

Health Insurance Premiums Out of Control? Level-Funding May Help Your Small Business!

If you are a business owner, odds are you have thought long and hard about the costs of providing health insurance to your employees. Often, employers find it difficult to balance the high cost of health benefits with the desire to provide quality coverage to their employees. And as the years go by, the cost of health care increases and so does the cost of health insurance.

In our current health care reform environment, most employers with fewer than 50 employees on payroll have health insurance rates that are community-rated. Community-rating generally means that a health insurer must provide the same rate in a given area to all persons of the same age regardless of health status. This can be a positive for many businesses. However, based on federal regulations, premiums for community-rated plans can only be discounted for wellness or for smoking status. An employer's ability to control costs is really limited to buying less rich benefits.

If a company's employees are generally healthy, it doesn't have an impact in the community-rated space. They are paying the same price either way. For larger employers, many turn to self-funding to save money and better manage their premiums. Unfortunately, the unpredictable cash flow of traditional self-funding could negatively impact a small employer. That's why many stay the course.

Enter Level-Funded Premium plans. These plans have been around for a long time, but only recently have become a more viable solution to save money on health insurance for smaller employers with as few as 5 enrolled. Level-Funded premium plans combine the cost-control benefits of traditional self-funding with the predictability of regular monthly premiums of a fully-insured plan.

Because level-funded plans fall outside of community-rating, insurance carriers can adjust the rates based on the health status of the group. Some carriers, like Humana, even discount the rates for buying multiple products like dental and vision. In addition, these plans are not generally subject to state mandates. Employers will find some coverage limitations that may not apply under a fully-insured community-rated plan. However, with these adjustments, insurance premiums can be as much as 30-40% below a fully-insured plan.

With most carriers, employees will have access to the same network of providers and benefits that are similar. Employees will use the plan in the same way. They will present an ID card to their provider and the provider will file the claim with the carrier. The difference comes in with how the premium is broken down and the background financial processing that happens behind the scenes.

Under level-funded plans, employers pay a standard monthly premium, but the premium often consists of three components: administrative costs, claims funding and stop-loss insurance. The administrative cost is the part of the premium where an employer is paying the carrier to run their plan: paying doctors, processing pharmacy claims, chronic condition management, wellness benefits and more. The claims funding is the amount that is deposited into account each month to pay employee's medical claims. When a claim comes in, the insurance company will pull the amount the employer is responsible for out of that account. The stop-loss coverage is additional insurance to protect the company's financial exposure. It limits the amount of claims that come out of the claims fund on a member and company level.

Level-funded premium plans are a great way to save money, but could also give the employer money back at the end of the plan year. While the formula varies with every carrier, if employees have a good year with low utilization, the company could potentially earn a portion of the balance of the claims fund back.

Over 95% of Louisiana businesses are classified as small businesses, according to United States Small Business Administration. An overwhelming majority of employers in this state have these tough decisions to make. If saving money would make a positive impact on your business, contact your agent or broker and ask for a level-funded quote!

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