UNDERSTANDING YOUR HEALTH PLAN OPTIONS

Alternate Funding: Captives

It has become increasingly important for employers to offer some form of an employee benefits package in order to attract and retain a strong workforce. Additionally, employers may want to protect their company from the risks associated with offering employee benefits.

While employers have traditionally insured their employee benefits risks through an outside insurance carrier, the increased demand for employee benefits has resulted in an inflation of costs associated with insuring employee benefits risks. Because of this, many employers have opted to cut out insurance carriers altogether and instead fund their group employee benefits risks with captives.

What is a Captive?

A captive is a health insurance pool formed by companies joining in together to reduce the cost of their medical spend. Successful member companies maintain good loss histories and effective cost containment strategies.

Advantages

A captive can offer significant savings and become a substantial long-term investment. By creating and owning its own captive, an employer is able to keep all of the savings and interest income it earns from the captive. This means that instead of spending money on insurance, an employer can actually earn money from its captive policy over time. This is particularly beneficial for large employers or companies that pay higher insurance premiums due to the large number of employees receiving benefits.

Disadvantages

Although captives may be a convenient and cost-effective alternative to traditional insurance for some employers, they may not provide the same benefits to every company. If an employer's insurance premiums and claims costs are already relatively low, a captive may not provide a significant return on investment. In addition, smaller companies may find that the cost of obtaining traditional employee benefits insurance is lower than the cost of creating and maintaining a captive.

When it comes to insuring employee benefits risks, there are many options and factors to consider. To find out more about whether captive insurance is right for you, contact us today.

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Level Funding

If you desire the freedom of a self-funded insurance plan but need a little more certainty for your budgeting concerns, level funding might be an option for you. Weigh the advantages and disadvantages and decide what's best for your company.

What is Level Funding?

Level funding is a form of self-funding, aiding employers in their health coverage budgeting efforts. With level funding, employers pay a set amount each month to a carrier. This amount typically includes the cost of administrative and other fees and the maximum amount of expected claims based on underwriting projections, as well as embedded stop-loss insurance.

The carrier facilitating the level funding will pay your employees' claims throughout the year. At the end of the year, if your payments exceeded claims, you will receive a refund from the excess you paid in monthly claim allotments. If the claims exceeded what you paid into the program, in most cases your stop-loss insurance will cover the overage amount.

Advantages of Level Funding

Level funding offers several advantages. Like other self-funded plans, you don't have to pay premiums that are based on community rates, which might be higher than your employee group's risk. Instead, you only pay the actual claims and an additional administrative fee.

Another benefit of level funding is that if all the money you set aside each month to cover claims is not used, you will receive a refund at the end of the year from the surplus, instead of paying expensive premiums for a fully insured plan and essentially using or losing that money. If you are already self-funded, then you will enjoy a more budget-friendly method of monthly claims payment, with stop-loss insurance to protect you from unexpected high costs.

Generally, the monetary advantages of level funding are that you are better able to manage your budget and prepare for claims costs. You will benefit from a smoother cash flow and not worrying that a high claim near the beginning of the year will impact your business.

Additionally, many level funding plans provide detailed reporting on utilization trends, giving you important information on where employees may be causing overspending (such as unnecessary use of emergency room visits instead of urgent care).

Another advantage of level funding is having fewer governmental regulations than fully insured plans are subject to. Check with your legal counsel about regulatory benefits specific to your state and business.

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Disadvantages of Level Funding

Although there are upsides to level funding, there are also some disadvantages. With level funding you're paying for the convenience of having equal payments throughout the year and the security of stop-loss coverage.

Another challenge of level funding to consider is the terms of the contract; make sure you understand how the contract will impact a business of your size—companies with smaller numbers of employees may benefit differently than those with larger numbers. Also, many level funding plans restrict their offerings to companies with a certain minimum or maximum number of employees, which may affect your ability to contract with your desired carrier.

Making Your Decision

Ultimately, if you want to operate a self-funded health plan, level funding is an option that must be considered in light of your company's cash flow, risk tolerance, employee numbers and preferred budgeting methods.

To learn more about Level Funding as an option for your business, contact us today.

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Level Funding Premium Surplus:

If your company's premium payments exceed claim payments, you can expect to receive a refund from the excess you paid in monthly claim allotments. This is called a return of premium surplus.

If you receive a premium surplus at the end of the contract year, AND you currently have your employees contribute to the cost of their insurance premiums, then you MUST spend the refund on the health and welfare of your employees. We are happy to advise you on the number of ways in which you may spend that money which will keep you in compliance.

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Self-Funded

All group medical benefit plans fall into one of two categories: self-funded or fully insured. The choice of one over the other should not be made arbitrarily. Each type carries its own set of administrative rules and legal constraints.

What is Self-Funding?

Under an insured health benefit plan, an insurance company assumes the financial and legal risk of loss in exchange for a fixed premium paid to the carrier by the employer. Employers with self-funded (or self-insured) plans retain the risk of paying for their employees' health care themselves, either from a trust or directly from corporate funds.

The risk assumed in either situation is the chance that employees will become ill and require costly treatment. When employees have few claims and few expensive illnesses, the self-funded employer realizes an immediate positive impact on overall health care costs. Conversely, if the employee group has unfavorable claims experience, a self-funded employer would incur an immediate expense beyond what may have been expected. Insured plans have a more predictable cost for the year; however, large employee claims costs from one year can affect future premium amounts.

ERISA versus State Regulation

Self-funded health plans are governed by the Employee Retirement Income Security Act of 1974 (ERISA). ERISA preempts state insurance regulations, meaning that employers with self-funded medical benefits are not required to comply with state insurance laws that apply to medical benefit plan administrators. On the other hand, insured plans must comply with some of ERISA's requirements, but are primarily governed by the state where covered employees reside.

The distinction between state and ERISA

regulations is important when determining if self-funding is right for your organization. Multi-state companies with insured health plans must comply with the regulations of each state in which they have plans and covered employees. Multi-state self-funded plans need only comply with ERISA.

Premium versus Unbundled Fees

The risk an insurance company takes with an insured plan can be translated into a dollar amount for the employer. That dollar amount is the premium an employer pays each month for the insured group medical benefits. The premium amount includes the following:

- Current and predicted claims cost
- Administrative fee
- Premium tax paid to the state
- Insurance company profit

Employers who self-fund their medical benefits do not pay the premium tax or insurance company profit. They do, however, assume the costs of paying for claims and administrative functions. Typically, employers with self-funded health plans will outsource plan administration to a third party administrator (TPA) or insurance company who charges the employer a fee for performing administrative services.

Stop-Loss Insurance

Employers with self-funded health plans typically carry stop-loss insurance to reduce the risk

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associated with large individual claims or high claims from the entire plan. The employer self-insures up to the stop-loss attachment point, which is the dollar amount above which the stop-loss carrier will reimburse claims. Stop-loss insurance comes in two forms: individual/specific stop-loss and aggregate stop-loss.

Individual/Specific Stop-Loss Insurance

This protects a self-funded employer against large individual health care claims. Essentially, it limits the amount that the employer must pay for each individual. For example, an employer with a specific stop-loss attachment point of $25,000 would be responsible for the first $25,000 in claims for each individual plan participant each year. The stop-loss carrier would pay any claims exceeding $25,000 in a calendar year for a particular participant.

Aggregate Stop-Loss Insurance

This protects the employer against high total claims for the health care plan. For example, aggregate stop-loss insurance with an attachment point of $500,000 would begin paying for claims after the plan's overall claims exceeded $500,000. Any amounts paid by a specific stop-loss policy for the same plan would not count toward the aggregate attachment point.

Nondiscrimination Rules

Nondiscrimination rules require employers to offer employee benefits that do not favor certain employees. Employers with insured plans do not have nondiscrimination rules for group medical benefits, provided they follow the policy requirements of the sponsoring insurance carrier. However, employers with self-funded plans are required to comply with nondiscrimination rules. Generally these requirements are not difficult to meet, but failure to comply can result in some employees having their benefits treated as taxable income.

Employers with either type of group medical plan are required to comply with certain reporting and disclosure requirements, usually by providing tax and other pertinent documents to the United States Department of Labor or to their particular state.

Typically self-funded plans are required to provide copies of plan communications such as summary plan descriptions (SPDs) and summary of material modifications if the plan language changes. Employers with insured plans that require employee contributions must file certain financial documents with the U.S. Internal Revenue Service (IRS). IRS filings are also required of self-funded plans, including Form 5500 and any accompanying documents.

To learn more about a self-funded plan as an option for your business, contact us today.

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Fully-Insured

Under an insured health benefit plan, an insurance company assumes the financial and legal risk of loss in exchange for a fixed premium paid to the carrier by the employer. Employers under 50 full-time and full-time equivalent employees are merged into one large risk pool and the insurance carriers pays claims accordingly. Whereas employers with more than 50 full-time and full-time equivalent employees are placed into a smaller risk pool, with their utilization playing a part in the annual increase in rates. The State's Insurance Department approves the rates requested by each carrier on May 1 of the previous calendar year (i.e. May 1, 2017 for rates in 2018). Employers pay a monthly premium, which is locked for a period of 12 months, regardless of anyone's health status.

Pros

- **Premiums do not fluctuate throughout the year**
- **Insurance is guaranteed**
- **Rates do not change based on the health of employees**

Cons

- **Rate increases can be on the higher side**
- **No plan flexibility or transparency**
- **You may NOT carve out state mandates**

Self-Insured/Level Funded/ Captives

Employers with self-funded (or self-insured) plans retain the risk of paying for their employees' health care themselves, either from a trust or directly from corporate funds. Employers purchase stop-loss insurance, network discounts, for both medical and pharmacy, and work with a third-party administrator to pay claims. When an employer is self-funded, they are responsible for claims up to a specific dollar amount and must pay those each month. If an employer is level funded, and there is not enough money in the claims fund, the employer borrows the excess amount from the stop-loss carrier and pays it back, through the claims fund, throughout the year.

Pros

- **Employer pays premiums based on the health of their employees only**
- **Flexibility of plan design and transparency**
- **Excess claims fund is returned to employer (40%-100%)**
- **Many state mandates may not be covered (insurance is governed by ERISA)**

Cons

- **Insurance is not guaranteed**
- **Many state mandates may not be covered**
- **If a highly utilized year, stop loss insurance premiums can increase substantially**

To learn more about a fully-insured plan as an option for your business, contact us today.

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PEOs: Professional Employer Organization

This type of arrangement is co-employment with you and the PEO. When hiring one of these organizations, the company and its employees become employees of the PEO, and the company delegates many of its HR responsibilities to the PEO. Though the company still officially hires its employees, the PEO handles payroll, benefits administration, workers' compensation, medical insurance and retirement accounts. Then, the company pays the PEO for its services (often a percentage of total salaries), along with an amount to cover the payroll for the employees. There are many PEO companies to choose from and each require employers to relinquish responsibilities a little differently, with one exception, they ALL require you to have payroll and HR services through their organizations.

Pros

- **Medical insurance can be quite a bit lower, if underwriting is approved**
- **When the PEO assumes its client's payroll into its own accounts, it also assumes the liability for clients' employees because it is technically now the legal employer**
- **PEO assumes the liability of adhering to the legal tax and workplace standards**

Cons

- **Regardless of when you enroll in a PEO's medical insurance plan, your plan will renew when their's does**
- **Since they are a payroll carrier, their payroll administration tends to be inflated**
- **In a highly medical utilized year, your rates can increase substantially**
- **You may leave the PEO and return to the market without co-employment, but you are left with extremely high payroll costs and must move to reduce those expenditures**
- **Benefits are mandated by the state the PEO is in**

To learn more about a PEO plan as an option for your business, contact us today.

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