National Coalition on BENEFITS

ERISA and Employer-Sponsored Health Coverage

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Background

The Employee Retirement Income Security Act (ERISA), enacted in 1974, encourages employers to offer health coverage and other benefits to employees by establishing a fair and efficient set of rules for those who do so. Specifically, ERISA creates uniform federal standards for employer-sponsored benefit plans - including both health and retirement plans - and preempts the application of potentially conflicting or inconsistent state laws to employer-sponsored plans. Currently, employers voluntarily provide health benefits to 156 million Americans.

All employers (except federal, state and certain religious organizations) are governed by ERISA when they choose to offer health, retirement and many other benefits to employees. ERISA, and the regulations that have been issued over more than 35 years since the law was first enacted, includes numerous requirements that employer benefit plans must meet, protects the rights of participants in the plan and defines how disputes between the plan and its participants are to be handled. Importantly, ERISA also directs that a benefit plan must be administered consistently, fairly and for the exclusive benefit of all employees who participate in the plan, in accordance with the underlying plan documents.

Why ERISA Is Important

ERISA is essential for employers who want to provide uniform and affordable benefits to their employees - regardless of where they live - and administer these benefits in an efficient, consistent manner. This uniform administration of benefits allows multi-state employers to keep benefits as affordable as possible for their employees. For employees, this also helps to ensure that they will have access to the same benefits as others in the same company, no matter where they may live. Any compromise in this uniform framework established by ERISA not only increases the complexity and cost of benefits to employers and employees but also blunts innovations aimed at increasing quality and efficiency in the U.S. health system.

For example, an employer may be headquartered in Chicago, but have employees in 40 different states. If each state were to separately regulate how the employer must administer its plan and who must be covered by the plan, it would quickly become much more complex and costly for the employer to continue to offer employees affordable health coverage.

The Patient Protection and Affordable Care Act and Employer-Sponsored Health Coverage

The Patient Protection and Affordable Care Act (PPACA) makes extensive changes to federal law governing health care coverage and the health care system, but does not alter the basic ERISA framework that multi-state employers rely on when they offer benefits to employees across state lines. Employer-sponsored health plans will still be required to comply with PPACA's changes under federal law related to such things as restricting or eliminating lifetime and annual limits on coverage, providing coverage for preventive health care services, and extending coverage to children up to age 26, but they will not be subject to separate and potentially conflicting state standards for these and many other requirements included in PPACA.

ERISA Preserves State Law Governing Health Insurers and Health Insurance Products

ERISA does not preempt states from regulating health insurers or health insurance products. When an employer purchases a fully insured policy to offer to its employees, additional state insurance rules will apply to the insured coverage. ERISA also does not preempt state laws of "general applicability", state regulation of the individual insurance marketplace or state programs such as high-risk pools to expand access to health coverage.

Many employers use a combination of both insured and self-insured products for their employees. Regardless of which way an employer chooses to offer health coverage, ERISA's single set of rules applies to many essential elements of employer-sponsored benefit plans such as the procedures for resolving disputes related to coverage decisions, even though additional state rules may apply to insured products.

Principles

The National Coalition on Benefits, representing leading U.S. employers, has adopted the following principles to preserve ERISA and ensure coverage continues to be provided to millions of employees currently enrolled in employer-sponsored benefit plans.

ERISA's federal framework must be maintained**.** ERISA was enacted to encourage the development and proliferation of employer-sponsored employee benefit plans. The federal framework is the foundation of the nation's employer based insurance system. Federal, state and local efforts to reduce the number of uninsured individuals should not disrupt coverage that works today for 156 million Americans.

Employers' ability to offer and maintain uniform benefit plans across state and local lines must be preserved**.** Uniformity in benefit design and administration results in lower costs through economies of scale, application of best practices, purchasing leverage and administrative efficiencies. Uniformity is especially important for employers whose employees and retirees reside in multiple locations.

Employers must continue to have the flexibility to determine how to best meet the needs of their employees and retirees. This flexibility is essential, as it allows employers to find innovative solutions, contributing to a robust and well functioning benefits system. On the other hand, state or federal "one size fits all" approaches will hamper innovation and will increase costs for employees and employers.

Reforms to the current health and retirement benefits system must continue ERISA's goals of promoting simplicity and consistency. Complexity, prescriptive rules and administrative duplication will make benefits more costly for employees and their dependents, and will in the end reduce the value of their coverage.