:

1. Offering additional insurance plans that have higher deductibles and payments for services, but lower premiums, than other plans offered by the County.

2. Increasing the amount that employees pay as their share of the total insurance premium.
3. Requiring that married couples and qualified domestic partners who are both employed by the County enroll together in one plan. They are prohibited from individually enrolling in a plan as a primary insured.

Many public entities allow an employee to waive, or opt-out of, participation in the employers' healthcare plans if he or she can prove coverage under an alternative plan. (The terms "waiving" and "opting-out" are used interchangeably in this Report as they are in the industry.) Such waivers save both the employers and the employees their portions of the premium costs.

Properly and fairly structured healthcare insurance waivers benefit both the employer and the employee. The incentives are aligned. The employer contains costs and the employee's take-home pay increases when an insurance premium is no longer deducted. Three considerations with healthcare insurance waivers are as follows:

1. Premium costs for the insured group, those who remain covered by the County-offered plans, might increase at a higher rate if younger, presumably healthier, employees waive coverage in larger numbers than older, presumably less-healthy employees do. An actuarial analysis can determine the significance, if any, of this possibility. Another approach would be to survey Contra Costa cities and other counties that offer healthcare insurance waivers to determine whether any of their premium increases have ever been identified as resulting from changes in the employee pool due to waivers of healthcare insurance coverage.
2. The common practice of offering an employee a financial incentive to opt-out of coverage provides a way for the employer and the employee to share in the savings provided by avoiding the healthcare premium. Incentives can be additions to either the employee's regular compensation payments or to his/her deferred retirement account. The incentive typically is either a specified dollar amount, or an amount pegged to all or some portion of the single-rate premium from a specified plan. Incentives pegged to the cost of a premium automatically increase as the premium increases, while a specified dollar amount will remain constant unless a change is negotiated.
3. An incentive payment might be considered part of compensation when computing retirement benefits.

Some entities considered the following when developing healthcare insurance waiver provisions:

1. An actuarial report that included the following information:
  - a. The number of waivers that could be expected.
  - b. The impact, if any, on continuing premium costs that would be the direct result of establishing a waiver program.

2. Whether or not to include a minimum age for waiver eligibility.
3. If an incentive was provided in exchange for the waiver the following were considered:
  - a. Whether or not to make it a specified dollar amount rather than a formula tied to any premium cost.
  - b. Whether or not to authorize regular increases in the specified dollar amount.
  - c. The treatment of incentive payments in the calculation of retirement benefits.

## **FINDINGS.**

The Grand Jury finds that:

1. The County does not currently offer its employees the option to waive healthcare insurance coverage.
2. Allowing a County employee to waive healthcare insurance coverage would save the County the money it pays towards the employee's premium.
3. Paying a financial incentive to each employee choosing to waive healthcare insurance would reduce the amount the County would save.
4. An employee who waives healthcare insurance coverage would receive an increase in net pay due to no longer paying the premium.

## **RECOMMENDATIONS**

The Grand Jury recommends that the Board of Supervisors:

1. Include as part of the County's proposals in negotiations of MOUs with County bargaining units a waiver provision that allows financial benefits for both the County and the employee.
2. Direct the County Administrator to develop a healthcare insurance waiver provision that would allow a County employee to opt-out of coverage under the County's plans if the employee can prove he or she has healthcare insurance coverage from a source other than the County.

## **REQUIRED RESPONSES**

### **Findings**

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### **Recommendations**

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