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STRATEGIC RISK ALTERNATIVES

PROTECTED SELF-FUNDED PLAN

A growing number of small and midsize employers are opting to self-insure their employee health plans; primarily due to rising health care premiums and regulations. The annual premiums for employer-sponsored family health coverage reached $18,142, with workers paying $5,277 toward their plan in 2016, according to the Kaiser Family Foundation. Large employers have utilized the self-funded model for many years now, and small to mid-size companies are beginning to realize the benefits of a self-funded plan.

A primary benefit of a self-funded plan is the control given to the employer: a) control to customize the plan to meet the health care needs specific to its employees, rather than a "one-size-fits-all" policy; b) control to choose the providers or provider network that best meets the needs of its employees; c) control over the plan's profit reserves which under traditional health plans would have been underwriting profit to the insurance carrier; and d) opportunity for cost reduction strategies that the self-funded structure creates.

A self-funded plan has inherent risks employers should be aware of; the largest of which is the potential for a heavy claims year. A heavy claims year would likely result in increased premiums for the following year's stop-loss policies.

For business owners considering implementing a self-funded plan or already operating one, Strategic Risk Alternatives (SRA) offers strategies to maximize the benefits and minimize the risks. Protected Self-Funded Plan was developed by SRA to assist employers in mitigating the risks of heavy claims years and to stabilize their year-to-year premium rates. SRA achieves this in large part by empowering the employer to build a tax advantaged reserve

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within a Medical Allied Reinsurance Company (MARC); a small insurance company tailored to health claims reimbursement.

Section 831(b) of the U.S. Tax Code provides a tax incentive to own a small property and casualty insurance company. By utilizing the 831(b) tax code, business owners can effectively create a tax-advantaged fund for payment of healthcare claims arising from the self-funded program and to stabilize their premium rates year-to-year. Fortune 500 companies have been utilizing the 831(b) section of the tax code for many years now. In order to file under 831(b) code premium is limited to $2.2Million and is non-taxable to the insurance company. Until recently, utilizing the 831(b) tax code was a costly endeavor, but with lower barriers to entry and competition driving costs down, small to middle market companies can now utilize this concept.

Our firm is of the opinion that owning a small insurance company will soon be a normal business practice. Strategic Risk Alternatives is an insurance administrator and its primary role is to ensure that its clients' MARC's operate in accordance with federal and state guidelines. In addition to ensuring compliance, SRA provides administrative services to the MARC that include incorporation, claims processing, annual corporate filing, and other related services.

Over time, the Protected Self-Funded Plan allows the employer to build a tax advantaged reserve that can grow to be substantial over time. Having the reserve inside the MARC allows the employer to meet the premium increases resulting from a heavy claims year and with tax advantaged dollars. Flexible premium for reimbursement policies allows the employer to smooth annual healthcare premium expenses and project its annual costs more accurately. By implementing the MARC and utilizing it as described above, the employer further expands control over its health costs and unlocks the full potential of a protected self-funded plan.