





Level Funded Introduction & Compliance

MAHU Annual Conference
April 26, 2023

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Topics of conversation

- Current state of employee benefits
- Level funded plans and how they work
- When to talk to your clients about level funding
- Compliance and level funding
- How to leverage level funding in your renewal meetings
- Questions

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About me...

- 25 years industry experience - over 20 with Rogers Benefit Group
- Iron Ranger
- Passionate about working with small businesses
- Love to travel with my husband
- Sports fanatic - go Wild and Twins!




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Current State of Employee Benefits

- Average annual premiums for employer-sponsored health care in 2022¹
 - \$7,911 for single coverage
 - \$22,463 for family coverage
 - Family coverage has increased 20% over last 5 years and 43% over last 10 years
- Potential to see a higher increases for 2023 and beyond due to inflation
- Consistent rise in specialty medication drug spend
- “Small businesses still struggle to offer health insurance”
 - National Observer headline on April 10, 2023
 - 56% of small business owners surveyed said they offered health insurance²

¹ Kaiser Family Foundation 2022 Annual Employer Health Benefits Survey
² National Observer: According to a survey by the National Federation of Independent Business



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Current State of Employee Benefits

- Current levers at renewal
 - Reducing benefits
 - Shifting cost to employees
- Employers need to offer benefits to attract and retain employees
- Thirty-eight percent of small firms offering health benefits report that they have a level funded plan, similar to the percentage in 2021 but much higher than preceding years¹

¹ Kaiser Family Foundation 2022 Annual Employer Health Benefits Survey, Small firms defined as 3-199




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Why look at level funding

- Consulting for your clients to show available options in the market
- Affordability - for the right client with low risk
 - Reduction in health care premium
 - Potential to increase benefits in plan design
- Long term strategy: Incorporate risk management and wellness solutions
- Predictable, monthly payments with low risk for the employer



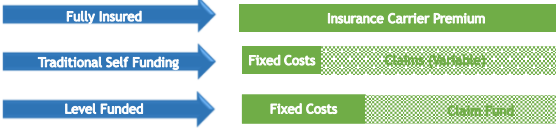
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What is a Level Funded Health Plan

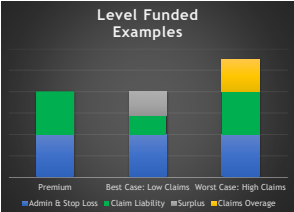
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Health Insurance: Funding Options




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Level-Funding Program Mechanics



- Underlying health plan for employees
- Each group is individually underwritten
- Components of premium
 - Fixed fees: Administrative fees and Stop loss premium
 - Claim fund/max liability
- Predictable, monthly cost
- At the end of the year:
 - Low claims: opportunity for refund if claims fund/liability is not exhausted
 - High claims: overage is the responsibility of the stop loss carrier




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Level Funded Definitions

Stop Loss Coverage: Specific, Aggregate, & Contract Period



- **Specific stop loss deductible**
 - Protects the employer against higher than expected claims incurred on an *individual* basis
 - Most common range: \$20,000 - \$50,000
- **Aggregate attachment point/corridor (aka: max liability)**
 - Protects the employer against higher than expected claims incurred by the group as a whole
 - Most common range: 110% - 125% of expected claims
- **Contract Period**
 - Defines claim payment timeframe by Incurred and Paid
 - Examples: 12/18, 12/60, 12/12 with Terminal Liability Coverage




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Level Funded Stop Loss Contract Features

- Monthly Accommodation
- Incurred but not reported (IBNR)
- Surplus potential
- No deficit carry-forward
- Carrier / TPA reporting is generally available

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When to talk to your clients about level funding

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Eligibility for level funded plans



- Group Size
- Participation
- Industry / SIC code: non-ERISA groups won't qualify with most carriers
- Overall health of the group: ask your client if they are aware of any high risk or pending health conditions. If no, they should consider a level funded plan.
 - High Risk Conditions - Examples:
 - Cancer, Chronic Kidney Disease, Dialysis, Hepatitis C and AIDS
 - Diabetes or pregnancy: although not an issue on their own, certain situations could cause increase overall risk



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Level Funded Underwriting Methods

- Health Statements
- Census Underwriting
- Claims Experience (if currently level funded)

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Level Funded Case

- Blue collar group - Year 1
 - 31 employees, 42 members
 - Current and renewal fully insured plan HSA \$3,000 - 100% plan
 - Level Funded base quote and underwritten quote HSA \$2,850 - 100%

	Current Fully Insured	Renewal Fully Insured	Base Quote Level Funded	Underwritten Quote Level Funded
Annual Premium	\$259,386	\$263,156	\$178,078	\$195,109
Percentage Change from Current		1.5%	-31.3%	-24.8%

- Level Funded renewal - 9.3% increase; Negotiated to 4%
- Contract Reconciliation after 105 days - \$12,800 Surplus Refund

Total First Year Annual Savings of \$77,077

*Actual premium savings and renewal will vary based on the group's demographics, risk, and actual claims. The surplus will vary based on the end of your monthly claims funding payments compared with the actual claims costs for the year and how often you've retained your plan (you receive a surplus if you receive your savings). (values shown by case file)


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Compliance and Level Funded Plans

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Compliance Considerations


- Level funded plans are categorized as self-funded plans
 - They are designed to resemble a fully insured plan, however they must comply with all requirements that apply to self-funded plans
- ACA Reporting
 - 1094B / 1095B - small employer
 - 1094C / 1095C - ALE's
 - Must be delivered to plan participants no later than January 31st for the previous calendar year
 - IRS filing by February 28th, or March 31st if filing electronically
- PCORI
 - Due by July 31st for the plan year that ended the previous calendar year
- Form 5500 - most small employers qualify for an exemption



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Compliance Considerations (continued)

- ERISA preemption
 - State continuation does not apply
 - State mandates do not apply
- HIPAA Privacy & Security
 - Self-funded employers are subject to the Privacy Rule as a Covered Entity
 - Covered Entities must have a Notice of Privacy Practices and provide the Notice to employees and new enrollees
 - As a practical matter, most small employers do not come in contact with PHI
- NY Health Care Reform Act (HCRA) - enrollment with the carrier/TPA avoids the surcharge and penalties (in the state of New York)
- Transparency in Coverage (TIC): Self-insured employers must make the necessary files publicly available. If the employer's carrier/TPA does not post the files, the employer/plan sponsor is liable.



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Year End Surplus Refund

- If employees made contributions towards the health plan, a portion of the year end refund may be considered a health plan asset under ERISA.
- Since there are taxability issues, consult with an accountant or CPA for specific recommendations. Plan assets must be used exclusively for benefit of plan participants.
 - Applied as a future payment
 - Cash refund
 - Premium holiday
 - Paying for enhanced benefits



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Leveraging Level Funding with your clients

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What makes a client a good candidate



- Overall good health of the company's employees
- Demographics
- Participation
- ERISA groups
- Type of industry and turnover rate

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Advantages & Disadvantages

Advantages	Disadvantages
Low-risk groups benefit from lower premiums	Not all groups will be eligible based on their risk
Exemption from many premium taxes, state health mandates, and certain ACA related fees	Compliance - potentially
Directly benefit from favorable claims experience	Companies not subject to ERISA may not be eligible
Composite Rating	Composite Rating
Small groups can pivot back to the fully insured ACA market	Understanding contracts

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How to leverage level funding

- Sell yourself as their consultant by bringing creative solutions to them
 - Sell the concept and the long-term value, not only the price
 - Introduce risk management tools for long-term strategy
- Educate and set expectations correctly
- Not every employer will qualify - keep other options open
- Win new clients with prospecting and referrals from existing clients
- You determine the compensation - standard range is \$30-\$35 PEPM



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Comments \ Questions / Discussion



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