Considering the Spousal Surcharge

By Mark McGraw
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One of the ways employers are looking to contain healthcare costs is by levying surcharges on spouses who opt for coverage through their partners' insurance policies. This strategy may be effective, but HR must carefully communicate the reasons for these changes and prepare for employee pushback.

There's nothing new about workers trying to save a few bucks by opting for health insurance coverage through a spouse's employer's policy.

It seems, however, that employees at a growing number of companies may wind up paying more one way or another.

The 18th Annual Towers Watson/National Business Group on Health Employer Survey on Purchasing Value in Health Care, for example, finds 20 percent of respondents saying they now levy a surcharge of roughly $100 per month on spouses who decide not to take advantage of their own employer's insurance and instead receive coverage through their spouse's employer's offering. An additional 13 percent said they plan to do so in 2014.

A variety of economic factors is helping to drive this trend, says Helen Darling, president and CEO of the Washington-based NBGH.

"The costs of coverage for a spouse or domestic partner – because they are adults – are very high, virtually the same as covering the employee," says Darling. "The Great Recession and the slow recovery have meant that wages are stagnant, yet healthcare costs continue to rise way out of whack with what employers can afford."

These variables have employers looking at all possible ways to manage costs, she says, one of which is to implement a surcharge "that will slightly offset the much higher cost and give the spouse another reason to take his or her own coverage, which is the goal.

"If the other employer provides coverage," adds Darling, "it seems only fair that the employee takes that coverage, rather than add to the costs of the one who employs the other spouse or partner."

Of course, costs associated with the Affordable Care Act also come into play for employers, says Matthew Kersting, a New York-based consultant with Sibson Consulting.

"Employers are continually seeking ways to lower costs, and the ACA has increased their challenge," says Kersting. "Since many of the penalties and fees under the ACA are based on the cost of employee-only coverage, this can be an effective way to lower costs while remaining compliant."

Implementing a spousal surcharge, however, is just one way to lower costs, says Julie Stone, senior consultant with New York-based Towers Watson.

"Another option is increasing the cost of tiers with spouses -- such as employee plus one, employee plus family, etc. -- at a higher rate of increase than the employee-only coverage," says Stone.

An important consideration is whether to include a surcharge for all spouses, or only for working spouses who may have access to coverage elsewhere, she says, noting that "virtually every spouse will have access to coverage elsewhere" when health insurance exchanges become available on Jan. 1, 2014.

Some companies have considered not offering coverage to spouses at all, adds Stone.

"This is a much more dramatic change, but one that [the Affordable Care Act] makes a possibility for some organizations."

Whatever route you choose, the organization and HR must consider such options "in the context of an employer's culture and employee value proposition, organizational priorities, etc.," she says. "No one solution is appropriate for all companies."

Indeed, factors such as the type of industry and make-up of your workforce, for instance, will shape how organizations and HR go about containing healthcare costs, and how employees may react to spousal surcharges or other cost-cutting measures, says Darling.

"There are some employers that depend on a workforce that values health benefits in particular," she says. "For example, research shows that women are statistically more likely to take a job for health benefits for the family, and men care more about cash wages."

Certain types of organizations, such as call centers, banks, insurance companies, hospitals and companies with large numbers of female workers – some in relatively low-paying jobs "might find that a spousal surcharge hurts their ability to recruit and retain the talent they need," she adds.

"[These companies] need to assess what they do in terms of total rewards [design]. Whatever [an organization] might gain in saving money on health benefits, [it] might lose in turnover, unfilled positions, etc."

Regardless of industry, HR professionals at organizations implementing spousal surcharges should expect to encounter at least some resistance from employees, says Kersting.

"Employees don't tend to react well to anything that's considered a takeaway, and paying more for [health] coverage would fall into this category," he says.

"The fact of the matter," says Kersting, "is that healthcare costs are a huge expense for employers, and they continue to look for creative ways to offset this burden. As a result, we don't anticipate enough pushback to slow this trend."

Stone echoes that sentiment, noting that other strategies organizations have begun to employ -- raising insurance premiums for smokers, for example – are more likely to strike a dissonant chord with the workforce.

"I think [resistance to spousal surcharges] is different than pushback around surcharges for tobacco use or other health-related requirements."

Still, "it doesn't mean there won't be some pushback. [But], in my opinion, putting a surcharge on a personal behavior like tobacco use or a lack of compliance with certain health-management activities is more personal, and likely to be a little more of a lightning rod for employees."

Ultimately, "no employee likes to see increased costs or reduced benefits," says Darling. With that in mind, HR should have a very thoughtful communications plan that explains to employees why the company needs to make this change and how it can actually benefit the workforce, she says.

"By managing costs, everyone's premiums and cost-sharing will increase less rapidly, so this step benefits everyone," she says. "This is fair, since it spreads the costs over the two relevant parties -- employers and employees -- and no one is disadvantaged disproportionately."