



Self-Funding with

LeadingAge[®]
Kansas
Employee Benefits, Inc.

Provided by Integrity Benefits Solutions, LLC

Group medical benefit plans typically fall into one of two categories: self-funded or fully insured. A growing number of U.S. employers are making the switch to self-insuring as a way to reduce costs and improve service, but making the switch is often a complicated task and one that you should consult an insurance professional before making. This article describes self-insured plans and highlights how benefits through LeadingAge Kansas Employee Benefits, Inc. (EBI) could help you and your organization in a simple and more familiar manner than traditional self-funding.

What is Self-funding?

Under a fully insured health benefit plan, an insurance company assumes the financial and legal risk of loss in exchange for a fixed premium paid to the carrier by the employer. Most employers with self-funded (or self-insured) plans retain the risk of paying for their employees' health care themselves, either from a trust or directly from corporate funds.

Most employers with more than 200 employees self-insure some or all of their employee health benefits. Many employers with fewer than 200 employees also self-

fund, but these employers require greater stop-loss insurance protection than larger employers. As a general rule, employers with fewer than 100 employees fully insure their group medical benefits.



According to a recent Kaiser Family Foundation survey, 15% of small companies (defined as fewer than 200 workers), and 52% of mid-sized companies (200 to 999 workers) have self-funded benefits.

The greatest risk assumed under a self-funded plan is that when the employee group has unfavorable claims experience, a self-funded employer would incur an immediate expense beyond what may have been expected. Insured plans have a more predictable cost for the year; however, large employee claims costs from one year can affect future premium amounts.

ERISA vs. State Regulation

The Employee Retirement Income Security Act of 1974 (ERISA) sets the protections and minimum standards for employer health plans and its participants. ERISA protects self-insured plans and their participants from fiduciary mismanagement and abuse, protects the participant in the event of plan bankruptcy, and issues benefit transparency and accountability laws on behalf of 140+ million covered lives. Fully insured plans are subject to ERISA on a federal basis and to State Insurance Departments regulations, while self-insured plans are exempt from further State oversight.

Advantages of Self-funding

While experienced, successful business managers are experts at mitigating risks, many will gladly take on risk exposure if the probability is good for a high payout. There are numerous well-documented advantages to self-funding for employers that manage risk well, including:

- ✓ **Reduced insurance overhead costs.** Carriers assess a risk charge for insured policies (approximately 2% annually), but self-insurance removes this charge.
- ✓ **Reduced state premium taxes.** Self-insured programs under ERISA are not subject to state premium taxes. The premium tax savings is about 2%-3% of the premium dollar value.
- ✓ **Employer control.** Employers who want to revise covered benefits and the levels of coverage are free from state regulations that mandate coverage and the carrier negotiation typically required with changes in insured coverage. By self-funding, employers are able to design their own customized health benefit packages.

Importance of Claims Analysis

In today's business climate, managers need benefits solutions as resourceful and cutting-edge as the organizations they run. For many employers, pre-packaged full insurance health plans do not provide the greatest value to their organizations. Employers of all sizes are looking to mold their plans around the requirements of their businesses. Because each business is unique and requires its own set of insurance solutions, diversity in provided benefits plans is needed. For many employers, it may be far more beneficial to pursue self-funding as a benefits solution.

Most fully insured plans do not provide in-depth claims analysis or tailor-made solutions for your organization. Detailed and determined claims analysis helps you predict trends and adjust plan design and cost structures before they become a costly issue. Whereas, big carriers will leave you in the dark until renewal just to pass on a large increase.



LeadingAge Kansas EBI is here to help!

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Self-funding Safeguards

Stop-loss Insurance

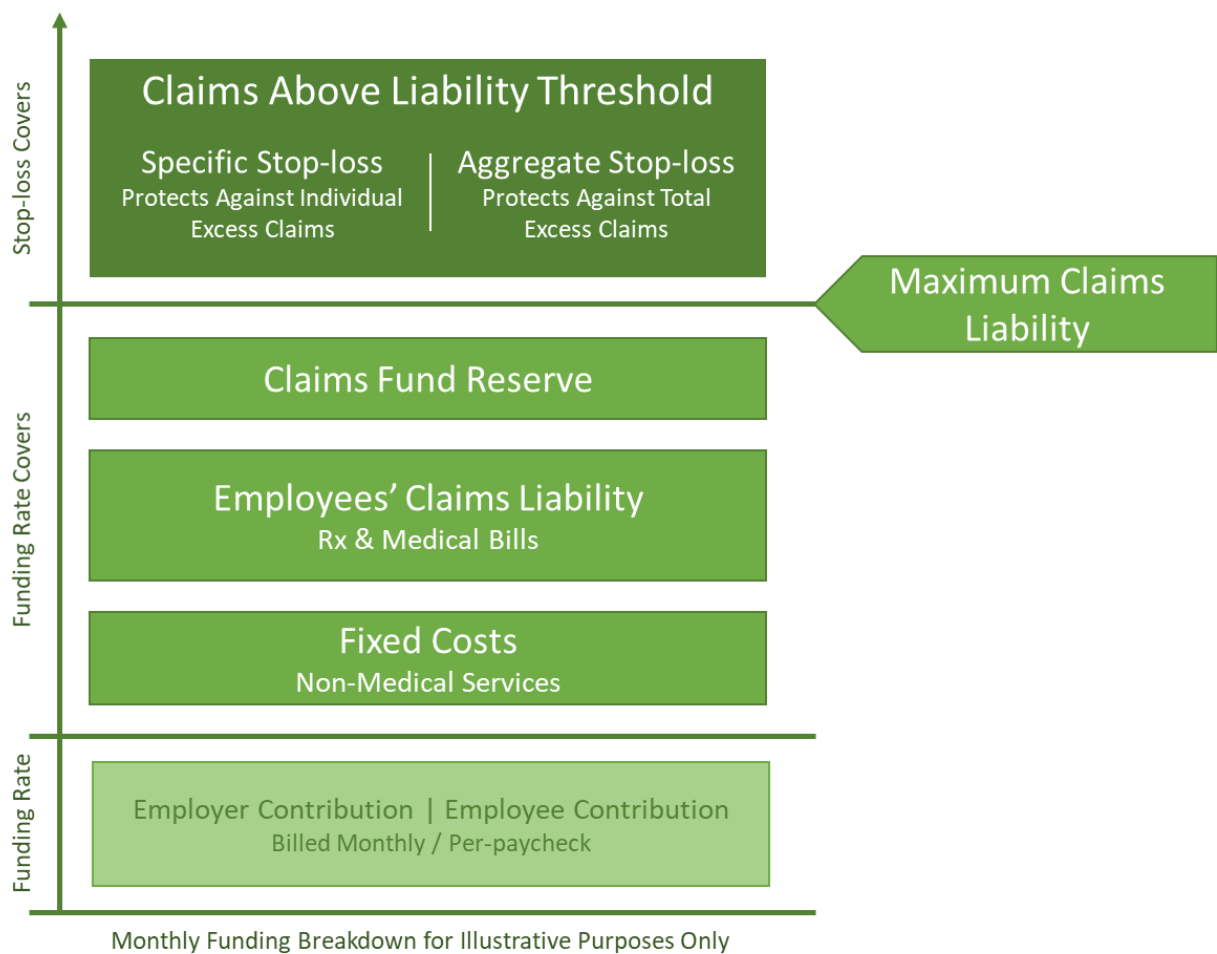
Employers with self-funded health plans typically carry stop-loss insurance to reduce the risk associated with large individual claims or high claims from the entire plan. The employer self-insures up to the stop-loss attachment point, which is the dollar amount above which the stop-loss carrier will reimburse claims. Also called reinsurance, stop-loss insurance comes in two forms: specific stop-loss and aggregate stop-loss.

Specific Stop-loss Insurance

Also called individual stop-loss, this protects a self-funded employer against large individual health care claims. Essentially, it limits the amount that the employer must pay for each covered individual.

Aggregate Stop-loss Insurance

This protects the employer against high total claims for the health care plan. Any amounts paid by a specific stop-loss policy for the same plan would not count toward the aggregate attachment point.



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What Sets EBI Apart

As the LeadingAge Kansas Association-sponsored health plan, EBI is formed and governed by its own Board of LeadingAge Kansas Members. Using its unique structure as a Multiple Employer Welfare Arrangement (MEWA), EBI was created as a Voluntary Employee Benefits Association (VEBA), allowing for like-employers to align themselves together to provide the most comprehensive health benefits offerings available. Unlike a normal self-funded health plan, all Members of EBI legally file as a single plan under ERISA, funded as a trust, combining resources of smaller- to large-size employers. Consolidating assets enables our Members to increase total participant size, disperse risk over a larger population of employees, and reduce costs by standardizing plan compliance across all individual employers.

EBI's consolidated trust fund allows for the simplification of funds collections. Instead of fluctuating monthly charges dependent on the cost of care for every employee, Members are charged a "premium-equivalent" similar to the tiered rates of a large fully insured carrier. Aggregate stop-loss covers the entire group with lower premium due to the lower risk. Because of this hybrid model, Members enjoy lower, controlled cost both in the short- and long-term while still benefitting from the more predictable nature of tiered premium-equivalent rates.

The Board of Directors governing EBI consists solely of key staff from the Member organizations that are insured under EBI. The EBI Board makes decisions about plan design for the nine offered benefits plans. As a Member of EBI, experts

in actuarial and legal practices, plan management support, and a premier third-party administrator analyze claims data and plan practices to advise the Board of Directors.

Members of EBI can choose to offer up to four of the nine Plans designed specifically for LeadingAge Kansas Members. The Board can make changes to the designs, and votes for plan changes at renewal or as needed.

EBI's stop-loss is only one of the many layers of financial protection for the plan. EBI plans are also audited to a much higher standard than most fully insured plans, which saves money on every claim. EBI is also backed by a line of credit for emergency use as an additional buffer between each Member's budget and unexpected claims; EBI is proud to say that this has never been needed.

The Plan Management Support team at Integrity Benefit Solutions, LLC, working together with LeadingAge Kansas EBI, welcomes the opportunity to help your organization examine its plan designs and make recommendations for improvement.

For more information about EBI, contact:



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