The Sweet Spot

How small groups can ease into self-funding with a level funded approach

Self-funding is a funding mechanism long used for health benefits, particularly in the large group market with 100-plus members. The Affordable Care Act (ACA), however, is creating a sweet spot for smaller groups who can use level funded self-funding plans to save money and gain control over costs.

“The level funded approach to selffunding is right in the middle of the insurance spectrum. It’s a stepping-stone or hybrid between fully insured and selffunded,” says Abbe Mitze, account executive II at HealthLink. “There are a lot of protections in place that make it feel, look and act just like a fully insured plan, but the platform is self-funded, which brings its own advantages.”

How is the ACA affecting small groups?

The ACA will be implementing communityrated underwriting for all fully insured small groups in 2016. (Originally slated to start in 2014, transitional relief delayed the effect for the majority of small groups.) A small group currently consists of two to 50 members, but that expands all the way up to 99 by 2016.

With community rating, only age and tobacco use factor into premium rates. That means gender, the health of an employer group and its claims experience and SIC code will no longer be considered in health insurance underwriting.

In addition, the age rating band will be tightened. Health carriers can charge up to seven times more for an older participant; under the ACA it’s only three times more. In fact, the total rating band ranges from four to 14.42. With the community underwriting method, the range will be one to 4.5.

Along with mandated essential benefits, this new underwriting will increase costs. By moving to a community-rated plan, small group employers could see premiums go up 20 to 30 percent.

What is a level funded self-funded approach?

Typically, with self-funding, when employees have claims, the employer group is responsible for funding and paying for those claims each week, with stop-loss insurance to help cover catastrophic or higher claims.

In a level funded or max funded approach, an employer group pays a monthly premium to a third-party administrator (TPA), just like it would pay a health carrier. The TPA handles the administration, which allows the employer to focus on running the business. And if the group has a good medical loss ratio, a surplus could be refunded.

How does level funded self-funding negate community rating?

With a level funded self-funded plan, you wouldn't have to follow community rating. The TPA can use health as a factor in underwriting, which can result in a favorable premium if your employees are a young, healthy group with great claims experience.

Are there other benefits to this approach?

An employer can avoid some ACA taxes, such as the annual reinsurance fee tax, which is 2.3 percent each year. But keep in mind that even though the plan is self-funded, it still must comply with majority of the ACA.

You also have more transparency. With detailed information on claims utilization and experience from both the TPA and health care network, you can better manage costs through the plan and network design.

If you're able to actualize savings by moving to a level funded approach, you also can implement ancillary programs like dental, vision or disability to attract employees.

If an employer is considering a level funded approach, how should it proceed?

The first step is to talk to your trusted health insurance adviser, broker or agent. Only some TPAs offer these plans. The basic mechanics are the same, but each TPA brings different components. For example, one TPA has a strong philosophy about chronic conditions, where they pay 100 percent for the routine care to manage 27 chronic diseases. You'll need to shop around to find the TPA that fits with your thinking.

You also want to closely examine the contract. For example, you want to ensure the contract provides time for claims to be processed and paid. With some contracts, a Dec. 31 claim has to be paid on Dec. 31.