

Health Insurance Opt-Out Incentive Program

Overview

The City of Richland Center, as a participant in the Wisconsin Department of Employee Trust Funds (ETF) State Group Health Insurance Program, offers an opt-out incentive program to eligible employees who decline health insurance coverage under the ETF plan. This program is structured within a Section 125 cafeteria plan to ensure compliance with federal and state regulations, including the Affordable Care Act (ACA), Medicare Secondary Payer (MSP) rules, and Wisconsin insurance laws. The program provides a taxable cash incentive of \$2,000 annually for employees eligible for single coverage or \$4,000 annually for employees eligible for family coverage, provided they have alternative minimum essential coverage (MEC).

Program Details

1. Eligibility

To qualify for the opt-out incentive, employees must meet the following criteria:

- Be eligible for the Wisconsin Retirement System (WRS) Benefits Package.
- Be eligible for employer premium contributions under the ETF State Group Health Insurance Program.
- Provide reasonable evidence (e.g., self-certification or proof of coverage) that they and their tax family have or will have MEC from another source (e.g., a spouse's employer-sponsored plan) for the plan year. The City will not make payments if it knows or has reason to know the employee lacks such coverage.
- Not be covered as a dependent under the ETF State Group Health Insurance Program (e.g., through a spouse's state or municipal employment).
- Enroll in the opt-out program during the Annual Benefits Enrollment (ABE) period or upon a qualifying life event.

2. Incentive Amount and Payment

- **Amount:**
 - \$2,000 annually for employees eligible for single coverage, prorated and paid evenly over 24 pay periods (\$83.33 per pay period).
 - \$4,000 annually for employees eligible for family coverage, prorated and paid evenly over 24 pay periods (\$166.67 per pay period).
- **Tax Treatment:** The incentive is taxable income, reported on the employee's W-2 form, and is not considered WRS earnings for retirement calculations.
- **Section 125 Cafeteria Plan:** The incentive is offered as a taxable cash benefit under the City's Section 125 cafeteria plan, allowing employees to choose between enrolling in the

ETF health plan (non-taxable benefit) or receiving the cash incentive (taxable). This structure avoids constructive receipt issues under IRS rules.

3. Enrollment Process

- **Annual Enrollment:** Employees must enroll annually during the ETF's ABE period (e.g., September 30–October 25 for the following plan year) by submitting a Health Insurance Application/Change Form (ET-2301) to the City's HR department, indicating their intent to opt out, specifying whether they qualify for single or family coverage, and providing evidence of alternative MEC.
- **Qualifying Life Events:** Employees may enroll mid-year if they experience a qualifying life event (e.g., marriage, birth of a child, loss of other coverage) by submitting the ET-2301 form within 30 days of the event.
- **Verification:** The City will verify alternative MEC annually or upon enrollment, using self-certification or documentation (e.g., insurance card, letter from other employer's plan), and confirm the employee's eligibility for single or family coverage based on ETF guidelines.

4. Impact on Other Benefits

- **Sick Leave Conversion:** Employees who opt out will not have unused sick leave credits converted to pay for health insurance premiums upon retirement or death unless they reenroll in the ETF State Group Health Insurance Program before retirement.
- **Dental Benefits:** Employees who opt out are ineligible for Uniform Dental benefits but may enroll in Preventive Dental or supplemental dental plans during the ABE period.
- **Other Benefits:** Opting out does not affect eligibility for other ETF benefits (e.g., life insurance, income continuation insurance), subject to their respective eligibility rules.

5. Reenrollment in Health Plan

- Employees may reenroll in the ETF State Group Health Insurance Program during the ABE period or within 30 days of a qualifying life event (e.g., loss of alternative coverage). Upon reenrollment:
 - Opt-out incentive payments cease, and any remaining annual incentive is prorated based on the number of pay periods the employee was opted out.
 - Employees must notify the City's HR department and submit the ET-2301 form to reenroll.

6. Compliance with Federal and State Regulations

- **ACA Affordability:** The \$2,000 (single coverage) or \$4,000 (family coverage) incentive is included in ACA affordability calculations for employees who opt out and those who enroll in the health plan, ensuring compliance with the employer shared responsibility

mandate. The City will ensure the health plan remains affordable (employee contribution for single coverage does not exceed 9.5% of household income, indexed annually).

- **Medicare Secondary Payer (MSP):** The incentive is offered uniformly to all eligible employees, regardless of Medicare eligibility, to avoid MSP violations. The City will not target Medicare-eligible employees with incentives to decline coverage.
- **Nondiscrimination:** The incentive is available to all eligible employees without regard to health status, age, or other protected factors, in compliance with ACA, HIPAA, and Wisconsin Statutes § 632.746.
- **Tax Compliance:** The incentive is processed as taxable income through payroll, with appropriate withholding for federal and state taxes, and reported on Form 1095-C and W-2.
- **Wisconsin Insurance Laws:** The program complies with Wisconsin Statutes § 632.749 (prohibiting unauthorized payroll deductions) and § 632.897 (continuation coverage rights). Employees who opt out and later lose alternative coverage are informed of their right to reenroll or access continuation coverage.
- **FLSA and Wage Laws:** The incentive is treated as wages for FLSA overtime calculations, and the City ensures compliance with Wisconsin wage laws by obtaining written employee authorization for any payroll-related actions.

7. Administrative Responsibilities

- **Financial Officer:**
 - Administers the program, including enrollment, verification of alternative MEC, confirmation of single or family coverage eligibility, and payroll processing.
 - Provides employees with clear communication about the program, including tax implications, impact on sick leave conversion, and reenrollment rights.
 - Files IRS Form 1095-C annually to report health coverage offers and opt-out incentives.
- **Employee Responsibilities:**
 - Submit the ET-2301 form, specify single or family coverage eligibility, and provide evidence of alternative MEC during enrollment.
 - Notify the Financial Director of any changes in coverage status (e.g., loss of alternative MEC) within 30 days.
 - Acknowledge the impact on sick leave conversion and other benefits in writing during enrollment.

8. Program Review and Updates

- The City will review the program annually to ensure compliance with ETF guidelines, federal regulations (e.g., ACA, MSP), and Wisconsin laws.
- Changes to the incentive amounts, eligibility criteria, or processes will be communicated to employees during the ABE period or as required by law.
- The City will consult legal and benefits counsel to address any regulatory updates, such as changes to ACA affordability thresholds or MSP guidance.

Employee Acknowledgment

Employees must sign an acknowledgment form during enrollment, confirming:

- Understanding of the taxable nature of the incentive (\$2,000 for single coverage or \$4,000 for family coverage).
- Awareness of the impact on sick leave conversion and other benefits.
- Commitment to maintain alternative MEC for the plan year.
- Responsibility to notify the City of any changes in coverage status.

Contact Information

For questions or assistance, contact the Financial Officer at treasurer@richlandcenterwi.gov or (608) 647-3466. Additional resources are available through the ETF website (etf.wi.gov) or by calling ETF at 1-877-533-5020.