

## INSURANCE OPTIONS

# ALTERNATIVE GROUP PLAN FUNDING GETS A SECOND LOOK

WATCHING THEIR group health plan premiums climb higher with each passing year, some employers have started looking into alternative funding strategies in hopes they can get a better handle on their employees' health costs.

While group plans are the standard, larger employers have typically had more options for funding their group health coverage. But now even small and medium-sized employers – even companies with fewer than 100 employees – can benefit from alternative funding approaches.

There are three main types of alternative funding strategies that are available to employers:

- Captives
- Private exchanges
- Full and partial self-funding

### Captives

With a captive, multiple employers pool their resources and share the risk in providing health insurance to their employees. It is essentially a self-insured pool built into a captive insurance company (an insurer that is owned by the entity that created it). The captive has staff that will administer the health plan.

Captives are also multi-year agreements, so once an employer commits to make it worth their investment, they need to stick with it for a period of time.

Group captives will often have a specific funding mechanism that is broken down into four layers:

**Layer 1:** The employer is responsible for the first \$25,000 of any claim made by one of its employees.

**Layer 2:** All employers involved in the captive will share the costs of that claim if it exceeds \$25,000, up to \$250,000.

**Layer 3:** For claims that cost more than \$250,000, the captive will secure reinsurance coverage to cover amounts above that level. This reinsurance is also called “stop-loss” insurance.

**Layer 4:** Another layer of protection — “aggregate stop-loss” coverage — protects each employer in the captive for the total claims of their employees, ranging from 115% to 125% of expected claim costs in a year.

### Private exchanges

Typically, businesses using a private exchange will offer employees a credit that can be applied toward the purchase of a health plan. Employees can then access a variety of health plans through an online portal and enroll in plans that meet their needs.

Private exchanges are run by insurance carriers or consultancies, and plans on the exchange are regulated as group coverage. Employees shopping on these exchanges are not eligible for the Affordable Care Act's tax credits or cost-sharing subsidies.

Most employers currently using private exchanges are large; therefore, most private exchange plans are regulated as large-group coverage and are not part of the ACA's single risk pool.

However, to the extent that smaller employers participate in private exchanges, they are subject to the ACA's small-group rating regulations and risk-pool requirements.

### Self-insuring

There are many different types of self-insurance, from minimum-premium or risk-sharing arrangements to a fully self-funded plan, in which the employer is responsible for all claims.

Employers can choose from:

**Retrospective premium arrangements** – The insurer will credit back a portion of the unused premium to the employer (typically as a credit for the following year). This is often used in a fully insured arrangement.

**Minimum premium arrangements** – The employer pays fixed costs (administration charges, stop-loss insurance and network access fees) and claim costs up to a maximum liability each month.

**Partial self-funding** – The employer takes on more liability and pays fixed costs (administration, network access, stop-loss premiums and some fees and taxes). It's partial self-funding because the employer will purchase individual stop-loss insurance, which caps the employer's liability on any given claim to a certain amount, say \$50,000.

That way, the employer is self-insuring most of their employees' medical needs, but is protected in case some of those claims become catastrophic.

**Full self-funding** – This is like partial self-funding except that there is no stop-loss insurance and the employer is responsible for all costs that are not shared by its employees. This kind of arrangement is usually only available to large employers.

### The takeaway

These alternative funding approaches are what is available now. But the industry is innovating to making health care and insurance more affordable for all involved.

