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The Pros & Cons of Level Funding

If you desire the freedom of a self-funded insurance plan but need a little more certainty for your budgeting concerns, level funding might be an option for you. In this installation of CenterStage, Jeff Neal, one of our expert partners and a Senior Benefits Consultant at JA Benefits, has weighed the advantages and disadvantages of level funding to help you decide what's best for your company.



What is Level Funding?

Level funding is a health plan financing option that can aid employers in their health coverage budgeting efforts. With level funding, employers pay a set amount each month to a carrier. This amount typically includes the cost of administrative services, stop-loss insurance, other fees and the maximum amount of expected claims based on underwriting projections. The carrier facilitating the level funding will pay your groups claims throughout the year. At the end of the year, if your payments exceeded claims, you will receive a refund from the excess you paid in monthly claim allotments. If the claims exceeded what you paid into the program, in most cases your stop-loss insurance will cover the overage amount.

Level funding is an option that can add predictability back into the equation if your company decides to implement a partially "self-funded" plan.

Know Your Options:

◆ Fully Insured ◆ **Level Funded** ◆ Partially Self-Funded ◆ Fully Self-Funded ◆

Advantages of Level Funding vs Fully Insured Plans

Level funding offers several advantages to fully insured programs:

- You don't have to pay premiums that are based on community rates, which might be higher than your employee group's risk. Instead, you only pay the actual claims and an additional administrative fee.

- If all the money you set aside each month to cover claims is not used, you will receive a refund at the end of the year from the surplus, instead of paying expensive premiums for a fully insured plan and essentially using or losing that money.
- Generally, the monetary advantages of level funding are that you are better able to manage your budget and prepare for claims costs. You will benefit from a smoother cash flow and not be worrying that a high claim near the beginning of the year will impact your business.
- Additionally, many level funding plans provide detailed reporting on utilization trends, giving you important information on where employees may be causing overspending (such as unnecessary use of emergency room visits instead of urgent care).
- Another advantage of level funding is possibly having fewer governmental regulations than fully insured plans are subject to.

Possible Disadvantages of Level Funding

Although there are upsides to level funding, there are also some disadvantages.

- Level funding, as a type of partially self-funding, can be more expensive than other healthcare financing methods.
- Additionally, you still must pay the claims. With level funding, you're paying for the convenience of having equal payments throughout the year and the security of stop-loss coverage.
- Another challenge of level funding to consider is the terms of the contract; make sure you understand how the contract will impact a business of your size—companies with smaller numbers of employees may benefit differently than those with larger numbers.
- Also, be sure to understand the termination provisions of your contract. Some contracts include coverage for run-out claims and some require funding from the client should you decide this type of contract is not right for you.
- Many level funding plans restrict their offerings to companies with a certain minimum or maximum number of employees, which may affect your ability to contract with your desired carrier.

Making Your Decision

Ultimately, if you want to operate a self-funded health plan, level funding is an option that must be considered in light of your company's cash flow, risk tolerance, employee numbers and preferred budgeting methods. Jeff explained, **“Level funding is a healthcare financing option that can act and feel similar to the security of a fully insured health plan but provides the flexibility and returns of a partially self-funded plan. This is a conservative approach that gives employers the ability to win if they have a good claims year. I see it benefiting certain employers in their health coverage budgeting efforts.”**

Contact JA Benefits, LLC for more information about coverage options. We can help guide employers down the continuum of their options. We have access to several carriers who provide level funding contracts to employers down to 10 employee lives. Clients that have chosen to level fund their health plans, generally consider it a step toward a partially self-funded program. They

like the ability stay on a flat monthly budget while having the flexibility to retain some of their claims funding if they have really good claim year. In essence, most people see this as a middle of road approach to healthcare financing.

To take your first steps toward becoming level funded, please contact Jeff Neal at 812.329.6054 or Jeff.Neal@jabenefits.com.