ROUNDSTONE

E-BOOK

What Your Fully Insured Insurance Carrier Doesn't Want You to Know

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Health insurance is one of the most significant company expenses. For businesses, finding affordable health insurance is almost impossible. Traditional, fully insured carriers don't have the flexibility that allows businesses to get employee health benefits at a price they can afford. If they aren't able to offer adequate healthcare, businesses can't retain experienced workers, and their productivity and bottom line suffer.

Fully Insured Isn't the Only Option for Health Insurance

There are four types of health insurance: fully insured, level-funded, self-funded captive, and self-funded ASO. It's essential to know the distinctions so you can make the best choice for your business health insurance needs.

Fully Insured

Fully insured plans are prevalent among small to midsize businesses. A company pays an agreed-upon premium rate per employee to an insurance provider. This rate is set for the year, although the specific amount the company pays each month may change if the number of employees fluctuates.

The insurance company collects the premiums from the business and uses that money to pay claims as outlined in the policy the company selected. The employees pay deductibles or copays as stated in the policy.

For fully insured plans, the insurance provider assumes all financial risk and keeps all the money the company pays in premiums, regardless of whether every employee uses their insurance.

In other words, the company pays the same per employee, whether the employee is healthy and only has wellness checkups every year or has a chronic condition that requires more expensive care.

Level-Funded Insurance

Level Funded Insurance, is also called partially self-funded insurance. Level-funded plans are rarely a good deal for businesses. Basically, they're an attempt by the larger fully insured product carriers to cash in on the growing popularity of the self-funded model.

Level-funded plans typically have much higher fixed costs (up to 60%) than self-funded plans and allow the carriers to keep 100% of the underwriting profits (unlike self-funded plans).

Level-funded plans also give employers limited control over the coverage they offer and the data they can review. They force employers to accept 100% of the volatility risk and can be very expensive to renew or discontinue.

Self-Funded Captive

Captive insurance is a form of self-funded insurance in which the company creates its own licensed insurance company to cover its employees. This is beneficial because it allows the company to tailor insurance policies specific to their needs and gives them flexibility in terms of vendors, service providers, and structure while also offering tax or profit benefits.

A group captive is similar, but instead of having a single owner, a group captive is owned by multiple companies banding together. This allows them to pool expenses and share risk, which minimizes the volatility of the healthcare market for all member companies.

As a Captive member, employers may receive a distribution if the captive as a whole is performing well. Employers also pay for claims as incurred, thus maximizing daily cashflow. This is the program that answers the age old question, is there a group I can join to get better benefits.

Self-Funded ASO

Self Funded Insurance is similar to fully insured except that the employer assumes the financial risk. Instead of paying the premiums to the insurance provider each month, the company pays employee claims directly.

With this type of insurance, the employer only pays for the coverage used, which saves money if the company's employees are healthy. However, if the employees work in a high-risk environment or file a lot of claims, expenses for the company can add up quickly.

Companies that use self-funded insurance often set up special funds to cover the claims. These funds can consist of employer and employee contributions, usually placed in a trust to help generate interest to pay for the costs.

In addition, most companies using this type of insurance also purchase stop loss insurance to cover catastrophic claims over a certain amount.