



Outlined below are common misconceptions regarding level funding versus captive arrangements and traditional health insurer offerings:

1. Fixed costs may be too high

Generally speaking, the fewer enrolled employees a group has, the higher their fixed costs are, whether the group is level-funded, traditionally self-funded, within a captive, etc. Furthermore, health plans offered by traditional insurance carriers like Blue Cross, Aetna, United Healthcare, or Cigna tend to have higher fixed costs, *while health plans offered by privately held third-party administrators tend to have lower fixed costs.* Captives may argue that they offer slightly less expensive stop-loss premiums, but the trade-off is that employers need to put up collateral (often equal to about 15% of projected first-year costs) just to get into the captive; furthermore, captives pool their stop-loss, which is potentially beneficial to less desirable risk, (unhealthy companies), though detrimental to more desirable risk (healthier companies).

2. Offer minimal credit back to employers

Level-funded health plans offered by traditional insurance carriers like Blue Cross, Aetna, United Healthcare, or Cigna tend to retain a portion of the claim surplus when clients renew; however, they usually retain 100% of the surplus in the event of termination. *Level-funded health plans offered by privately held third-party administrators usually provide a refund of 100% of the unused claim surplus to the employer, whether the client renews or terminates their relationship with the third-party administrator.*

3. Offer limited plan design flexibility or control over other service providers

Level-funded health plans offered by traditional insurance carriers like Blue Cross, Aetna, United Healthcare, or Cigna tend to restrict employers to certain plan designs and only allow the employer to use the ancillary service providers associated with that insurance company. *Level-funded health plans offered by privately held third-party administrators tend to offer complete plan design flexibility and customization coupled with the ability to utilize any outside vendors the employer would like to hire.*

4. Employer assumes the risk of monthly / annual claim variance / volatility

By definition, a level-funded health plan is a partially self-funded health plan that removes the claim volatility typically associated with traditional self-funding. This is accomplished through the inclusion of two types of stop-loss insurance: specific stop-loss and aggregate stop-loss. Most level-funded health plans require the employer to pay the maximum annual costs that are possible (as defined by the protections offered by the stop-loss insurance). These maximum annual costs are broken down into monthly payments and further broken down into traditional four-tier premium equivalent rates for purposes of building appropriate employee contribution strategies. Each monthly payment is composed of stop-loss premium, administrative fees, and claims (based on the stop-loss projections). At the end of the contract term, if there is any claim money left over, the surpluses are awarded back to the employer. If actual paid claims exceed the projections made by the stop-loss carrier, those excess claims are paid by the stop-loss carrier, not the employer.

5. Costs to exit or renew can be expensive

Some level-funded health plans offered by the traditional insurance companies like Blue Cross, Aetna, United Healthcare, or Cigna do not include the cost of termination administrative fees or stop-loss premium within their level-funded costs, although most do. As mentioned above, most of these plans will also retain 100% of any unused claim surplus in the event of termination. *Most level-funded plans offered by privately held third-party administrators do not charge any termination fees or retain any of the claims surplus, even in the event of termination.*

Bottom Line

Level-funded health plans offered by the traditional insurance carriers have distinct disadvantages versus level-funded health plans offered by privately held third-party administrators.

A properly designed level-funded health plan offered by a flexible, privately held third-party administrator can be a very effective way for healthier employers to reduce healthcare costs versus the traditional fully-insured market, self-funded market, or captive marketplace.



WellNet
HEALTHCARE

Questions? Comments? Call or email us today.
800-808-4014
info@wellnet.com
www.wellnet.com