



Pension and Health Benefits Committee Agenda Item 12

June 20, 2017

Item Name: Spousal Surcharge for Contracting Agency Member Health Benefit Contributions

Program: Health Benefits

Item Type: Information

Executive Summary

This agenda item updates the Pension and Health Benefits Committee regarding the possibility of allowing contracting agencies to add a spousal surcharge to contracting agency member health benefit contributions. The surcharge would apply to contracting agency members who have enrolled their spouses in the members' California Public Employees' Retirement System (CalPERS) health coverage, but the spouses have access to health benefit coverage through their own employers.

Strategic Plan

This agenda item supports Goal A, "Improve long-term pension and health benefit sustainability," by ensuring high quality, accessible, and affordable health benefits.

Background

In 2012, CalPERS staff developed 21 Health Care Initiatives for 2012-2017, which were designed to positively impact quality, access, and affordable care for CalPERS members, their dependents, and the communities in which they live. One of the Initiatives was a spousal surcharge, meaning that "an employee must pay an additional cost to cover a working spouse who has the option to elect health coverage from his or her employer and has declined the coverage."¹

One 2016 survey found that 28 percent of employers currently reported imposing spousal surcharges, that another 6 percent were planning to impose them in 2017, and that another 18 percent were considering them for 2018.² A spousal surcharge would affect the approximately 25 percent of contracting agency member spouses (i.e., 50,000 dependents) enrolled in CalPERS health benefit plans who have access to non-CalPERS employer-sponsored insurance. With a spousal surcharge, contracting agency employers would pay less to provide spousal health care benefits through CalPERS.

¹ "Health Care Benefits: Cost Sharing: What is a spousal carve out and a spousal surcharge program, and how do they differ?" Society for Human Resource Management, March 25, 2015, at https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/cms_015929.aspx.

² "High-performance insights — best practices in health care. 2016 21st Annual Willis Towers Watson Best Practices in Health Care Employer Survey." At <https://www.willistowerswatson.com/en/insights/2017/01/full-report-2016-21st-annual-willis-towers-watson-best-practices-in-health-care-employer-survey>.

Analysis

CalPERS team members have explored the possibility of administering a spousal surcharge for contracting agencies. After further research, it is the opinion of CalPERS that under current law contracting agencies cannot add a surcharge to employee or annuitant health benefit contributions for any reason.

Government Code section 22890(a), part of the Public Employees' Medical and Hospital Care Act (PEMHCA), requires that agencies and their employees and annuitants must contribute a portion of the cost of providing the benefit coverage afforded by the health plan in which employees or annuitants enroll. Employee and annuitant contributions are limited to the total cost per month of the benefit coverage afforded by the health plan in which s/he is enrolled, less the portion contributed by the contracting agency. Surcharges are not part of the cost per month of the benefit coverage afforded by a health plan. When calculating costs of benefits afforded by a health plan, carriers evaluate what costs they will incur to provide the benefits, not whether members or their spouses have access to other employer-sponsored health benefit coverage. Consequently, a spousal surcharge is not permissible under PEMHCA.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

While it may be desirable from a cost savings perspective to allow contracting agencies to apply a spousal surcharge to contracting agency member health benefit contributions, adoption of this policy would be inconsistent with existing law.

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