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Pros and cons: Can an alternative health plan cut your costs?

Martin Daks (https://njbiz.com/author/martindaks27/) // December 2, 2024 // **7 Minute Read**

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(mailto:?subject=Pros and cons: Can an alternative health plan cut your costs?&body=Health care insurance premiums keep rising — they grew faster than other expenses over the last 12 months. Total health care costs are projected to grow to 19.6% of U.S.... You can read the content in details following link https%3A%2F%2Fnjbiz.com%2Fpros-and-cons-can-an-alternative-health-plan-cut-your-costs%2F)

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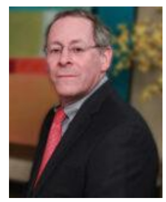
Health care insurance premiums keep rising — they grew faster than other expenses over the last 12 months. Total health care costs are projected to grow to 19.6% of U.S. gross domestic product by 2031, according to studies cited by **JP Morgan Chase (https://www.jpmorganchase.com/institute/all-topics/business-growth-and-entrepreneurship/small-business-health-insurance-burdens#:~:text=Among%20small%20employers%20that%20do,(Wade%20and%20Oldstone%202023).)** in June 2024. To manage their own health care spending, some businesses are looking at alternatives to a traditional group insurance plan for their employees, including self-insurance and professional employer organizations, which serve as the employer of record for employees of multiple unrelated businesses and are able to leverage that clout to offer access to high-quality benefits at competitive prices. Moving away from traditional single employer group health insurance plans may save money, but some experts caution that alternative approaches can present their own complications.

“One option, even for smaller companies, involves self-insurance,” said Thomas Senter, a partner with **Greenbaum, Rowe, Smith & Davis LLP (/profile/greenbaum-rowe-smith-davis-llp) (https://www.greenbaumlaw.com/)** and chair of the law firm’s Employee Benefits practice.


Senter

Under a self-funded plan, the employer assumes the financial risk of health benefits coverage, although a third-party administrator handles claims and other administrative services. If the actual claims are lower than expected, the employer and its employees, rather than the insurance company, come ahead.

The potential savings offered by a self-insured plan may make them an attractive alternative for an employer with a workforce that is younger and/or healthier than the average employee population. Savings may also be realized from the fact that the profit that would typically be earned by an insurance company is not a component of the cost of the plan.

However, Senter noted that a risk with a self-insured plan – particularly for a small employer – is that a few, or even one large claim, can have a devastating financial impact on an employer that has not planned for such a contingency.

Companies can try to limit their liability exposure by purchasing “stop loss” insurance, where an insurer is liable for any losses that go over a set deductible limit. However, to get a competitive premium, companies typically must select a high deductible and actually fully self-insure their plan for at least $250,000 to $500,000 per covered individual.

Another option is a multiple employer welfare arrangement. “Basically, a MEWA provides health and welfare benefits to two or more eligible employers” Senter explained. “By avoiding state insurance reserve, contribution and other requirements applicable to insurance companies, MEWAs may be able to market insurance coverage at rates substantially below those of regulated insurance companies. So conceptually, at least, a MEWA is an attractive alternative for a small business that finds it difficult to obtain affordable health care coverage for their employees. In practice, however, because they may not be subject to legislative reserve level and other requirements, some MEWAs use ‘creative’ financing and a number of them, nationally, have been unable to pay claims as a result of insufficient funding and inadequate reserves.”

In 2021, for example, a MEWA known as the Members Health Plan NJ, which reportedly covered some 4,000 businesses, filed for Chapter 11 bankruptcy. Currently, according to the state **Department of Banking and Insurance website (https://www.nj.gov/dobi/division_insurance/mewa/mewas.html)**, there is only one MEWA operating in New Jersey, Short Hills-based **Association Master Trust (https://amt-nj.com/)**.

A third option, which is becoming increasingly common, involves professional employer organizations. “The advantage of PEOs is that they may offer a better price than a single employer could get on its own for a traditional health insurance plan,” Senter said. “But a business needs to engage in due diligence on the PEO, since it may be going through a regulated carrier, or it could be putting the business into a less regulated self-insured package with insufficient reserves to meet its financial obligations. So, there are no shortcuts and you have to be careful.”

Businesses that want to save on premiums have a few options, but there are caveats, according to Cynthia Borrelli of Bressler Amery & Ross PC **(/profile/bressler-amery-ross-pc) (https://www.bressler.com/)**, a national full-service law firm.

Borrelli

"One strategy would be to create an association of small employers within the same industry whose purpose is not limited only to the purchase of insurance," explained Borrelli, who leads Bressler's Insurance & Healthcare Regulatory Law practice group. "This kind of 'association coverage' is regulated in New Jersey under the individual or small employee Acts, as applicable, in addition to treatment under the federal Affordable Care Act. Association health plans will qualify as minimum essential coverage under the ACA. Moreover, when small groups join together under an AHP with 50-plus employees, it is subject to large group rules. Finally, to qualify to offer association health plans, the association does have to satisfy multiple conditions embodied in the Department of Labor final rules."

Another option would be to go through a broker and set up a kind of hybrid plan called level-funded health insurance, she added. "These plans combine features of self-insurance and fully insured arrangements, and can provide a level premium for budgeting purposes," Borrelli detailed. "With a typical self-insured plan, on the other hand, employers will generally directly fund employee health claims up to a specific threshold per person on an annual basis."

For any claims exceeding this threshold attachment point, "stop-loss insurance is triggered to cover the excess cost of claims until the end of the plan year and is subject to any aggregate or individual cap on the stop-loss policy," she added. "The stop-loss insurance is a kind of safety net. But in addition to the monthly premium for the stop-loss, companies pay a fixed monthly administration fee per employee that covers third-party administration of the health plan, such as participant onboarding, billing and claims processing, and customer service, and can pay a separate fee for rental of the network. The stop loss carrier or its affiliate often serves as third party administrator and rents the network."

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The potential drawback is that "Generally, self-insured plans and MEWAs are not protected by the state of New Jersey's Guaranty Fund System, so if the plan sponsor/employer declares bankruptcy or is otherwise unable to pay claims, outstanding claims may not be paid," cautioned Borrelli. "In contrast, if your commercial insurer is placed into insurance liquidation, you're generally still provided unlimited coverage on health claims from the New Jersey Life and Health Insurance

Guaranty Association, subject to specific policy and statutory limitations. So, unfortunately, there are no shortcuts to competitive pricing and solid plan design which provides good benefits."

An alternative gains steam

"PEOs are huge in New York State, and are gaining traction in New Jersey," according to Desmond Slattery, the New Jersey market director for **BenefitMall (https://www.benefitmall.com/)**, a general agency that provides services for benefit brokers. "We're also seeing a rise in level-funded plans, a version of self-funded health insurance plans where the employer pays a fixed monthly amount to cover administrative costs, claims, and stop-loss insurance. Historically, only larger groups utilized level-funded plans, but now, some carriers will work with businesses that have as few as two participants. In fact, about 60% of the new business we're seeing is level funded for companies with fewer than 50 lives."

Slattery says another health plan option is an Individual Coverage Health Reimbursement Arrangement, "which allows employers to reimburse employees for individual health insurance premiums."

Generally, under an ICHRA, an employer sets a budget for benefits and employees choose an individual health plan, compared to the traditional employer group market. Employees can submit receipts for qualified medical expenses, and the employer reimburses them up to their allowance. "Another possibility is a high-deductible plan paired with a tax-advantaged individual Health Savings Account," he noted. "I personally use that because it offers an expanded list of covered items."

Looking for a health plan can be complicated, Slattery added. "So, it's a good idea for a business to work with an experienced broker who's affiliated with the National Association of Benefits and Insurance Professionals. The association promotes educational programs, advocacy with legislators, and its members are up to date on coverage options."

"Businesses want to help their employees with health insurance and other benefits, but they are often squeezed by high prices and a lack of competition in the carrier space," noted Staci Grant, vice president, Benefits at **Acrisure/ Legacy Agency Henry O. Baker Insurance Group (https://www.henryobaker.com/)**. "In New Jersey, for example, in the small employer market where many rates and regulations are governed by the state, there are only three regulated small group carriers, Oxford, AmeriHealth **(/profile/amerihealth)** and Horizon. We need more competition in that space and some easing of regulations that restrict carrier plans."

She says small-to-medium-sized businesses could consider insuring through a carrier to implement a "level funded plan," which generally is not subject to the state's regulations. "So carriers can be more creative with the plan designs and rate models. These plans may give your business the ability to offer the benefit levels that meet better price points, and also limit your risk, but keep in mind that pricing is generally based the overall health of your group so they may not work for every business."

Joining a PEO is another option, "but with a PEO, you're usually signing a contract to be a co-employer. This means you may lose some autonomy, and you may incur fees for payroll and other services that you previously handled in house. So, all of the costs and benefits should be evaluated, not just the cost of the health insurance."

Grant said she's seeing some smaller businesses moving into an ICHRA, where employees can choose an individual health plan and get reimbursed by the employer. "This can be a viable option, but there are a lot of compliance details that must be addressed," she explained. "There are a variety of alternatives, but there are benefits and tradeoffs for each. So, it's always a good idea to work with a trusted health insurance broker that's affiliated with a recognized organization like the National Association of Benefits and Insurance Professionals. Health care insurance is expensive because the underlying health care is costly. Unfortunately, that's not likely to change until we, as a nation, get a better handle on drug and other costs, and pay more attention to keeping people healthier to begin with."

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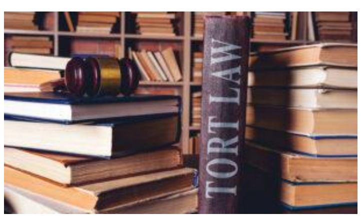

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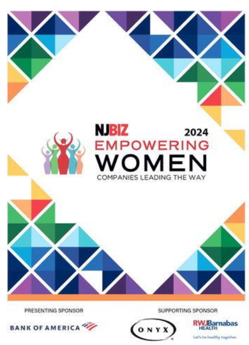

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