SUMMER COMPLIANCE SPOTLIGHT

WARNER Pacific

DON'T GET BURNED THIS SUMMER:
KNOW THE RULES ON TIPPED EMPLOYEE PREMIUMS

Have you wondered if an employer could cancel health insurance coverage for waitstaff where tips are not enough to cover the employee's share of the monthly premium?

Yes, an employer **can potentially cancel an employee's health insurance coverage** if the employee does not earn enough to cover their share of the premium, but there are important legal and procedural considerations involved:

PAYROLL DEDUCTION SHORTFALLS

If a tipped employee's wages (including tips) are insufficient to cover their portion of the health insurance premium through payroll deductions, the employer is **not required to cover the shortfall.**

In such cases, the employer may:

- **Bill the employee directly** for the unpaid portion.
- **Allow a grace period** for the employee to catch up on missed payments.
- **Cancel the coverage** if the employee fails to pay after a reasonable period.

LEGAL FRAMEWORK

- Under the **Affordable Care Act (ACA),** employers with 50+ full-time employees must offer affordable coverage, but employees are not required to accept it.
- **The Employee Retirement Income Security Act (ERISA)** requires employers to notify employees of any material changes to their health plan, including cancellations.
- **If** coverage is canceled, employees may be eligible for **COBRA continuation coverage,** though this is often more expensive since the employee pays the full premium plus a 2% administrative fee.

EMPLOYER POLICIES AND PLAN DOCUMENTS

Employers must follow the rules outlined in their **Summary Plan Description (SPD).** This document should specify:

- What happens if an employee misses premium payments.
- How long coverage continues during non-payment.
- Any grace periods or reinstatement options.

ALTERNATIVE OPTIONS FOR EMPLOYEES

If coverage is canceled:

- Employees can explore **Marketplace insurance plans,** which may offer subsidies based on income.
- They may qualify for **Medicaid** depending on their income and state of residence.

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