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Defined Contribution - The Ideal Solution for Employer Health Benefits in 2014

Note: This should not be taken as legal or tax advice.

In 2014, [defined contribution health plans](#) will become the ideal solution for most (if not all) U.S. employers.

Beginning January 1, 2014 - Insurance carriers must accept all applicants for individual health plans regardless of health status.

This change minimizes the moral obligation of employers to offer health benefits to employees with pre-existing conditions. As a result, the decision to offer health benefits will become purely an economic business decision.

Beginning January 1, 2014 - Employers with more than 50 full-time-equivalent employees (FTEs) must sponsor an “affordable” and “qualified” group health plan, or else pay a tax penalty capped at \$2,000 per FTE.

The penalty does not apply to companies with less than 50 FTEs.

Beginning January 1, 2014 - If the employer does not offer an “affordable”, “qualified” group health plan, employees may qualify for federal subsidies (based on income) through their state’s American Health Benefits Exchange.

Individuals with household incomes below 400 percent of the federal poverty line (approximately 68% of the U.S. population) will receive subsidies that cap their out-of-pocket health insurance expenses as a percentage of income on a sliding scale. As a result, most employees will be able to obtain identical health coverage, at a substantially lower cost than group health insurance, on the individual market through their state exchange.

Beginning January 1, 2014 - “qualified” individuals must purchase health insurance, or else pay a tax penalty roughly equal to the cost of coverage minus the subsidy.

In many cases, a household's tax penalty will roughly equal the household's cost of the minimum “essential” individual health insurance (minus subsidies) available in the Exchange. In most cases, it will make most economic sense to purchase health insurance vs. paying the penalty. As a result, with proper education, adverse selection in the individual market should be minimized.

Summary

In 2014, [defined contribution health plans](#) will become the ideal solution for most employers due to the following:

1. Individual policies will become guaranteed issue, and eliminate the non-economic (i.e. moral) factors from an employer's decision-making process.
2. Most employees will pay less for health insurance on the individual market due to federal subsidies.
3. For most employers, the total cost of paying the employer penalty (assuming the employer has more than 50 FTEs), and providing defined contributions to keep employees whole, will be less than the total cost of providing "affordable" group health insurance.