FEATURE

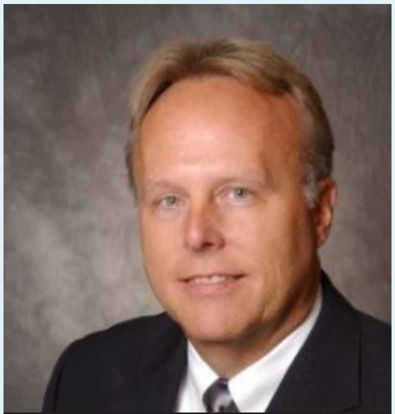
A Level-Headed Approach

Level funding catches fire as bridge from fully insured plans to more adventurous self-insurance

Written By Bruce Shutan

Often described as self-insurance with training wheels, level-funded programs that enable smaller employers to reap the same benefits of greater cost control as their larger counterparts are clearly on the rise.

Kaiser Family Foundation research shows that the arrangements soared to 42% last year for covered employees in companies with between 3 to 199 lives from just 13% in 2020 and 7% in 2019. Industry observers say the number reflects growing dissatisfaction with the fully insured market from businesses that are nervous about the risk-taking associated with self-insurance and seeking more affordable stop-loss coverage.



Tom Sass

“Level funding certainly gets you on the self-funded track, but it gives you a lot of protection as if you were fully-insured,”

says Tom Sass, vice president of business development at Gravie.

Although the level-funding concept has been around for quite some time, he notes that the small group market really began embracing it over the past five years. What's intriguing about the recent spike in level funding is that Sass notes the percentage of employees covered by self-funded plans dropped slightly to 64% from 67%.

Between the importance of cost predictability and risk aversion, level funding represents a bridge from fully-insured to self-insured health plans, explains Jon Harts, EVP of business development at Ringmaster Technologies, Inc.

To help ease this transition, Ringmaster helps expedite reimbursements for level-funded and traditional self-funded programs by removing the cycle time between when a claim hits and that stop-loss carrier has enough information to reimburse the policy.

While fully-insured monthly premiums are fixed and predictable, the sponsors of those plans don't really know what they're paying for because there isn't transparency in the data, Harts points out.

Jon Harts

Level funding is an appealing alternative, he says, in that they can maintain fixed and predictable costs while also benefiting from the different mechanisms that self-insurance offers, lower admin fees and a reduced monthly liability.

Then as they become more comfortable understanding their plan's utilization through data and have enough cash flow, Harts notes that they can move from the

“predictable monthly run rate of funding their claims to a variable rate with traditional self-funding to where they still have the assurance of stop-loss for any large claims.”

For smaller fully insured employers that are contemplating a switch, the problem is that they don't have enough credible data from the carrier – meaning, as Harts says, “that the reinsurer doesn't have a way to assess the risk of the group.”

But in recent years, he adds that “underwriters are starting to embrace alternate rating methods to where they can use a specific MSA, look at the average claims costs within that MSA, and use some of the standard rating mechanisms – age sex, income – to assess if it's the right kind and would level-funded or traditional self-funded be more advantageous to a fully-insured employer.”

Since passage of the Affordable Care Act, self-funded business where the maximum employer claim liability is funded each month has been coined as level-funded, explains Vicki Schmelzer, president of Strategic Underwriting Solutions, an Amwins Company. And she says “it's being marketed as an alternate funding mechanism for employer accident and health plans and it's usually a multi-year sale.”

Vicki Schmelzer

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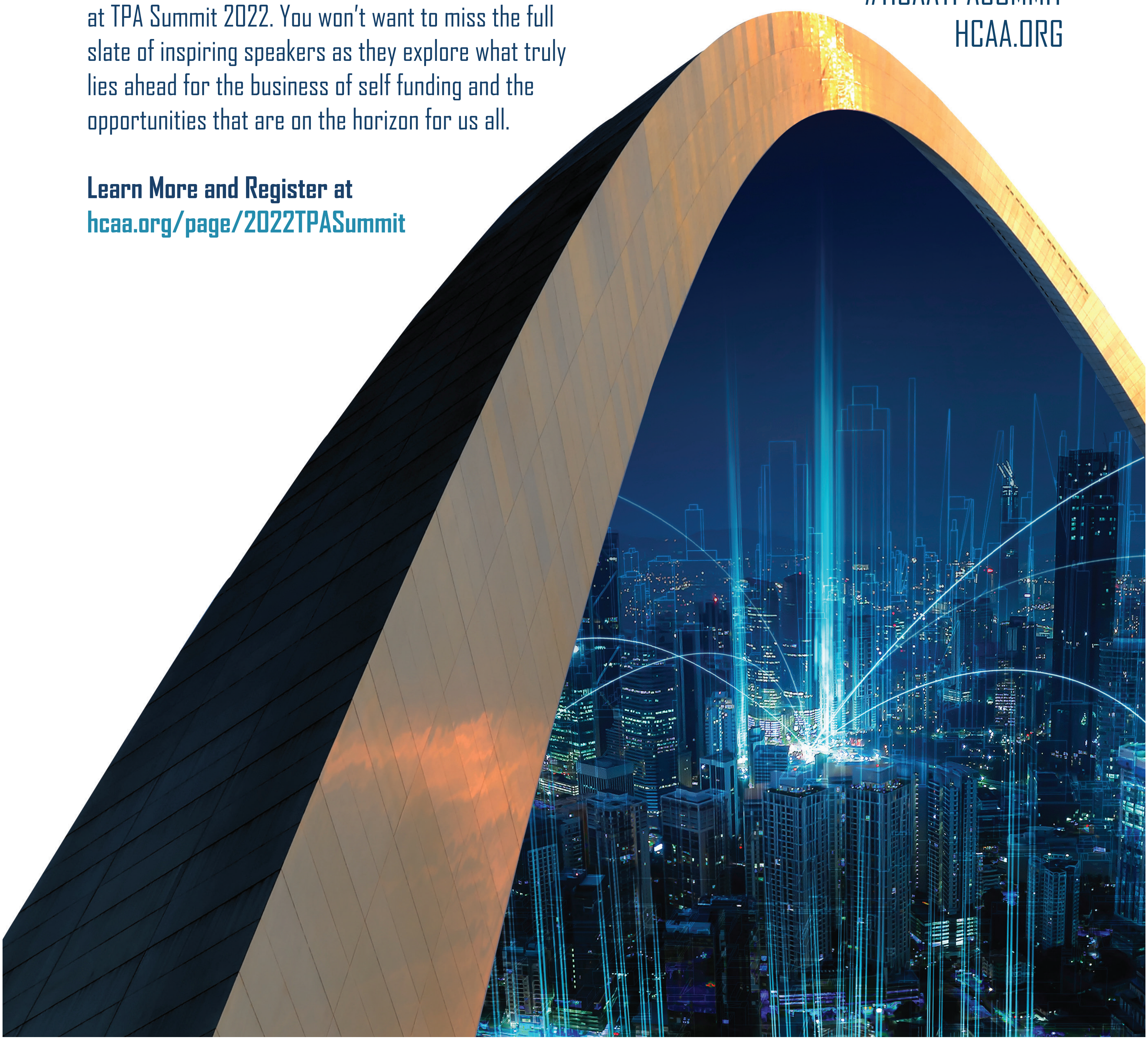


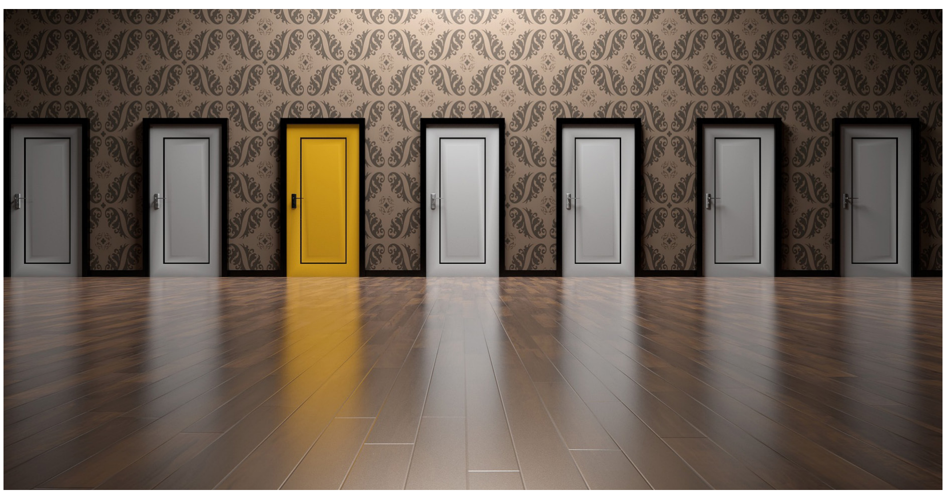
BEWARE OF MISCOMMUNICATION

A key challenge with level funding is that "interpreting it as anything other than self-funding may mislead employers,"

cautions John Youngs, CEO of Prodigy Health Insurance.

That's because employers fully fund to their plan maximum and may be shocked if additional funding is required while waiting for some form of policy advance reimbursement, he says. This assumes that the stop loss includes specific and aggregate advancement provisions.

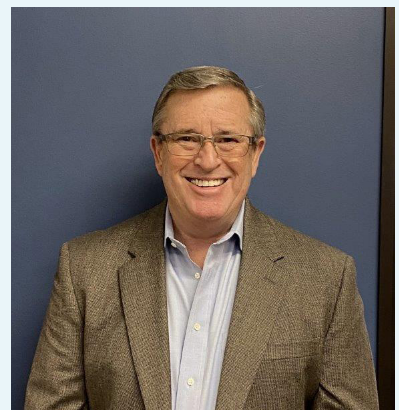
He's also concerned about the extent to which the concept is being properly communicated. In the smaller market, for instance, some are selling it as the same a fully-insured plan except that there could be money left over at the end of the year. "I've heard it explained that simply by brokers, which is a terrible injustice to the product itself," he opines, noting how those who focus on below 50 or 75 lives are accustomed to selling BUCAH policies. Left out of the conversation is the fact that the employer really is the risk taker and stop-loss is their backstop.



Larger groups in the 100-plus lives market may pursue the traditional self-insurance route under the guidance of an agent who's well-versed in self-insurance and stop loss, Schmelzer notes. She says agents usually introduce clients that may be a good fit with alternate quotes to level-funded programs a few years before an actual transition.

Mindful of how self-insured programs evolve, level funding is a great carrot to lure fully insured employers to self-insurance, and in the process, be schooled on the important elements of ERISA and how self-funded health plans operate, according to Youngs, who has seen these programs offered to groups between 10 and 400 lives.

What typically would happen on smaller-size transition groups is that the TPA or broker may help their client buy down a lower annual deductible the first year to, say, $25,000 to $35,000, he explains. Then once there's a better understanding of medical risk management, drug utilization and managing disease states, he says the deductible may rise to $50,000 or $60,000 after year two of the plan, driving down premiums and increasing margin left in the claim fund at the end of the year.



John Youngs

In some cases, the level-funded plan may require that the employer maintain a balance equivalent to the average of one or two months claim cost sit in the claim account. "This ensures the ability to fund a specific claim, should the group you have one," Youngs says. "Otherwise, the employer waits for the specific advance or reimbursement on the specific coverage. This reserve provides the employer with a stabilization, which means they're not having to fund unexpected amounts every month based on the volatility."

Most TPAs do a great job of helping employers manage risk below their specific deductible, he observes, while the stop-loss carrier puts in place elements to help soften the financial impact for anything above that amount, and money will be advanced while claims are processed.

The same thinking applies with aggregate coverage.

"We include what's known as aggregate accommodation, which is essentially operating like a line of credit against the policy," he explains.

For example, an employer with a $500,000 attachment point and $600,000 of claims below the specific deductible would essentially be advanced $100,000 year-to-date to help cover the volatility of their over-utilization.

A major selling point of level-funded plans is the cost certainty they bring month in and month out, which Sass says gets employers comfortable with shouldering the volatility to which they could be exposed. Another, of course, is the ability to share a percentage of any surplus. They also get the flexibility of plan design, reporting and everything that comes with managing their own plan.

Many smaller employers do not receive claims experience data from the carrier so they lack details on how the plan has run historically, Sass explains. But once they acquire enough data, strengthen their balance sheet and develop greater risk tolerance, then he says it may make sense to increase risk toward self-funding.

THE POWER OF CASH FLOW

Financial standing will dictate the direction of these programs. Schmelzer describes the cash-flow riders that stop-loss carriers offer to limit the monthly exposure during a self-funded plan year as "one of the primary benefits and differences between traditional and level-funded markets."

Cash flow will help to absorb the year-round volatility of health insurance

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claims, which employers will be liable for until they're reimbursed from a stop-loss carrier. However, Sass has noticed a rightful concern across the industry about some employers not being able to manage a self-funded account and work within the confines of reimbursement structures on both the spec and ag year-end.

Fully insured employers that decide to take the plunge can receive the same individual claim protection, irrespective of whether it's level-funded or a tradition self-insured contract, according to Sass. Self-funded employers still have that same fixed cost every month wherein they're paying stop-loss premiums for ag and spec.

"So, from a fixed-cost perspective, they're very similar in the sense of paying that stop-loss premium and administrative cost," he adds.

"Where it varies is in how you handle the variable costs, and that's your claims… The big difference is you get much better protection around utilization and volatility on the aggregate side in that you're writing a certain check per month."

Gravie's level-funded book of business features a unique plan design that eliminates deductibles and copays on many services. It also was put in place to keep health plan members from deferring important treatment because of financial difficulties.

Given how this plan design removes financial barriers to receiving important care, Sass says it allows small and midsize employers to offer a health benefit that will help attract and retain talent.

Having been on the reinsurance intermediary side at Aon, he has seen reinsurers become anxious about backing level-funded programs unless they have an experienced team that's familiar with underwriting these programs. "It takes a special skillset for a carrier, and you have to be committed to get into the level-funded marketplace," Sass says, "because it prices a bit different than pure self-funding."

CONCERN ABOUT UNDISCLOSED FUNDS

Youngs believes level-funded plans will continue to grow very quickly, noting that his company is expecting 20,000 employee lives in the next 24 months to be covered a new plan it has launched. "That's a dramatic increase for us in our block of business," he says.

Referencing his background in compliance and underwriting for fully insured health plans, Youngs is highly skeptical of the administrative-services-only model and other arrangements for level funding. He has seen BUCAH carriers marking up the PPO network, case management and admin fees, as well as sharing in Rx rebates. Additionally, he continues to see TPAs and brokers receiving a share of undisclosed funds in the form of revenue sharing from vendors.

"The reason I have heartburn with all this is the client doesn't know," he explains.

"The client is the plan sponsor, and therefore, has a fiduciary responsibility to know where the money is being spent."

An even larger concern of his is that most self-funded health plans, are paying ERISA plan expenses from the sponsoring employer's general fund. "We don't see them segregating the funds," he says. "What we see in many cases, quite frankly on the self-funded health plan, is it's all ERISA plan assets comingled in the general operating account." At some point, he believes a continuation of these abusive practices will unleash a string of audits and penalties from insurers and regulators.

Bruce Shutan is a Portland, Oregon-based freelance writer who has closely covered the employee benefits industry.for more than 30 years.