

As the expenses associated with providing employee health benefits continue to weigh on the minds of employers, many look to gain more control of their options and costs. This often leads to the consideration of self-funding for their benefits plans. However, smaller, less well capitalized groups may not feel as comfortable as larger employers directly making the move from a fully insured program to a self-funded plan. That's where level funding comes in as a potential alternative.

What Is Level Funding?

Level funding is a method of financing employee health coverage that, generally speaking, combines the customization and autonomy of self-funding with the predictability and financial security associated with a fully insured plan. Level funded programs are offered through insurance providers and/or administrators who set a payment structure that acts as a funding mechanism for the plan, providing a little more stability as the employer gains confidence in taking on more of the financial risk related to the health benefits plan. That risk is protected further by Stop Loss insurance that kicks in if claims expenses exceed a predetermined amount.

How Does Level Funding Work?

Not all level funded programs work in the same way. It is important for employers considering this option to consult with their brokers regarding the specifics of the plan being offered before making a decision.

However, typically with a level funded plan, each month employers set aside funds – based on underwriting projections – up to the Stop Loss insurance limits (also known as the max liability) to cover their claims expenses. They also pay a fixed amount for administrative fees and for the Stop Loss insurance that is embedded into the plan design should any catastrophic claims arise. At the end of the plan year, if the claims expenses are less than the funded amount, the excess funding is returned to the group (less a deferred admin fee). If claims exceed the funded amount, the Stop Loss coverage is utilized to help protect the employer's bottom line.

Again, it is important for employers to be fully informed about what is entailed in the specific program being offered to them, along with how any potential "savings" would be calculated before making a decision.

What Are the Benefits of Level Funding?

Level funded plans can provide smaller employers with consistency as they gain more control of their coverage. Level funding can help to alleviate the volatility of the cash-flow issues that can be found with traditional self-funded plans due to the inconsistency of paying claims as they arise. Though governed by the Employee Retirement Income Security Act (ERISA)*, level funded plans also have a reduced number of regulations associated with their use compared to fully insured plans, and they help to provide the potential for cost savings if claims expenses are lower than anticipated as determined by the plan details.

What Are the Disadvantages of Level Funding?

Though employers who choose to implement a level funded plan often do so to have more certainty in their budgeting efforts, they are still obligated to pay claims as they come, so they must be prepared with the funding to do so. And, gaps in coverage can arise if the right provisions are not in place in the structure of the plan. There also are administrative fees involved in level funding that have the potential to cut into the savings that might be achieved through a traditional self-funded plan that is managed in-house or through a third-party administrator. Additionally, there may be restrictions to plan design based on the size of the employee population. Companies with fewer employees may have different offerings than those with more, and some carriers may restrict level funding programs to companies with a certain minimum or maximum number of employees.

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Is Level Funding the Right Choice?

If a group is looking to transition from a fully insured plan to a self-funded program and is concerned about cash flow, budgeting issues, risk tolerance or the general size of the group as it relates to being able to effectively self-fund, level funding may provide a solution that helps to address those concerns. However, employers considering this option should work with their employee benefits broker or consultant to determine the right program for their group and, to help prevent surprises, ensure the plan is protected with Stop Loss insurance provided through a carrier that is experienced with level funding.

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*ERISA is a law that governs how companies can behave in administering health and retirement plans offered to employees.

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