UPS to Drop Health Coverage for Working Spouses

In anticipation of President Obama's healthcare reform law, U.S. businesses are making drastic changes to employee-benefit plans, leaving Americans with higher premiums, larger deductibles, or sometimes no health coverage at all. The United Parcel Service (UPS) is among a league of other companies now easing their healthcare burdens, by dropping coverage for 15,000 of its workers' spouses who are eligible for coverage through their own employers.

And UPS, one of the country's largest employers, attributes its decision to not only rising medical costs but also the costly provisions of ObamaCare. The soaring costs of medical care, "combined with the costs associated with the Affordable Care Act, have made it increasingly difficult to continue providing the same level of health care benefits to our employees at an affordable cost," reads a memo to employees.

In its decision, UPS has been added to the six percent of U.S. employers that omitted spouses from health coverage last year — a two-fold increase from 2008. "Is it a harbinger of things to come? Possibly," Paul Fronstin, a director at the Employee Benefit Research Institute, said of the move. "Once a major employer like UPS takes a step, all of the others will at least start looking at it."

Fronstin attributes UPS' controversial decision to government manipulation of the free market, as businesses determine their health-benefit packages on employee recruitment and retention. "There's a reason that employers have been offering health benefits voluntarily for decades," he explains. "For some, it makes sense for business."

UPS is now one of the highest-profile companies yet to eliminate working spouses from their company health plan. While many businesses already require surcharges for working-spouse health coverage, more are taking the next step by denying them coverage altogether. "They are simply saying to the spouse outright, 'If you have coverage somewhere else you are not eligible here,'" says Edward Fensholt, a senior vice president at insurance broker Lockton Companies. "We don't see a lot of that out there, but more than we used to."

As Frontsin notes, UPS stands on the front end of an emerging trend, as more and more companies are considering similar options. But the trend is rapidly evolving, with a number of large employers scrapping their former health plans and implementing more cost-effective plans. The University of Virginia, for instance, is also rolling out a new benefits plan for its employees, and similar to UPS, it will be terminating health coverage to employees' spouses whose own employers offer coverage.

"With U.Va. facing rising health care costs, spiking expenses of high-dollar claims and looming fees and taxes connected with federal health reform, the modifications are designed to maintain the quality of the plan and contain costs in the years ahead," read a news release published Wednesday.

And much of the blame lies on ObamaCare, the university emphasizes. "The University estimates the effects of the Affordable Care Act for this coming year alone are going to add $7 million to the cost of us implementing and operating our health plan," U.Va. spokesperson McGregor McCance said of the move. Among the changes are:

- Emphasis on wellness: Plan premiums will rise about $40 a month this year. Employees, however, can avoid increases by completing two components of U.Va.'s Hoo's Well program — a biometric screening and an online health assessment.
- New plan option: The University is adding a third plan option, featuring low premiums and a high deductible. A "Health Savings Account," included as part of the new option, will receive $1,000 at the start of each year from U.Va. to help pay for eligible medical expenses.
- Working spouse provision: Starting Jan. 1, spouses who have access to coverage through their own employer will no longer be eligible for coverage under U.Va.'s plan. Spouses who do not have coverage elsewhere can remain on the employee's plan, and coverage of children is not affected.

A new employer survey by Towers Watson reveals massive changes for future employee health plans, marking a progressive shift away from traditional employer-sponsored coverage. According to the study, which surveyed 420 mid- and large-sized businesses, some 40 percent of businesses plan to change their health benefits next year in light of looming healthcare reforms.

The shift from conventional employer-sponsored health plans indicates corporate America's willingness to make drastic changes to health plans once perceived as commonplace for U.S. workers. And ObamaCare, which is estimated to hike business expenses by two to four percent next year, has ignited an evolving trend that has already spurred higher premiums and fewer healthcare options for workers.

"The feeling is drastic times call for drastic measures," says Rich Fuerstenberg, a New York-based benefits consultant for Mercer Inc. "What employers are adopting today are strategies that were considered crazy or out of the mainstream just a few years ago."