

# QUESTIONS & ANSWERS ABOUT LEVEL-FUNDED HEALTH PLANS



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ALTERNATIVE FUNDING  
AN ALERA GROUP COMPANY



## WHAT IS LEVEL-FUNDING?

Level-Funding is a type of self-funded health benefit plan that looks fully insured but is regulated under Federal (ERISA) law and not by State Insurance laws and regulations. It is most attractive (and appropriate) for Employers with 10 to 150 employees. There are many Level-Funded plans available in the California market – offered by major insurers as well as third-party administrators.

## WHAT ARE THE BENEFITS OF A LEVEL-FUNDED PLAN?

While the employer still pays the insurer (or administrator) a fixed monthly premium which provides a guaranteed maximum cost, the employer can receive a refund of claim surplus dollars which do not exceed a guaranteed annual amount. Another benefit is that the employer can either duplicate their existing or customize their plan design based on employer and employee needs. Additionally, the employer receives 'loss runs' (claim reports) from the Level-Funded administrator – something that is rare in traditional fully insured plans.

## WHAT ARE THE COST-COMPONENTS OF LEVEL-FUNDING?

About 20% of each Level-Funded dollar is allocated to the cost of Plan Administration (includes ASO/TPA fee, Broker Commission/Fee, Provider Network Fees); About 40% allocated to the cost of Stop Loss Insurance Premium (Specific, Aggregate), and about 40% to the cost of Incurred/Paid Claims (limited to the annual aggregate 'attachment point'). *If paid claims are lower than the 'attachment point' the employer receives all or part of a "surplus claim refund".*



## WHAT DOES STOP LOSS INSURANCE DO?

Stop Loss Insurance protects the employer's Level-Funded plan from catastrophic and/or overall medical claim risk. There are two types of stop loss insurance in the typical Level-Funded plan: Specific Stop Loss which limits the Plan's catastrophic claims liability to a specific annual maximum per person (deductible ranges from \$10,000 to \$100,000 per person), and Aggregate Stop Loss which limits the overall total paid claims of the Plan to a pre-determined amount each year (the 'aggregate attachment point' which is set between 110% and 150% of projected paid claims). *Most Level-Funded plans include both specific and aggregate stop loss.*



## WHO ADMINISTERS A LEVEL-FUNDED PLAN?

The administration of the Level-Funded plan is usually handled by either an insurance company (referred to as an "Administrative Services Only" arrangement) or by a licensed-bonded "Third Party Administrator" (or TPA) who is independent of the stop loss insurer. Both entities must be licensed and approved by State insurance regulators and charge a fee for their services which is built into the Level-Funded rates.

## WHAT SERVICES SHOULD BE PROVIDED BY THE LEVEL-FUNDED ADMINISTRATOR?

Claim processing, claim utilization report, provider contracting, stop loss insurance claim reports, Plan documents and some predictive modeling. An administrative services agreement should be executed and should stipulate standards for claims turn-around time, claims error ratio, customer response times, provider relations expectations and subject to overall performance audits.

## WHAT IS A KEY ISSUE TO CONSIDER?

A key issue in a Level-Funded plan is that of underwriting the group to set an Aggregate Stop Loss 'attachment point'. The stop loss insurer attempts to estimate what the annual paid claims will be and then sets the Aggregate Stop Loss 'attachment point' at a competitive level. Underwriting can take various forms:

- A. Review of the groups prior paid claims including large claim history
- B. Review of the groups prior paid premium and rate history
- C. Review of current and historical prescription drug utilization of those enrolling for coverage
- D. Review of individual credit and/or health reports from public databases
- E. Review of individual health statements (paper, online, telephonic) of those enrolling for coverage

## WHAT ARE SOME OF THE OBSTACLES TO LEVEL-FUNDING?

Some states have enacted laws that dictate minimum stop loss insurance levels which may expose small employers to more risk than they are willing to take. For example, in California, the minimum Specific Stop Loss deductible that can be sold to a "small employer" is \$40,000 per person and the minimum Aggregate Stop Loss deductible is \$5,000 per person.

## WHAT SERVICES SHOULD AN ADVISOR EXPECT TO PROVIDE A LEVEL-FUNDED CLIENT?

An advisor should provide an analysis and recommendations pertaining to the Administrative Services Agreement, Stop Loss Insurance policies, Plan Documents, Claim Analytic Reports, and any service vendor agreements. The advisor should partner with legal, compliance and actuarial service providers. And, the advisor should make sure that their professional liability insurance policy includes coverage for the sale and service of self-funded plans and stop loss insurance

ALTERNATIVE FUNDING COMPARISON/CONSIDERATIONS			
Consideration:	FULLY INSURED	LEVEL-FUNDED	SELF-FUNDED
Available Through	All Approved Carriers	Limited Carriers & TPAs	Limited Carriers & TPAs
Stop Loss Insurance	Not Needed	Included* *(Specific, Aggregate, Both)	Optional* *(Specific, Aggregate, Both)
Administrative Services	Included	Included* *(ASO or TPA)	Included* *(ASO or TPA)
Plan Design Flexibility	Off-the-shelf	Off-the-shelf or Customized	Customized
Consumer Directed or Account Based Plans	Yes	Yes	Yes
Refund of Claim Surplus	Not Applicable	Yes	No* *(pay as you go)
Guaranteed Cost	Yes	Yes	No
Use of Provider Networks	Yes	Yes	Yes
Use of Reference Based Pricing	No	Yes	Yes
Claims Analytics Needs	Not Applicable	Yes	Yes
Actuarial Service Needs	No	No	Yes
Advisor Compensation	Commission or PEPM	Commission or PEPM	PEPM



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