

**Level-Funded**  
April 24, 2024

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**Welcome!**



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**Objective**

⇒ At our conclusion, you should be able to:

- Explain the differences & similarities between fully funded and level-funded insurance plans.
- Understand the sales process of a level-funded health insurance plan, including quoting, medical underwriting, rate structure, and renewal.
- Identify employers who are a possible fit for level-funded health insurance plans with the different level funded carriers.

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### MN Small Group Reform

- 1992- Groups rated and renewed individually and can be declined during underwriting.
- 1993- MN Small Group Reform law passed. Guarantee issue groups 2-50 with maximum rate variance of 67%. Employee portability.
- 1997- HIPAA Law passed. MSA plans approved.
- 2004- Federal law created HSA plans and Medicare Part D plans
- 2010- ACA Law Passed
- 2015- Individual and Small Group ACA changes take effect.

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### MN Small Group Reform

- 2017 MN Reinsurance Pool established for carriers in the Individual and Family Plan market.
- 2019 Final ICHRA Legislation clarified and passed.

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### MN Small Group Health FI Marketplace

- For 2024, 4 carriers offering plans for employers in small group fully insured market (2-50 eligible employees).
- 2014 ACA rules removed medical underwriting and required modified community rates be used for employers in the fully insured small group market.
- Affect on the MN market in 2024 has been to move fully insured small group carrier rates close together in most rate areas with similar plans using similar provider networks, Open Access or ACO.
- Average increases across all carriers in the small group FI market trending up in 2024.

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**ACA Impact on MN Small Group Market**

- Eliminate medical underwriting and range of risk assessment, table 1-12 or .75 to 1.25 (approximately 67% spread).
- MN eliminated MCHA.
- Approximate 7-1 age band ratio narrowed to approximate 3-1. Younger age rates adjusted up, older age rates adjusted slightly down.
- Healthier groups rates adjusted up, less-healthy groups rates adjusted slightly down.
- All Groups rated equivalent of table 6 or 1.0

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**MN Small Group Market**

Small Group participation requirements must be met or employer can be denied coverage (except between Nov. 15 and Dec. 15 for Jan. 1 effective dates).

Must have 2 full-time employees, one W-2 must enroll.

Employer can set eligibility for benefits at 20-40 hours/week or class out based on salary/hourly.

Seasonal, part-time, union employees are not eligible.

Minimum participation required is 75% of eligible employees after valid waivers. Valid waivers are other group coverage through spouse or parent, Medicare, Medicaid. Carrier may accept other waivers.

Employer must contribute 50% or more of employee-only rate for all enrolling employees.

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**MN Small Group Health Market**

- For nearly three decades, Minnesota had barred for-profit insurers from operating as health maintenance organizations in the state, but a law passed in January 2017 allows for-profit HMOs into the market.
- United Healthcare and Aetna entered the MN health insurance market as for-profit insurers in 2018.

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### Why Level Funded Plans?

- ACA Law's impact on small group (2-50 eligible employees) plans: Increased rates.
- Affect of condensed rate bands and limited risk assessment on employers with healthier, targeted age groups.
- Ability of carrier to medically underwrite.
- **Lack of competition in specific markets.**
- States loosening up regulations on self-funded plans, minimum stop-loss or aggregate stop-loss requirements.

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### Why Level Funded Plans

- Level Funded plans are designed to perform the same as small group fully insured plans but at lower premiums for employers with a favorable demographic and risk assessment.
- Not all employers will be a fit for level funded plans because of gender/age mix, risk assessment, or participation.
- Commissions can be set by the agent since rates not filed with state. Carriers build commissions into the rates.

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### Level Funding Overview

- ☞ Most national carriers offer a level funded plan.
- ☞ Plans can be written down to 2 enrolled employees, depending on carrier.
- ☞ Plans are technically filed as self-funded, but only to get around ACA law regarding medical underwriting and community rates.
- ☞ Plans targeted at Employers with 50 or fewer eligible ee's.
- ☞ Main differences of Level Funded vs. Fully Insured
  - Medical underwriting vs. guarantee issue.
  - Level Funded groups can be non-renewed based on health.
  - Composite rates vs. age-banded rates.
  - Rates can trend monthly vs. quarterly. Rates not filed with state.
  - Refund of unused claim funds vs. carrier keeps/pays all.
- ☞ State mandated benefits not required. Carrier by carrier decision.

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### Level Funded Small Group vs. Large Group

- Small Group fully insured plans are not medically underwritten so level funded is a target for those groups to show price separation.
- Large Group fully insured plans ARE medically underwritten already so level funded plans will have a harder time showing price separation.
- Small Group fully insured vs. Large Group fully insured.
- Large Group fully insured vs. ICHRA/Individual plans.
- Level Funded vs. ICHRA/Individual Plans

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### Structure of Fully Insured Group Plans

- ⦿ The structure of fully insured group health plans may not be known to consumer.
- ⦿ Fully insured group health plans generally consist of:
  - Administration Fees
    - The carrier establishes a network of providers; determines underwriting, plan features and coverage levels, pays commissions processes enrollments, payments, and claims; etc.
  - Stop-loss insurance
    - Stop-loss insurance protects the plan from large catastrophic claims by a covered individual and provides overall protection in the event that all claim payments made under the medical plan exceed a certain dollar limit.
  - Claims fund
    - Funds set aside by the carrier to cover expected claims.

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### Structure of Level Funded Plans

- ⦿ Same 3 components as Fully Insured:
- ⦿ Administration fees (plan support, marketing, actuarial costs)
- ⦿ Stop Loss Premium (plan stop-loss, re-insurance)
- ⦿ Claims Fund (risk assessment of expected claims).
- ⦿ Employer's maximum liability for premiums or payments to the carrier are built into the rates. No hidden or additional costs, regardless of actual claims.

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### Regulation of Level Funded Plans

- Level-funded plans are regulated under ERISA. They are technically filed as self-funded and are exempt from some state regulations and ACA requirements, including:
  - Annual limitation on deductibles
  - Guarantee issue and renewability of coverage
  - State rate filings
  - Some State Mandates

Subject to applicable federal laws, including COBRA.

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### Level Funded Rate Principals

- Rates offered by carriers are not filed with state for approval. Rates can trend monthly.
- Rates are based on census of enrolling employees using combination of:
  - Number of employees and dependents
  - Age/gender factor
  - Medical conditions/Risk Assessment
- Rates are composite and are only determined by final census of enrolling employees.
- SIC Code. Carrier can decline employer based on industry.

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### Level Funded Rate Principals

- Once plan is issued, rates are locked in for 12 months.
- Changes to enrollment during the contract year will not change the rates unless there is an ownership change or merger with new enrollments.

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### Level-Funded Plan Quote Process

- Street or Illustrative quote is available at best case scenario, equivalent to pre-ACA .75/Table 1. Need business address, genders and dates of birth of all enrolling members.
- Rates are composite structure, based on average age and gender of all enrolling members. Plan components broken out by cost.
- Illustrative or Street quote not required, group can go directly to sending in health information to get final rates.

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### Level Funded Rate Sample

TPID	Med Plan Name	Tiers	Admin Fees	Stop Loss Prem	Agg. Factor	TRO	Total Amount Due	EE's
30007787	AFA MN OOS	EE	\$60.41	\$274.03	\$204.00	\$9.87	\$548.31	1
	CPOSII 2500	EESP	\$38.17	\$736.03	\$547.92	\$26.50	\$1,398.62	0
	80/90 CY ACF	EECH	\$78.82	\$580.41	\$432.07	\$20.90	\$1,112.20	0
		FAM	\$105.40	\$1,022.86	\$761.45	\$36.83	\$1,926.54	0
<b>Plan Amount Due</b>							<b>\$548.31</b>	
30008497	AHAFA Broad	EE	\$65.47	\$245.50	\$157.57	\$8.12	\$476.66	22
	Open POSII 4000	EESP	\$101.76	\$659.38	\$423.22	\$21.81	\$1,206.17	3
	HSA 100/50 E CY	EECH	\$89.53	\$513.96	\$333.74	\$17.20	\$960.43	1
	ACF	FAM	\$124.28	\$916.34	\$588.15	\$30.32	\$1,659.09	4

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### Level Funded Quote Sample

Class	# of Employees	HP50002676	HP6360
Employee	23	\$454.08	\$440.54
Employee + Spouse	3	\$915.08	\$886.64
Employee + Child(ren)	1	\$831.26	\$805.63
Employee + Family	4	\$1,338.35	\$1,298.25
Monthly Group Payments		\$19,373.74	\$18,782.87
Annual Group Payments		\$232,484.88	\$226,394.44
<b>Components of the Annual Group Payments:</b>			
Stop Loss Premium and Admin Fees		\$148,894.28	\$142,845.44
Maximum Employer Claim Liability		\$85,690.60	\$82,449.00
Annual Group Payments		\$232,484.88	\$226,394.44

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### Underwriting Level Funded Plans

- ☛ Individual Employee Health questionnaires. Traditional health information.
- ☛ GRX Underwriting. Prescription Drug data base used for risk assessment. Milliman & Robertson tool developed from Intelli-script. Eligible for groups 10+ employees enrolling. Use and eligibility varies by carrier.
- ☛ Final rates determined by combination of medical risk of enrolling employees/dependents, age/gender factor, total number of members.

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### Underwriting Level Funded Plans

- Carrier intent is to underwrite all enrolling employees who are eligible on the requested effective date.
- Change in census from underwritten quote to final enrollment can cause rate adjustment, carrier may have census change allowance. Varies by carrier.

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### GRX Underwriting

- GRX/Curv underwriting is a suite of predictive models that assign a relative risk score to a group of individuals using deidentified prescription histories and medical data.
- Generally used for groups of 10 enrolling employees and up who have current group health coverage. Use can vary by carrier. Carrier discretion to go below 10 for GRX based on current coverage.
- Requires employer address, employee and dependent names, genders, dates of birth, resident zip codes.
- Change in the census used for GRX may require re-underwriting for final rates.

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### Level Funded Participation Requirements

- Level Funded plans not required to follow state by state small employer participation or employee eligibility guidelines.
- Minimum Participation of eligible employees varies by carrier.
- Definition of eligible employee determined by Level Funded carrier. Most use 30 hrs./week not 20.
- Valid waivers not required to be accepted, decided on carrier by carrier basis.

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### Level Funded Plan Submission

- Employee applications or enrollment census can be used. Varies by carrier and how group was underwritten.
- Employer application.
- Billing or State Wage & Tax report or both may be required. Varies by carrier.
- Stop- Loss Agreement.
- Banking agreement. Carrier may require ACH.
- New York State Re-Insurance documents. Why?

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### Level Funded Plan Administration

- Employee new hires and employees with qualified life events can be added during plan year without underwriting or any change to composite rates.
- Level Funded carriers provide employer portal to add and delete employees, view invoices, view monthly claims fund activity and balance.
- Level Funded carriers generally give calendar year deductible and/or out of pocket credit if coming from another group carrier with calendar year deductible.

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### Level Funded Renewal

- Based on the following criteria:
  - 1) Any change in the carrier's expenses for Admin. Fees or Stop Loss Premiums.
  - 2) Any change in the group's enrolled census/demographic.
  - 3) Group claims experience.
  - 4) Refund of unused claims dollars. Claims incurred during plan year and paid through reconciliation period that follows plan year. Any remaining surplus is paid back to employer on a percentage basis.
  - 5) Group can be non-renewed based on health risk.

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### Structure of Level Funded Health Plans

- Level-funded group health plans have essentially the same internal structure as fully insured plans.
  - The cost of administration and stop-loss can be similar for fully insured and level-funded plans, depending on group demographics.
  - The dollar amount required by the carrier for the claims fund is determined by the census and current health/risk assessment of the group.
  - The claims fund amount/risk assessment by the carrier is generally the determining factor in how competitive the level funded quote compares to fully insured. Age/Gender demographic also a factor.

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### Administration Fees

- Similar on level funded plans to fully insured plans, may include the following:
- Plan set up
  - Underwriting
  - Claims processing
  - Service
  - Marketing
  - Commissions

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### Stop-Loss Insurance

- o Insurance carrier built in stop-loss insurance caps the employer's financial risk, providing a maximum yearly cost—the same as under a fully funded plan.
- The premiums for stop-loss insurance are included in the monthly costs for level-funded plans, just as they are for fully-insured plans
- o Most plans include two kinds of stop-loss insurance:
  - **Individual stop-loss coverage:** sets a per-individual maximum to come out of claims fund. If any individual member of the group's claims go above that amount, the carrier's stop-loss insurance will cover the overage and not charge the plan.
  - **Aggregate stop-loss:** Same as the aggregate claims fund amount. Equal to the amount in the claims fund. Equal to the carrier's assessment of employer's expected claims amount for the 12 month period starting with effective date. Claims in excess of the aggregate group maximum are covered by carrier stop-loss, not employer.

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### Claim Fund

- Claim Fund Amount and Aggregate Stop Loss Amount are basically the same. Dollar mount estimated to cover risk assessment.
- Claim Fund is part of the Employer's monthly premium
- As Plan Sponsor, Employer technically funds all claims up to aggregate/claim fund amount.
- Once Claim Fund is exhausted, carrier pays all eligible, covered claims.

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### Contract and Run-Out Periods

- o **Contract period:** period during which insurance is active (usually 12-months)
- o **Claims Run-out period:** period, starting simultaneously with the contract period, during which claims will still be processed by the plan or stop-loss insurance, assuming claim was incurred while coverage in force. Example, 12/60 months, carrier will process claims for 48 months after plan terminates. Some carriers use Terminal Reserve Option (TRO).
- o **Claims Account Refund/Reconciliation:** How much was put into the claims fund vs. how much paid out for covered claims. Period of time following renewal to pay out any claims incurred during contract period. Percentage of any surplus refunded to employer.

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### Claims Fund Example

Month Paid	Total Paid Claims	Specific Excess Loss	Aggregate Excess Loss	Non Plan Paid	Actual Liability	Maximum Liability
12/19	\$305.56	\$0.00	\$0.00	\$0.00	\$305.56	\$5,340.24
01/01	\$705.15	\$0.00	\$0.00	\$0.00	\$705.15	\$5,340.24
02/01	\$1,098.23	\$0.00	\$0.00	\$0.00	\$1,098.23	\$5,215.60
03/01	\$2,000.82	\$0.00	\$0.00	\$0.00	\$2,000.82	\$4,977.65
04/01	\$2,283.32	\$0.00	\$0.00	\$0.00	\$2,283.32	\$4,643.55
05/01	\$257.98	\$0.00	\$0.00	\$0.00	\$257.98	\$5,215.60
06/01	\$2,369.03	\$0.00	\$0.00	\$0.00	\$2,369.03	\$3,740.45
07/01	\$5,794.81	\$0.00	\$0.00	\$0.00	\$5,794.81	\$4,229.98
08/01	\$1,815.81	\$0.00	\$0.00	\$0.00	\$1,815.81	\$3,979.40
09/01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
10/01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
11/01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
12/01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
01/21	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
02/21	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b>Total</b>	<b>\$16,653.31</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$16,653.31</b>	<b>\$43,991.39</b>

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### Responsibilities as a Plan Sponsor

- ▶ PCORI Fees- Now Required again for all level funded groups. Payment required by July 31 of the year following the last month of the plan or renewal. The fee per member for payments due July 31 2024 is \$3.22 per member. Paid to IRS using Form 720.
- ▶ 1094-B Forms and 1095-B Forms
- ▶ Some carriers issue both forms but will not pay PCORI fee.

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### Case Study #1

A Software company in the metro area has 20 employees and has an existing small group fully insured medical plan. The owners are selling the business, and the new owners would like to change how employee benefits are handled. They would like to go to a defined contribution model and give each employee the same amount to spend on all offered group benefits. They are asking the current group benefits broker to look at alternatives in the market. Would level funding be a good option for this group?

Yes

No

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**Case Study #2**

A plumbing company in Brainerd has 6 employees and does not offer group medical. The owner is turning 65 and wants to go on Medicare, his wife is 61 and only works in the business part-time. Due to an increase in business, Joe is considering bringing on more employees, many of them are new to the industry, and wants to offer them group medical benefits right away. Would this employer be a good fit for level funding?

Yes

No

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**Case Study #3**

A supply company in Minneapolis has 95 employees and currently does not offer any group medical plan. 40 employees are full-time, and the rest are part-time or seasonal. The owners of the business have been giving the employees \$200 a month to use to buy coverage in the individual market but would like to start offering a group health plan because many of the employees are complaining about a lack of benefits. Would this employer be a good fit for a level funded plan?

Yes

No

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**Case Study #4**

A farm implement dealer in rural MN currently has 25 employees and has had the same fully insured small group health plan for 15 years. They have always offered a rich benefit plan with a low deductible and low out of pocket. They pay 100% of the premiums for employees and 50% for dependents. The employer has always been happy with their plan but is concerned about the rising cost. They would like to see what options are available in the market. Is a level funded plan a good option for this employer?

Yes

No

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**Level Funded**

⇒ Questions?

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