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Updated Wednesday, August 19, 2015 as of 7:02 PM ET

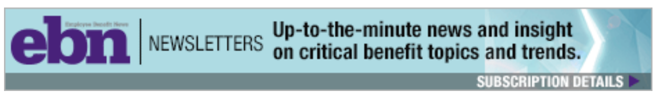
Small employers look to alternative funding solutions

In the wake of the health care reform, alternative funding solutions for health benefits continue to gain traction among small to mid-size groups.

Pending changes to small group rules in January 2016 are driving demand for the funding solutions. Most prominently, groups with 50-100 employees will be subject to community rating legislation that governs how rates are developed and the type of coverage offered. Most states are also changing the definition of employee to the federal full-time employee definition, broadening the scope to include union employees that may have been excluded under previous small employer definitions.

Here's how the new rules will affect small to midsize groups, including potential financial impact, solutions available to mitigate potential costs and the pros and cons of renewing early.

Exactly how do the new rules affect small to midsize groups?



Beginning in 2016, the rates will no longer be based on the experience or medical status of the employees. Instead, rates are set solely based on the age and location of the members. The age bands also are drastically reduced so that no one age group can be charged more than three times that of another age band. Essentially, these changes will reduce the spectrum of insurance rates, raising the lower rates and reducing the higher rates. There are also changes to the type of coverage that must be provided, generally streamlining the coverage and eliminating some high- and low-end plans.

Also see: 10 ACA questions small employers are asking

Is there a way to quantify the potential financial impact on employers?

We saw this two years ago in the community rating changes for groups with two to 50 lives. This January employers in the 50-100 life segment face significant, financial challenges as they become subject to the community rating environment. For example, a 75-life group with average or better-than average demographics, can expect in excess of 25%, or more than $150,000 in additional funding costs. This increase is derived from a 10-15% normal carrier trend and a 10-15% change in rating methodology.

What solutions are available to employers to mitigate this cost?

There are a number of alternative funding strategies that can help mitigate the financial impact of switching to a community rating environment and provide greater certainty and protection than the typical, partially, self-funded solutions for larger employers. These alternative funding solutions are outside the community rating rules, which means employers could benefit from a 5% reduction in taxes or fees; five percent reduction due by eliminating carrier profit; and 10-15% decrease by returning to a more favorable rating method. Another alternative is for employers to renew plans early; an option that requires fully vetting changes to plans years and the impact of other benefits.

Is early renewal an option for all groups?

In theory all groups are candidates subject to specific state laws and carrier rules. Some younger, lower rate groups should consider a December 2015 early renewal to preserve lower rates for another year. Older, more expensive groups should be evaluating a change in plan as of January 1, 2016, to access the new lower community rates earlier.

Also see: Health care benefits in 2015: What employers need to know

Are there certain groups that could benefit from access to community rates?

Depending on demographics, certain groups that have historically experienced rate increases in the high teens or more may be able to access the new underwriting pool on January 1, 2016, and may benefit through lower overall renewal increases – and, perhaps, even realize a rate decrease. Certain employers in the 50 to 100 segment should work with their insurance partner to analyze their current population and determine whether accessing these new underwriting requirements early would be cost effective.

What else should employers be thinking about if they chose to renew early?

Renewing the plan early has several other implications that must be fully vetted. First, some states and/or carriers may not allow early renewal. Medium-sized employers, relying on relief from the employer mandate for 2015, should be aware that any change in plan year impacts their eligibility for this relief and may trigger penalties associated with not offering coverage to full-time employees earlier than expected. Section 125 plans must be reviewed and may need to be amended. Finally, other coverage renewal dates should be addressed.

Can you give a specific example of how employers have benefited financially from alternative funding strategies?
There are many. A New York-based 179-life tech services firm recently was shown that 60% of its rates was based on “manuals” that were 20% above the incurred experience provided by the carrier. An alternative funding plan capped the company’s costs at the pre-renewal level, with 100% of any claim savings being returned at a year-end settlement. This solution provided slightly less risk than a traditional partially, self-funded plan. The company elected to fully fund the plan, limiting any budgeting issues. It also used the settlement funds, equal to 7% of the prior year premium, to set up a self-funded dental plan in year two. Given that the group size has grown to more than 200 lives, their total savings are estimated at $215,000.

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