Understanding How Level Funded Health Plans Work

GILROY KERNAN & GILROY

Level funded health plans can help employers lower their health care expenses while providing employees comprehensive health coverage and a robust provider network. These plans combine the cost savings and flexibility of a self-insured health plan with the financial predictability of a fully insured health plan.

What Is Level Funding?

With level funding, employers pay a set amount each month to a carrier. This amount typically includes the cost of administrative or other fees, the maximum amount of expected claims based on underwriting projections, and stop-loss insurance.

How Does Level Funding Work?

Employers with level funded plans pay a "level" fee to an insurance carrier or third-party administrator (TPA) each month that includes three components:

1 Maximum Claim Liability

Level funded health plans set an estimated amount for an employer's maximum claim liability for the year, typically based on the health status of the organization's employee group.

2 Health Plan Administration Fee

Level funded health plans have an administration fee, which often includes claims processing, billing and customer service.

3 Stop-loss Insurance Premium

Level funded health plans include a premium for stop-loss insurance coverage that protects the employer against large claims and high utilization.

Claims Funding + **Administrative Fee** + **Stop-loss Premium** = **Total Monthly Payment**

The total monthly fee amount is determined by the carrier or TPA and remains fixed or level for a 12-month period. The employer pays this fee each month, regardless of claims activity, and usually collects some of this cost from employees through pre-tax payroll deductions. If actual claims exceed projections at the end of the plan year, stop-loss insurance protects the employer from unexpected costs.

Employer Takeaway

Level funded health plans can provide employers with the stability and predictability of a fully insured health plan while offering cost savings, plan design flexibility and useful claims data available under a self-insured plan.

Contact us for more information and to request additional employee benefits resources.

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