A Guide to Corporate Self Funded Private Medical Benefits
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Why look for alternatives to private medical insurance?</td>
<td>2</td>
</tr>
<tr>
<td>What is the alternative?</td>
<td>3</td>
</tr>
<tr>
<td>Client considerations</td>
<td>4</td>
</tr>
<tr>
<td>VAT</td>
<td>5</td>
</tr>
<tr>
<td>Inheritance tax</td>
<td>5</td>
</tr>
<tr>
<td>What are the self funding options available in the market and how do they work?</td>
<td>6</td>
</tr>
<tr>
<td>Healthcare trusts</td>
<td>6</td>
</tr>
<tr>
<td>The Simplyhealth Scheme Agreement</td>
<td>9</td>
</tr>
<tr>
<td>Other self funding models</td>
<td>12</td>
</tr>
<tr>
<td>Captive insurance companies</td>
<td>12</td>
</tr>
<tr>
<td>High deductible plans</td>
<td>12</td>
</tr>
<tr>
<td>What does a good administrator offer?</td>
<td>13</td>
</tr>
<tr>
<td>Safeguards for the client</td>
<td>15</td>
</tr>
<tr>
<td>Timeframes</td>
<td>17</td>
</tr>
<tr>
<td>Thinking outside the box</td>
<td>18</td>
</tr>
<tr>
<td>Glossary of terms</td>
<td>19</td>
</tr>
<tr>
<td>About Simplyhealth</td>
<td>20</td>
</tr>
<tr>
<td>Basis of this guide</td>
<td>20</td>
</tr>
</tbody>
</table>
Why look for alternatives to private medical insurance?

In difficult economic times attracting and retaining the very best employees still remains a challenge, that’s why competitive benefits packages are very important.

The value of offering healthcare benefits are obvious: employees have access to high quality medical treatment at a convenient time and place, while employers have their staff back at work as quickly as possible.

Increasingly clients are looking for better value for money and cost control. Finance directors are scrutinising every penny on the bottom line.

The cost of private medical insurance (PMI) premiums is rising, partly as a result of increased treatment charges but also as scientific advances make a wider range of treatments and drugs available. There are also other factors likely to drive up PMI premiums in the medium to longer term. Reduced investment returns in current market conditions and the decline in equity markets have both had a negative impact on insurers’ capital ratios and reduced their capacity to provide insurance.

As a result we believe that PMI premiums are likely to increase at a faster rate than the rate of increase in treatment costs. This means traditional PMI may become even more expensive and less attractive for larger clients.

With Insurance Premium Tax (IPT) presently at 6% and concerns that it could rise to the European average of 10%, finding a cost effective alternative to PMI has never been as important.
What is the alternative?

Self funding healthcare benefits enables clients to ensure sustainability of benefits provision against a backdrop of increasing insurance and healthcare costs.

Self funded health plans started as a means of giving larger corporates real choice in the scope and type of benefits they wanted to offer to their employees, rather than the more rigid menu of benefits generally offered by PMI providers.

They allow for each client's style, branding and values to be incorporated into the health plan documentation and literature, reinforcing and integrating the link between the health benefits and the client's corporate culture.

Self funded health plans also offer a great degree of financial control, which can be very attractive in the current economic climate. Advantages of working with an experienced administrator include:

- Management and scrutiny of the funds available to pay for treatment costs
- Improved cash flow with the ability to make periodic payments rather than one large up front premium
- Flexibility to allow monetary contributions from employees
- Benefits can be tailored to meet a client's requirements, for example to align benefit provision with available budget
- Tax advantages – if properly structured IPT does not apply
- Minimal or limited insurance overheads (depending on whether stop loss cover is selected)
- Ability for preferential arrangements to be negotiated with medical providers, for example at hospitals located close to the employee’s workplace

The advantages of self funding are:

- Improved cash flow
- Payment of claims in arrears rather than in advance
- Provides a more affordable alternative to traditional health insurance
- Opportunity to directly influence benefit strategy to meet specific needs
- Costs relate directly to the claims experience of the client
- Can directly support and reflect client brand and values
- Current HMRC rules allow for advantageous tax treatment
Client considerations

Important considerations for clients include:

- The client will need to ensure that it selects a legitimate structure to fund the benefits provision, otherwise it faces a number of critical risks:
  
  - The first risk is that the client could be seen to be providing insurance. This would be a criminal offence under Section 19 of the Financial Services and Markets Act 2000 (FSMA). Furthermore a liability to account to Her Majesty’s Revenue and Customs (HMRC) for IPT could arise.
  
  - The second risk is that the recipient of any treatment e.g. an employee, could become liable to pay income tax and national insurance on the total costs of the treatment which they have personally received.

- To ensure these risks do not occur compliance is required with HMRC and FSA rules. Section EIM21772 of the HMRC Employment Income Manual covers trusts and other ‘similar funds’ and sets out the criteria which must be met in order for an employee to be subject to income tax by reference to a proportion of the contribution to the trust or fund, rather than by the costs of the medical treatment received. These are summarised as follows:
  
  - The fund is not simply a vehicle through which the employer meets employee’s medical expenses, rather the arrangement is one where the employee receives a right to have medical costs paid for from funds contributed by the employer
  
  - The employer makes regular contributions to a fund to provide medical treatment
  
  - The arrangements confer on each employee an absolute right to have the cost of specified medical treatment paid for from funds contributed by the employer
  
  - The employer’s overall annual contribution paid in respect of the arrangements for each employee is identifiable (if the trustees have any discretion about what benefits to provide this test will not be met)
  
  - Once paid the contributions are completely and irrevocably alienated from the employer
  
  - The arrangements are not capable of termination before all claims for treatment for periods for which contributions have been made by the employer have been met
  
  - It is a term of the arrangements that no variation is permissible such that one or more of these conditions would cease to be satisfied

- NIM02235 of the HMRC National Insurance Manual sets out the equivalent position for national insurance contributions and provides that as long as the above criteria set out in EIM21772 are met then there is no requirement for payment of Class 1 National Insurance Contributions (NICs) (i.e. NICs payable by both the employee and the employer). However, the employer will be required to pay Class 1A NICs on the funds contributed by it.

- Payments into the trust or ‘similar fund’ can be a deductible business expense for corporation tax purposes. The deductibility of the payments may be subject to a delay as the requirement is that they will be deductible once they have been paid out of the trust in a taxable form in relation to the employees - therefore in theory in year 1 the funds will not be paid out, however in practice estimated figures to arrive at taxable P11D figure such that it would be allowed. Clients should refer to their finance departments and professional advisors as necessary.
VAT

The administrator will charge VAT for their services. If the client cannot recover VAT generally, then no VAT recovery will be possible. If the client is entitled to partial or full VAT recovery, then VAT should be recoverable. The position is more complicated where there is a trust fund where consideration needs to be given to the basis on which recovery will be made. Potential options are:

- If the trustee is a corporate entity, and a member of the client’s group, then the trustee should be able to register for VAT as part of the client’s VAT group and recover the VAT. This route relies on the fact that in certain circumstances HMRC will allow a single VAT registration to cover both trustee and non-trustee activities. Any client wishing to pursue this option would need to confirm the guidance with their tax advisers or with HMRC direct.

- Alternatively the administration agreement can be structured as a three-way one between the trustees, employer and administrator, to reflect the provision of services to the employer in respect of which the employer can recover the input tax.

Inheritance tax

As long as only the employer contributes to the trust, and the employer is not a close company, then contributions to the trust will not be ‘chargeable transfers’ for inheritance tax purposes.

It should also be possible to structure the trust so that it falls within the employee trust exemption from periodic inheritance tax charges, by limiting the class of beneficiaries.
What are the self funding options available in the market and how do they work?

There are generally three key components to a self funded plan:

- The provision of healthcare benefits through a non-insured arrangement
- The overall costs of the provision of the benefit are apportioned among members, rather than individual members being taxed on the costs of the medical treatment they have received during the tax year
- The arrangements comply with HMRC rules and do not contravene FSMA

Delivery of the key components of a self funded plan can be achieved through a range of different models, which are explained below.

Healthcare trusts

Healthcare trusts are a well known, effective and long established method of providing self funded healthcare benefits. They are specifically recognised by HMRC as a model for self funding healthcare benefits.

Instead of insuring treatment costs for employees through a PMI policy, a healthcare trust is set up by a client to fund these expenses. The client enters into a trust deed and appoints trustees. Funding is paid to the trustees who must use it to pay treatment costs and other expenses such as administrator costs outlined in the trust deed.

Trusts explained

A healthcare trust is established by a formal deed of trust which clearly sets out the scope and extent of benefit entitlement within the rules of the trust, similar to the way in which a PMI policy sets out the rules and benefits to which a member is entitled.

In practice, a healthcare trust is therefore no more complicated than a PMI policy. The client makes payments to the healthcare trust to provide employees (and if covered, their dependants) with the right to receive the healthcare benefits from the funds paid and an administrator is appointed to manage the benefits on behalf of the trustees. This means that all the day to day healthcare expenditure, administration and claims handling is done by the administrator (not the trustees) and treatment costs are met by the administrator out of funds provided for the health plan via the trustees, by the client. Unlike some pension schemes and other trusts, the trustees themselves are not directly involved in day to day treatment decisions, or determining benefit entitlement for individual members at the point of claim.

When considering setting up a healthcare trust, a client should ensure the trust deed is drafted by legal advisors with specific expertise in the field and that the deed allows choice in respect of the appointment of the administrator.
A comparison of costs between an insured and self-funded approach for a client with annual medical treatment costs of close to one million pounds.

<table>
<thead>
<tr>
<th>Estimated Claims Cost</th>
<th>Fully Insured</th>
<th>Trust with 125% Aggregate Stop Loss Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>£39,100</td>
<td>£39,100</td>
</tr>
<tr>
<td>(850 employees @ £46)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance Risk Premium and underwriting margin</td>
<td>£135,104*</td>
<td>n/a</td>
</tr>
<tr>
<td>Aggregate Stop Loss Insurance Premium</td>
<td>n/a</td>
<td>£18,262</td>
</tr>
<tr>
<td>IPT @ 6%</td>
<td>£69,681</td>
<td>£1,095</td>
</tr>
<tr>
<td>Total Cost</td>
<td>£1,231,041</td>
<td>£1,045,613</td>
</tr>
<tr>
<td>Savings</td>
<td></td>
<td>15.1%**</td>
</tr>
</tbody>
</table>

* Fully insured figures assume: Insurance fees + Administration = 15% of Scheme Cost, excluding IPT and identical claims fund for comparison.

** The calculation assumes that actual costs of treatment do not exceed the Estimated Claims Cost (ECC).

Whilst legal expenses are naturally incurred when a company sets up its own healthcare trust, these can be avoided or reduced by joining an ‘umbrella’ trust already established by an administrator which is explained in more detail below.

Administrator owned and controlled trusts sometimes known as ‘umbrella’ healthcare trusts

There are a number of administrators that offer their own ‘umbrella’ healthcare trusts, so called because they enable any number of clients to join by coming under the ‘umbrella’ of an established trust. The originating trust deed should be professionally drafted and should have independent, experienced and reputable trustees.

Clients joining this type of ‘umbrella’ healthcare trust can do so only as long as they remain with that administrator.

The trustees of ‘umbrella’ trusts tend to be corporate trustees selected and appointed by the administrator. They should be entirely independent of the administrator. It is imperative that the client is entirely satisfied with the choice of trustee before joining the ‘umbrella’ trust.

The choice of benefits under an ‘umbrella’ trust might be prescribed by the administrator and may replicate typical PMI benefits. This leaves less scope for the client to bespoke benefits for their own purposes. Therefore it is important when selecting a provider that their ‘umbrella’ trust provides clients with sufficient flexibility regarding benefit design. The Simplyhealth ‘umbrella’ trust, known as the “Vitality Trust”, does allow flexibility on choice of benefits.
Employee contribution healthcare trusts

It is a common feature of many employer healthcare trusts, as well as conventional health insurance plans, that the employer will permit dependants to be covered as well as employees in exchange for a contribution from the employee. These are often referred to as “employee contribution trusts”.

This contribution, which may or may not represent the full marginal cost to the employer, can be collected in a variety of ways. From a tax point of view, it is common for employees to make their contributions by way of salary sacrifice where employees waive their right to an amount of salary and the employer makes an additional contribution, rather than the employee making a contribution to the employer or trust out of taxed income.

There are also further potential implications of a direct employee contribution into the trust, including inheritance tax. Simplyhealth recommends that any client wishing to receive contributions from employees outside of a salary sacrifice arrangement should seek independent legal and tax advice.

Trustees

The trust deed may appoint named individuals as the trustees. Alternatively, the client can appoint a trustee company to fulfil the trustee role. A benefit of the ‘corporate trustee’ option is that there is no need to amend the trust deed with name changes that occur from time to time when individual trustees retire and new trustees are appointed to take their place.

For non-corporate trustees there must be at least two individual trustees appointed at all times, however we recommend that, for reasons of accessibility, there are four. The trustees chosen by the client will often include current or retired employees of the client and may include an independent professional trustee. The trustees will have to agree to act and should be properly briefed on the requirements of their role and a client may consider organising formal training for trustees.

The trustees are ultimately responsible for ensuring the objectives of the trust are met in accordance with the terms of the trust deed. The role includes a duty to act in the best interests of the trust and to place the interests of the trust above any conflicting interests. Trustees are required to safeguard the funds of the trust by acting with reasonable care and responsibly at all times. With a corporate trustee, the directors of the corporate trustee will be responsible for these tasks on behalf of the client.

It is usual for trustees of healthcare benefit trusts to delegate the main part of their role to a professional administrator as it is rare for trustees to have the necessary financial and communications systems, processes, experience and the relationships in place with medical providers. Where an administrator is appointed trustees do not need to meet more than once or twice per year.
The Simplyhealth Scheme Agreement

Unique to Simplyhealth, the Simplyhealth Scheme Agreement has been used continuously since 1985 by long standing clients. Just like a healthcare trust it gives the employer greater scope to offer their employees the health benefits they actually want to give, rather than the benefits dictated by an insurance company.

The Scheme Agreement is a contract between Simplyhealth and the client. There is no need to appoint trustees. The agreement achieves compliance with relevant HMRC rules. Section EIM21772 of the HMRC Employment Income Manual specifically provides for both trusts and other ‘similar funds’. The Simplyhealth Scheme Agreement fulfils the required HMRC criteria as a ‘similar fund’. This means it has all the advantages of self funding.

The Simplyhealth Scheme Agreement in a nutshell

<table>
<thead>
<tr>
<th>What is it?</th>
<th>A legal document between the company and Simplyhealth which documents the rules and benefits covered by the scheme, membership eligibility and service standards.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fulfils HMRC criteria EIM21772</td>
<td>It has all the advantages of self funding without the complexity and expense of setting up a trust arrangement.</td>
</tr>
<tr>
<td>Tried and tested</td>
<td>Used continuously by blue chip clients since 1985 it is checked by legal counsel on a regular basis to ensure ongoing compliance with HMRC requirements.</td>
</tr>
<tr>
<td>Unique to Simplyhealth</td>
<td>The Scheme Agreement is a tried and tested mechanism and it is copyrighted and unique to Simplyhealth.</td>
</tr>
<tr>
<td>Costs</td>
<td>Simplyhealth does not charge for use of the Scheme Agreement. However should the client leave Simplyhealth they cannot transfer the Scheme Agreement to a new provider.</td>
</tr>
</tbody>
</table>
Practical considerations of the Simplyhealth Scheme Agreement

Cash flow control
Simplyhealth maintains a separate client bank account where funds provided by the client are paid to meet treatment claims from employees. The amount of funds required is discussed with the client at the outset, based on the company’s membership profile and claims history. This fund must be paid into the bank account during the scheme year. However, the frequency of payment is agreed between Simplyhealth and the client and the total fund does not need to be paid upfront. To ensure treatment costs can be paid, Simplyhealth requires an initial float which is topped up, often monthly. Any surplus claims funding can be carried forward to the following year.

Therefore, unlike insurance where the full premium is usually paid at the start of cover, this method enables companies to achieve cash flow advantages.

For those clients requiring the protection of stop loss insurance, Simplyhealth is well placed to provide this for them through its separate authorised insurance business.

Employment status
The Simplyhealth Scheme Agreement requires the client’s employees’ right to the healthcare benefits, for themselves and where applicable their dependants, to be part of their contracts of employment. This specific requirement ensures that the healthcare arrangements cannot be construed as insurance.

This means the Simplyhealth Scheme Agreement is not suitable for those companies where employees elect to voluntarily purchase and pay for a private medical plan. Another example of where a Simplyhealth Scheme Agreement is not available is to cover people who are not actually client employees e.g. equity partners or retirees/pensioners (unless, with the latter, their original contract of employment continues to provide health benefits after retirement – although it is unusual in the present economic environment to see such contract rights continuing into retirement).

It is important that all clients who wish to use the Simplyhealth Scheme Agreement provide confirmation, in writing, to Simplyhealth that it is an employer obligation under the contract of employment for employees and where applicable their dependants to have access to a health benefit entitlement.

Salary sacrifice
Salary sacrifice is a possible option. However, the employee’s salary cannot be sacrificed retrospectively, and should comply with all HMRC requirements. There is no requirement for employers to advise HMRC of salary sacrifice arrangements, although many do so in order to confirm that the correct levels of tax and NIC are being charged. Please note that HMRC will not give prior clearance to a salary sacrifice arrangement, and will only confirm after its implementation whether or not it meets requirements. Clients requiring any assistance in setting up a salary sacrifice arrangement should be guided by their finance teams and professional advisors.
Cost effectiveness
There are no additional charges made by Simplyhealth for using a Simplyhealth Scheme Agreement and no trustee charges. As with any self funding plan Simplyhealth will charge separately for its administration and claims handling services.

The Simplyhealth Scheme Agreement is:

<table>
<thead>
<tr>
<th>Suitable for</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Employees</td>
</tr>
<tr>
<td>• Partners and dependants of employees (where funded by the employer)</td>
</tr>
<tr>
<td>• Clients who do not want the cost and complexity of creating a trust arrangement</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Not suitable for</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Non employees e.g. equity partners, retirees/pensioners (unless contractually entitled)</td>
</tr>
<tr>
<td>• Employees who do not have express provision under their contract of employment for health care benefits</td>
</tr>
</tbody>
</table>

Sample start up fees
The following are examples of the scales of fees that apply to different self funded solutions.

<table>
<thead>
<tr>
<th>Vitality trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>The off the shelf “umbrella trust” solution from Simplyhealth. This provides a relatively low cost mechanism for establishing a trust. A one off set up fee of £1,500 is payable with an annual fee of £3,500 for ongoing trustee services.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scheme Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>This is a HMRC approved vehicle unique to Simplyhealth. There are no legal fees for the use of the Scheme Agreement.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bespoke trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>We estimate the start-up fees of a bespoke trust to be between £11,000 and £14,000 plus VAT. There will be further additional annual costs in terms of additional support, but most of these are likely to be hidden costs of internal support, not dissimilar to the costs and time involved in managing any large private medical plan.</td>
</tr>
</tbody>
</table>
Other self funding models

Captive insurance companies

In its most simple form, a captive insurance company is an insurance company owned by a client that underwrites the insurance needs of the companies within the client’s corporate group.

Good risk management enables the client to either reduce its insurance costs to reflect its own claims record, or retain, through the captive, the underwriting profits on its own insurance business.

Clients do occasionally use their own captive insurance company to insure their health plan amongst the overall portfolio of risks it handles and may appoint an administrator to manage the health plan where it is not in a position to provide those services itself. Any UK based employees’ premiums will be subject to IPT.

Simplyhealth can provide this type of administration service.

High deductible plans

These are relatively new to the market. Under the plans, companies have a corporate excess set on the policy, from which eligible claims are paid.

The excess is generally around 70% - 90% of the estimated claims cost. In order to mitigate any risk of employees being taxed on the treatment received as opposed to the employer’s annual contribution, it is key that this fund is managed via an approved HMRC vehicle such as a trust. It is likely this trust will be operated on an “umbrella” basis by the provider. The trust fund will be used to pay claims up to the total excess. Any claims above the excess will be covered by insurance. This plus any risk premium and other insurer’s charges, including administration costs will constitute an insurance contract and will be subject to IPT.

The advantage of high deductible plans are they potentially allow smaller companies to consider self funding their medical benefits as their exposure is limited to the costs of the excess and they are protected against a sudden increase in claims expenditure by the insured element of the plan. However, because insurance kicks in at a lower threshold than it usually does with an aggregate stop loss policy, IPT costs tend to be higher with this arrangement compared to other self funded arrangements.
What does a good administrator offer?

**Knowledgeable relationship account management**

Knowledgeable relationship account management works with clients in a consultative approach to understand the client's approach to benefits.

The goal of effective account management is to develop a long term relationship based on mutual understanding of the client's objectives. Good account managers will be experienced in working with both clients and intermediaries. They provide the essential link between the client and the key delivery functions such as the customer services, finance, pricing and legal teams to ensure the smooth implementation and ongoing running of the plan. Simplyhealth’s account management team are amongst the most experienced in the market.

Clients will expect a knowledgeable and effective administrator to provide valuable trend analysis and evaluation of plan performance, establishing future projections for the effective performance of the plan. The basis of Simplyhealth’s approach is to develop long term relationships based on a thorough understanding of the client’s healthcare objectives. Successful account management is one of the key reasons why Simplyhealth corporate clients stay with us for more than 10 years on average.

**Experienced administrators**

Understandably clients will look for the reassurance of a trusted partner in the administration of a self funded health plan. Simplyhealth has unrivalled experience having acquired the long standing administration businesses of Remedi and Medisure, businesses with a heritage that stretches back over three decades. Throughout this period we have been trusted administrators to a large number of blue chip clients.

As an experienced administrator Simplyhealth only provides proven workable solutions that we feel confident with. The Simplyhealth Scheme Agreement is an excellent example of an HMRC compliant arrangement that provides a practical alternative to a traditional trust arrangement.

An experienced administrator will be able to provide realistic claims fund estimates for clients. A recent portfolio review across the whole of Simplyhealth’s self funded business has shown that Simplyhealth predicts estimated claims fund requirements for clients with 98% accuracy.

**Effective claims and financial management**

If treatment costs are less than budgeted, any surpluses are retained to offset future treatment costs, rather than increasing insurer profit. If treatment costs are higher than expected then to bring the health plan funds back into balance, additional funding will be required. A client can limit their overall claims liability by purchasing stop loss insurance.
Competitive treatment rates

Clients will expect their health fund administrator to negotiate favourable rates for treatment with providers. Simplyhealth has an excellent relationship with providers. In fact Simplyhealth supplies administration services to the UK’s major private hospital groups. Simplyhealth aims to provide clients with the right care at the right time for the right cost. We deliver this in three ways: through innovation, our expertise and our commitment to world class customer care. These principles ensure that Simplyhealth delivers quality care for employees and cost effective outcomes for clients.
Safeguards for the client

PMI means that a client is covered for a fixed premium regardless of the actual claims cost. How can I be sure that the self funding arrangement will provide the benefits and not exceed the budget?

Statistically, for an insured population of 500 members or above the treatment costs for a year can be estimated within reasonably close limits by an experienced administrator. Naturally, there will be variation from year to year in treatment claims. To cover this sort of eventuality the client may decide to take out what is called stop loss insurance which provides cover when treatment costs in a particular year exceed the funds available to the trustees.

Stop loss insurance is typically offered to clients who want certainty around their maximum possible liability. It is recommended to cover any unexpected “peaks” in the level of treatment costs. This limits a client’s exposure under a self funded health plan. As it is insurance, IPT will be payable on the premium. There are two types of stop loss insurance that may be purchased:

<table>
<thead>
<tr>
<th>Aggregate stop loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>The insurer indemnifies against the combined total of all claims under the plan exceeding a stipulated threshold selected by the client. Typically, this threshold is 115% - 150% of the plan’s annual estimated claims cost.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Specific stop loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>The insurer indemnifies against the cost of individual claims which exceed the threshold selected by the client.</td>
</tr>
</tbody>
</table>

What happens if the claims exceed the stop loss insurance?

Our experience shows that this is a remote possibility. In the unlikely event that this happens, the client would need to provide further funds to meet the cost of claims over and above the stop loss limit of indemnity.

What happens if the claims are less than the estimated claims cost?

If the claims are less than the estimated claims cost anticipated any surplus funds which have been paid to the trustees or administrator can be carried over into the next year and will be offset in the calculation of the ECC for the following year. To comply with HMRC requirements set out in EILM21772 surplus funds cannot be returned to the Client.
How does the administrator manage cash flow?

Administrators need to hold enough funding to pay eligible invoices submitted by healthcare providers as they are received. Simplyhealth asks clients to deposit two or three months of the estimated claims fund at the beginning of the plan year. This is held securely in a client bank account which is drawn on to pay eligible claims. Simplyhealth typically invoices the client for a sum equal to the preceding months claims and a consistent balance is maintained throughout the plan year. As an alternative clients can choose to pay by regular direct debit or standing order with any necessary adjustment made throughout the year as required.

The aim is to establish a balance between Simplyhealth holding the minimum amount required whilst ensuring there are adequate funds to pay claims.

What if the client wants to change back to PMI or to switch to a different administrator at a later stage?

This is straightforward. Subject to any termination notice under the administration agreement, a client can have the right to terminate the administration arrangements at any time (however it is preferable for termination to coincide with the end of the plan year) and wind up the fund. HMRC rules referred to previously provide that if funds are not ‘alienated’ from the client then employees will become liable for income tax calculated on the costs of treatment they have received. Therefore it is important to ensure that any surpluses held within the fund are not returned to the employer and are instead paid to the new PMI provider or administrator towards the cost of ongoing provision for healthcare benefit.

Another consideration to be aware of is that an outgoing administrator is likely to need to retain funds to settle treatment invoices forming part of the claims tail. These will be for benefits in respect of which an authorisation was provided to the member or hospital during the benefit period prior transfer but where the invoices cannot be processed until after the date of transfer. The tail is caused by the time delay between treatment and the provider or member submitting the invoice to the administrator for payment. The usual period to allow for this is six months.
Timeframes

**Agreement of budget**

The goal of setting an estimated claims fund is to achieve a realistic estimate for the client that is neither too high nor too low. An internal audit of the claims fund estimates set by Simplyhealth on behalf of self-funded clients indicates that, given sufficient claims history, we can estimate funding requirements with 98% accuracy.

To achieve high levels of certainty claims fund figures for at least eight to nine months of the preceding claims year are required. In certain circumstances, where for example a client wishes to implement a flexible benefit system, it is possible to make claims estimates based on as little as six or seven months claims history. If this is the case, the restricted data available might lend itself to a more conservative estimate of the fund required.

**Termination notification to present provider**

The client will need to comply with any contractual notice periods under their current arrangements.

**Drafting of documents**

Experience has shown that three months is a realistic timescale for the completion of documentation and includes liaison with intermediaries, legal advisors and client sign off. This would include the drafting of trust deeds, administration protocols, administration agreement, and the provision of literature.

**Consultation and communication with employees**

It is helpful to explain to plan members the reasons for moving from an insured policy to a self-funded solution. The administrator will be able to work with the client on a clear communication plan explaining reasons around cost, service and sustainability that have led to the change. Changing to a plan administrator with a high level of brand presence in the market, such as Simplyhealth, can help to mitigate concerns that some plan members may have.

It is important to communicate clearly with plan members who are in mid-claim during the transition. For example, Simplyhealth will pro-actively call patients whose treatment has been authorised by the previous insurer or administrator to confirm that we will accept existing treatment authorisations and are aware of proposed courses of treatment.
Thinking outside the box

Self funding is a concept which allows clients to take a creative and flexible approach to meeting the healthcare needs of their workforce. It is not constrained by the requirements of the insurers who will generally limit their cover to acute medical conditions only. Self funded solutions can lend themselves to flexible benefits and be used for everyday treatments such as optical and dental benefits. They can also be extended to provide benefits in relation to chronic illnesses which could be limited to specific medical conditions e.g. diabetes.

Simplyhealth is also able to offer our Access option. This initiative is a service to the company as it provides treatment on company demand rather than employee self referral. For example, an occupational health department may have identified back surgery as necessary for a prompt return to work for a key employee not covered by PMI. Private treatment would be arranged by Simplyhealth and the costs billed to the employer. Some medical interventions which relate to illness and injury caused by the nature of the employees work, are exempt from tax. However it is important that company agrees with HMRC or it’s local tax office which treatments are exempt and agree how treatment which are non exempt will be treated for benefit in kind purposes. It is common for companies to settle the employee tax liability on the treatment costs direct with HMRC, but this can only be done by prior arrangement with them.
Glossary of terms

**Captive insurance company**
An insurance company owned by the parent client and which underwrites the insurance needs of the parent company and subsidiaries.

**Employee contribution healthcare trusts**
This is a vehicle to allow contributions from employees to fund treatment costs for their dependants or for retirees.

**Estimated claims cost**
The amount agreed between the client and the administrator as the best estimate of claims spend for the plan year based on a review of claims history and membership.

**Healthcare trusts**
Instead of insuring costs for employees through private medical insurance, a healthcare trust is a means of self funding private medical benefits in a cost and tax efficient manner. It is established by a client entering into a healthcare trust deed.

**Insurance Premium Tax**
A tax, currently charged at 6%, on all UK general insurance premiums (except travel insurance, where the rate is 20%).

**Self funded health plans**
An alternative to traditional private medical insurance funding. This type of plan gives larger clients greater financial control and enhanced choice in the scope of benefits. There can be tax advantages in some circumstances and other cost savings and cash flow benefits.

**Simplyhealth Scheme Agreement**
A self funded contractual arrangement which is unique to Simplyhealth. It is checked on a regular basis by independent counsel to ensure compliance with HMRC and FSA requirements. It has the advantage of not requiring the appointment of trustees and the costs of establishing a trust. The scheme agreement requires that healthcare benefits are embodied in the employees’ contract of employment.

**Stop loss insurance**
An insurance policy that caps a client’s overall claims liability, if eligible claims exceed an agreed margin or claims limit.

**Trustees**
Trustees are the group of individuals who are responsible for ensuring the objectives of the trust are met in accordance with the terms of the trust deed. Alternatively a trustee company can be established specifically to perform the role.

**Umbrella healthcare trusts**
A type of trust set up to enable any number of clients to join, without the complexity of each having to set up their own trust. Each participating company has flexibility to set their own benefits, but apart from this the trust deed remains standard for all clients who participate under it. The trustees of this type of trust tend to be corporate trustees selected and appointed by the scheme administrator.
About Simplyhealth

We’re experts in providing access to quality healthcare and have always followed mutual values, so we do not have shareholders. Our profits are reinvested into the business for the good of our customers and donated to health related charities. We cover nearly four million people, and 20,000 companies, with our range of health plans and services more than any other company in our sector. Specialising in self funded health plans for 25 years we are one of the UK’s largest providers, managing more than £70 million of clients’ claims expenditure each year. We manage the employee healthcare plans for the UK’s major private hospital groups.

Basis of this Guide

This guide is designed to provide a general understanding of the various considerations relating to self funded healthcare benefits. Statements in this guide are made at the time of printing, which is January 2013. Each client’s particular circumstances will differ and legal, regulatory and market circumstances may change over time. Accordingly, statements made in this guide should not be acted on without taking professional advice on a given situation.