

For small businesses seeking a more affordable health plan and more options for employees, an alternate funding plan may be the right solution.

Alternate funding health plans are designed to give employers new ways to save.

Few items on the expense ledger of a small business are larger than the cost of its health plan. In fact, a full 69% of small business employers report their health plan costs have jumped over the last 4 years, with one-third experiencing annual increases of 10% or more.¹

“There’s no question. The single biggest concern of most small business owners today is the cost of coverage,” said Derek Springer, vice president, Product, Capability Strategy and Innovation, UnitedHealthcare. “Most are looking for new strategies to lower their overall costs and offer their employees benefits that have real value.”

Health insurers are responding. And, in an industry filled with acronyms and jargon, small businesses are discovering a kind of health plan with a somewhat cryptic name: an alternate funding health plan.

What is an alternate funding health plan?

Also known as “level-funded” plans, alternate funding plans push beyond traditional insurance plans to give small business employers new ways to pay for health services, manage costs and help employees get more value from their benefits.

These plans typically use 3 mechanisms:

- 1 **A self-funded medical benefits plan.** With this kind of plan an employer’s premium rate is based on the claims experience of only that specific employer’s workforce. If costs for providing health services to the group are higher, the employer pays more; if costs are lower, the employer gets money back.
- 2 **A stop loss insurance policy.** An insurance policy that provides coverage for large, catastrophic claims by a single, covered individual and provides overall coverage in the event all claims go beyond a certain dollar limit.
- 3 **A third-party claims administration agreement.** An agreement with an administrator to provide claims processing, billing, customer service and other services.

The popularity of alternate funding plans continues to grow. These plans offer employers more ways to save, as self-funded medical plan premiums are typically taxed at lower rates.

In addition, they provide freedom from many regulatory requirements and mandates, such as those found in the Affordable Care Act (ACA). For example, some of the act’s regulations that apply to fully insured plans—Medical Loss Ratio, rate increase review, Essential Health Benefits and others—don’t apply to these plans.

“Alternate funding health plans make it possible for an employer to take greater control of their health spending,” said Janet Mashl, vice president, Operations, UnitedHealthcare. “They provide tools typically available only to larger employers... and the marketplace is responding.”

How does an alternate funding plan health plan work?

Alternate funding plans work by helping small employers manage their health plan's financial risk differently. Figure 1 shows how traditional insurance plans require an employer to pay a fixed premium to the insurance company. The insurance company assumes the financial risk for providing health services to the employer group, including paying health care claims and covering administrative costs, sales commissions and taxes.

At the end of the plan year, if the actual health care claims are higher than expected, the insurer pays them. But if they're lower, the insurer keeps the difference.

Figure 1



Figure 2



Figure 2 shows how, with an alternate funding plan, the employer assumes the financial risk of providing health services to the employer group. It establishes a medical benefits plan that pays for employees' medical claims directly. These costs may vary from month to month throughout the year. But because the plan is level funded, the administrative fees, stop loss premium and monthly maximum claim liability are included in one monthly invoice—the amount of which is fixed—throughout the plan year.

At the end of the plan year, if the total health care claims are lower than anticipated, the employer may receive money back (where allowed by state law). If they're higher? The stop loss insurance policy covers them.

While the experience of small business employers varies, nearly 1 in 4 UnitedHealthcare clients using its All Savers® Alternate Funding health plan receives money back at the end of the year. Figure 3 shows the average refund is \$8,795 depending on the state and several other factors.

Figure 3



What makes an alternate funding health plan from UnitedHealthcare different?

Of course the impact of an alternate funding plan on the overall health spend of a small employer depends on the health status and claims experience of the employee group. With healthier employees who may use fewer health services, an employer is likely to save more money over the course of the coverage period. While an employer with employees who might not be as healthy—and who may use more health services—is likely to pay more.

Simply put, the success of an alternate funding plan depends on the commitment of the employer and employees to living and working healthier.

Increasingly, small business employers are recognizing the impact that a healthier workforce has on their business. In fact, the number of small business employers offering some kind of wellness program has jumped 65%.¹ Nearly 90% of employees who work in a company focused on health report being happier.² And employees engaged in their health may have lower rates of absenteeism and get more done at work.²

Perhaps the most important statistic when it comes to the impact of an alternate funding plan? Wellness programs can help address the nearly 50% of health care costs that stem from chronic or preventable disease.³

That's where UnitedHealthcare comes in.

“What makes our alternate funding plans different is the variety, quality and impact of the plan design, clinical management and health and wellness offerings we bring to the table,” said Shelley Duval, vice president, Business Strategy, UnitedHealthcare.

Among the UnitedHealthcare offerings designed to help create and sustain a healthier workforce:

- A network of more than 1 million health care providers focused on delivering cost-effective, quality care to employees and their families.⁴
- Access to OptumRx, a pharmacy services company with participating pharmacies nationwide.
- Digital tools to help employees find the most convenient care and compare the cost and quality of different providers across hundreds of health services.
- Sophisticated clinical management programs to support employees and their families as they manage chronic conditions or severe illnesses.
- Innovative wellness programs to help support employees on their journey to better health.
- Support for navigating the health system and answers to employee questions.

UnitedHealthcare also offers a number of tools that can help identify and act on health and wellness issues:

- A live welcome webinar to help employers understand and get the most from an alternate funding plan.
- Detailed claims utilization reporting to help employers better understand their utilization of health services and manage their benefit plan.
- The ability to bundle specialty benefits—like vision and dental—to take advantage of combined billing and other savings opportunities.

UnitedHealth Group, the parent company of UnitedHealthcare, is recognized as an innovation leader in the health insurance sector. UnitedHealthcare is delivering strategies built with the industry's largest integrated data platform, a team of more than 30,000 staff clinicians and close collaborations with some of the nation's leading health systems. "These kinds of offerings make it easier for an employer to implement their plan and support and engage their employees in better health," said Springer. "It's an innovative package that can help small businesses make their bottom line that much better."

“An alternate funding plan is an innovative package designed to help small businesses make their bottom line that much better.”



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¹ Small Business Trends, Workplace Wellness Programs are on the Rise – And Employers See Results, January 2019.

² Hyperbiotics: The Key Benefits of Wellness Programs, January 2019 From Better Health to Bottom Line.

³ WellSteps - Effective Employee Wellness Solutions: This is the Impact of Your Employee Wellness on Health Care Costs, September 2018.

⁴ UnitedHealthcare internal analysis, December 31, 2019.

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