Understanding “Dividend-Eligible” Health Plans

An alternative healthcare financing option for small employers who’ve historically been fully-insured.

Most employers have more choices than they realize when it comes to financing their group health plan. Purchasing a fully-insured health plan may be the traditional route for groups with under 50 employees, but having a better understanding of the Medical Loss Ratio, which came out of the Affordable Care Act, can cause some employers to want to reevaluate their options.

The ‘Medical Loss Ratio’ requires insurers to spend 80 percent of all premiums collected on claims, with the remaining 20 percent put toward administrative costs, marketing, and profit. That split is somewhat more favorable for large employers at 85 percent and 15 percent, respectively. If the insurer doesn’t spend the requisite allocation for their individual, small and large group risk pools, those employers are due a rebate.

In other words, the maximum profit insurers can collect is 20 percent of premiums. As a result, the avenue to profit growth is to increase the amount of money they pay out in claims.

Employers are left to question whether insurers are best positioned to help employers lower medical claims, and what really drives annual premium increases of 10 percent, 15 percent, 20 percent or more.

To get out of the status quo of premium increases, employers who are frustrated with rising costs may have to change how they look at their health plan and how it’s financed. There is a continuum of funding options available to employers, beginning with the traditional, fully-insured health plan, with steps groups of all sizes can take toward self-funding.

For groups under 50, one of these options is known as a “Dividend-Eligible” strategy, or sometimes called a “level-funded” health plan.

Here’s what employers should know.

Medical Underwriting

The employer is medically underwritten, which means the group’s health status is taken into consideration when carriers issue a quote.

Under fully-insured plans, rates are based on the age of employees and tobacco use. Employers who are healthier than the group age would suggest will typically see premium savings versus being fully-insured.

More Transparency

Employers get more transparency into where their premium dollars are being spent under a Dividend-Eligible plan. Specifically, the carrier will define the percentage of premiums to be applied toward claims, and toward fixed costs, which include administrative expenses, stop-loss coverage premiums, network access and broker compensation.

Dividend-Eligible

If there are unused funds in the "claims" bucket at the end of the 12-month period, that amount is split between the carrier and the employer. While each carrier calls this type of strategy something different, Bernard Benefits refers to it as "Dividend-Eligible," as it is the only type of health plans where the employer gets money back if their plan performs well.

If there is no money left over, the employer would simply receive a premium increase the following year, as if they were fully-insured.

How it Works

To illustrate how this works, let's look at an example.

Acme Company is considering adopting a Dividend-Eligible strategy, and the first step is for the organization's benefits broker to run quotes comparing a fully-insured plan versus a Dividend-Eligible plan.

Acme Company is healthier than their group age would suggest, and their Dividend-Eligible quote is $200,000 per year, as opposed to $250,000 under a fully-insured plan. Acme Company will recognize that $50,000 immediately via monthly premium savings of about $4,000 per month.

	Annual Premium
Fully-Insured	$250,000
Dividend-Eligible	$200,000
Savings	**$50,000**

Next, the company gets more visibility into where that $200,000 is being spent. Let's say the carrier allocates $120,000 of the employer's cost toward claims, and $80,000 toward the fixed costs described above.

After 12 months, if the organization's claims totaled just $100,000, then $20,000 remains and will be split between the carrier and Acme Company.

Dividend-Eligible total	$200,000
Fixed admin costs	$80,000
Allocation towards claims	$120,000
Actual claims total	$100,000
Savings*	**$20,000**

**Split between the carrier and the employer*

These additional cost savings can be recognized either in the form of a check back to the employer or a discount off the 13th month's premium.

Benefits of a Dividend-Eligible Strategy

In terms of premium payments, network access, and plan design, the Dividend-Eligible plan looks and feels exactly like fully-insured coverage. But it can also result in lower premiums, as well as providing more insight into claims data and the potential for savings in low-claim years.

Further, many employers with less than 50 employees on their plan aren't able to adopt a self-funded plan, which offers even more insight into claims spending. A Dividend-Eligible strategy is a good option for these employers to gain a better transparency into their costs.

Interested in learning more about alternate financing options for group health plans? Bernard Benefits has more than a decade of experience building sustainable benefits strategies for groups of all sizes.

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