

Health Service System City & County of San Francisco

Surrogacy White Paper

Overview

Surrogacy is defined as “the practice by which a woman (called a surrogate mother) becomes pregnant and gives birth to a baby in order to give it to someone who cannot have children” (Merriam Webster). There are generally two types of surrogacy which is dependent on the source of genetic material—provided by either the surrogate mother or the intended parent(s). Surrogacy allows intended parent(s) who are otherwise incapable of having a child and wish to have the genetic linkage that is not provided via adoption. There are strong arguments both for and against the practice of surrogacy.

The purpose of this summary is to review and understand the considerations of potentially offering a surrogacy benefit to its employees.

Market Data

At this time, surrogacy coverage by an employer is very rare but an area of, slowly, growing interest. HSS's current carriers (UnitedHealthcare, Blue Shield of California and Kaiser Permanente) do not currently have surrogacy coverage and have no plans to include in the future. The first companies to implement such a benefit were primarily in the technology field who wanted to provide a way for employees to build a career and a family at the same time. The most notable company to first offer surrogacy coverage was Facebook which began offering a surrogacy benefit of \$20,000 in 2014. The coverage includes the cost of surrogacy, legal fees and egg freezing. Apple followed suit in 2015 with a \$20,000 benefit which is included as part of their adoption benefit.

Other organizations covering surrogacy include Columbia University with a \$30,000 benefit and T-Mobile which provides a per child benefit of \$13,400.

Plan Design Considerations

Most employers provide a lifetime dollar limit for surrogacy services such as \$20,000. The benefit is available to any employee: males/females, singles/couples, same-sex partners or opposite-sex partners. The benefit is not excludable from taxable income under IRS rules and may be subject to State, Federal, Social Security, Medicare and federal unemployment taxes at time of payment. Further, this plan is not an eligible IRS Section 125 expense and may not be offered through the trust. A separate funding mechanism will need to be identified.

Typical covered expenses include but are not limited to:

- Surrogacy agency service fee
- Compensation to the surrogate
- Medical claims of or insurance for the surrogate associated with the pregnancy and delivery
- Medical screenings (including counseling)
- Legal fees

Non-reimbursable expenses include, but are not limited to:

- Voluntary contributions such as donations

Health Service System City & County of San Francisco

Surrogacy White Paper

- Guardianship or custody costs that are not associated with the legal surrogacy of the child
- Expenses incurred prior to employee's date of hire
- Charges that are in violation of federal or state law
- Non-medical related expenses such as transportation to doctor's appointments, special food or over-the-counter supplements, maternity clothing
- Loss of income due to complications of pregnancy such as bed rest

Cost

Typical surrogacy costs range from \$50,000 to \$150,000. Any cost associated with this type of benefit would be funded by HSS. Further, HSS would need to administer the program in-house as there are no vendors who currently manage a self-funded surrogacy benefit. Lloyds of London does appear to have an insurance policy but details are not readily available and it appears to be an employee pay only plan. HSS's medical insurers would not cover the claims of the surrogate as the surrogate is not a tax dependent of the employee and precluded from participating in the group health plan.

HSS will need to develop a policy outlining the eligibility, eligible expenses, payment process and appeal process. Further discussions are needed to identify the direct (reimbursement) and indirect (internal administration) costs of providing this benefit.

Legal and Tax Considerations

- Surrogacy costs are expressly excluded from the definition of qualified adoption expenses and should be expressly excluded from the terms of any adoption assistance plan;
- The benefit should be added outside the group medical plan and the group medical plan documents should be revised to make it explicit that a covered participant's surrogate is not eligible for any benefits under the plan;
- The surrogacy benefit description should include a lifetime maximum benefit and a list of inclusions and exclusions (e.g., will the benefit just reimburse legal expenses or also certain medical expenses related to the procedure or the pregnancy and delivery?);
- HSS and/or the participating employers should consider revising leave policies to make clear which, if any, paid leave benefits will be extended to the employee becoming a parent via surrogacy; and
- Surrogacy is not legal in all states.

California has been very favorable to surrogacy as noted in the cases of *Calvert v. Johnson* (1993) and *Buzzanca v. Buzzanca* (1998). Through these cases, California established and reinforced that intent governs in the determination of parentage in gestational surrogacy situations.

Note—Aon is not a law or tax firm and therefore cannot provide legal or tax advice. It is suggested that HSS obtain legal advice from the HSS legal counsel.

Health Service System City & County of San Francisco

Adoption Assistance White Paper

Overview

An adoption assistance program is a company-sponsored program that financially assists or reimburses employees for expenses related to the adoption of a child. Financial assistance may be reimbursement for specific costs or a set amount of money, regardless of actual expenses. In most cases benefits are paid after the adoption is finalized.

Market Data

There are a growing number of companies in this country that offer some kind of adoption benefits to their employees. In an Aon Hewitt survey of 1,000 employers, the number of companies offering financial adoption benefits has risen steadily, from only 12% in 1990 to 52% in 2013. In most employer paid benefits, it is a financial reimbursement model to cover IRS qualified adoption expenses.

A sample listing of California-based organizations that offer adoption benefits are as follows: Apple, Cisco, Google, and Oracle.

Plan Design Considerations

Most employers provide a lifetime or per child dollar limit for adoption services such as \$5,000. The benefit is available to any employee: males/females, singles/couples, same-sex partners or opposite-sex partners. The IRS defines qualified adoption expenses, defined in section 23(d)(1) of the Code, include:

- Reasonable and necessary adoption fees,
- Court costs and attorney fees,
- Traveling expenses (including amounts spent for meals and lodging while away from home), and
- Other expenses that are directly related to and for the principal purpose of the legal adoption of an eligible child.

An eligible child is an individual who is under the age of 18, or is physically or mentally incapable of self-care. Qualified adoption expenses **do not include** expenses that a taxpayer pays to adopt the child of the taxpayer's spouse, or children born through surrogacy agreements are ineligible.

In addition, employer adoption-assistance benefits cannot be used if the same expenses were used to claim a deduction or credit on a federal tax return.

Cost

Adoption costs for an individual varies and depends on a number of factors, such as type of adoption, the agency through which you work, the state in which you live, attorney fees, and whether or not travel is required. Foster care adoption can cost \$0 to \$2,500, while private or international adoption might cost \$7,000 to \$40,000 or more.

HSS will need to develop a policy outlining the eligibility, eligible expenses, payment process and appeal process. Further discussions are needed to identify the direct (reimbursement) and indirect (internal administration) costs of providing this benefit.

Health Service System City & County of San Francisco

Adoption Assistance White Paper

Legal and Tax Considerations

The IRS allows an adoption assistance program to be provided under a Section 125 / Cafeteria plan should an employer fulfill certain criteria, which includes the following:

- Written plan document under Section 125 plan
 - Define specific requirements and eligibility of the program
- Notify eligible employees about the program
- Require participating employees to show proof that funds were used for qualified adoption expenses.
- The program must benefit employees who qualify under the employer's rules, which cannot give preferential treatment to owners, highly paid employees, shareholders or the dependents of people in those groups. Subject to non-discrimination testing.
- Tax benefits for adoption include both a tax credit for qualified adoption expenses paid to adopt an eligible child and exclusion for employer-provided adoption assistance. The credit is nonrefundable, which means it is limited to the member's tax liability for the year.
- **Tax Treatment:** Exclude all payments or reimbursements made under an adoption assistance program for an employee's qualified adoption expenses from the employee's wages subject to federal income tax withholding.
 - However, you cannot exclude these payments from wages subject to social security, Medicare, and federal unemployment (FUTA) taxes.
- **W2 Reporting:** You must report all qualifying adoption expenses you paid or reimbursed under your adoption assistance program for each employee for the year in box 12 of the employee's Form W-2.

The employers under the HSS umbrella will also want to revisit their leave policies as it relates to adoption should this benefit be added.