



Level-Funded Plans in 2026: Compliance Responsibilities Employers Must Manage

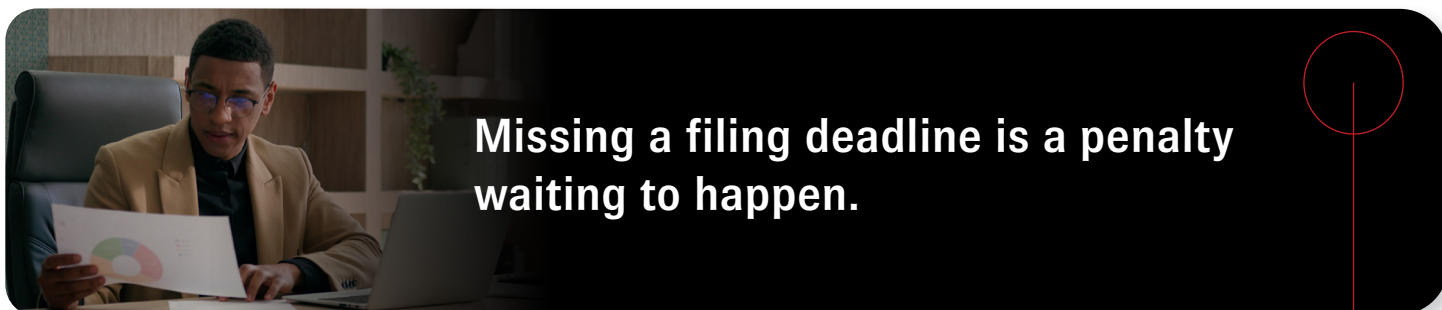
Level-funded plans are gaining traction as employers search for an alternative to traditional fully insured coverage. With medical premiums projected to jump 9% for 2025 renewals, it's no surprise more groups are making the switch. These plans can offer predictable monthly costs and sometimes even refunds. But there's a catch: the compliance and administrative responsibilities shift from the carrier to the employer.

ACA REPORTING

If your group has 50 or more full-time employees, ACA reporting is not optional. You'll need to furnish Form 1095 to employees and file Form 1094-C with the IRS.

For 2025 coverage, the deadline lands at the end of the first quarter of 2026. Under a fully insured plan, the carrier usually takes care of this. With a level-funded plan, the responsibility shifts to the employer. Accuracy matters. Without systems to track eligibility, enrollment, and coverage details, it's easy to run into compliance trouble.

Red flag: Mismatched data between payroll, HR systems, and TPAs. These slip-ups are one of the top reasons filings end up wrong.



**Missing a filing deadline is a penalty
waiting to happen.**

PCORI FEES

The Patient-Centered Outcomes Research Institute (PCORI) fee applies to every level-funded plan and has to be filed and paid once a year. For plan years ending in 2025, the payment is due July 31, 2026.

This step often catches employers off guard when they move from a fully insured plan, since the carrier usually handles it. With a level-funded plan, the employer has to calculate and submit the payment directly to the IRS.

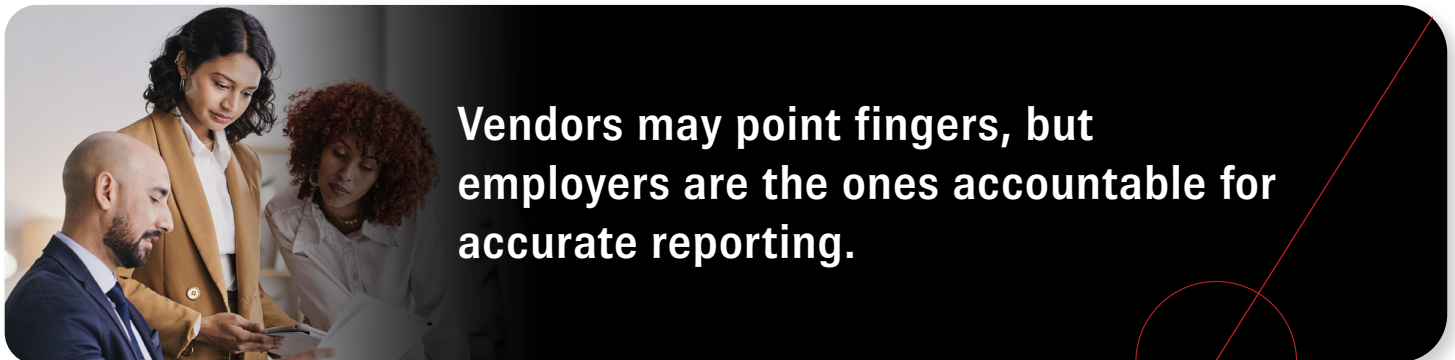
Heads up: Late filings rack up penalties. Many employers assume a vendor will take care of them, but that's rarely the case.

PRESCRIPTION DRUG REPORTING (CAA REQUIREMENT)

The Consolidated Appropriations Act requires an annual prescription drug and healthcare spending report. For 2025 data, the filing deadline is June 1, 2026.

Employers will need to coordinate with their TPAs, PBMs, and carriers to make sure every piece of data is collected and submitted correctly. Even though this rule applies to all funding types, level-funded employers often face extra complexity because multiple vendors are in the mix.

Common pitfall: Vendors pointing fingers at each other. Employers should confirm who is responsible for the actual submission and set internal deadlines to review the report before it goes out.



Vendors may point fingers, but employers are the ones accountable for accurate reporting.

COBRA PREMIUMS

With level-funded plans, state continuation coverage rules don't apply. Instead, federal COBRA rules take over. That means COBRA premiums can't be tied to an employee's payroll deduction. Employers have to calculate premiums using either the past-cost or actuarial method spelled out in federal law.

Getting this wrong can cause real compliance headaches. If rates are set too low, the employer ends up subsidizing coverage without realizing it. If they're set too high, employees may push back or even file complaints.

Key reminder: TPAs sometimes default to simplified calculations. Employers should ask for actuarial support or documentation each year to back up the COBRA rates.

HIPAA SAFEGUARDS

Level-funded plans increase an employer's exposure to protected health information. Under HIPAA's privacy and security rules, the employer is directly responsible for keeping both electronic and paper records secure.

Business Associate Agreements (BAAs) need to be current, and access should only go to people with a legitimate need to know. With more data running through employer systems, any gap in safeguards can quickly turn into a costly violation.

Easy-to-miss risk: paper records. Many employers lock down their electronic systems but forget about printed reports, mail, or files sitting in the office.



REFUNDS

One of the big draws of level-funded plans is the chance for a refund when claims come in lower than expected. But here's the catch: Some refunds may be considered plan assets under ERISA. If that's the case, they can only be used for the benefit of plan participants, not to offset employer costs.

That's why it's smart for employers to decide ahead of time how refunds will be handled, documented, and communicated. Without a clear plan, what should feel like a win can quickly turn into confusion or even a compliance problem.

Risk to avoid: depositing refunds straight into a general account. If those dollars are plan assets, that move is a prohibited transaction.

NONDISCRIMINATION TESTING

Section 105(h) of the Internal Revenue Code requires self-funded and level-funded medical plans to prove they don't favor highly compensated employees. That means every plan has to complete nondiscrimination testing each year.

If the plan fails, highly compensated employees face tax consequences. It may also point to bigger compliance concerns. That's why it's best not to wait until after renewals to run these tests.

Timing trap: waiting until year-end. Employers who leave testing to the last minute have little time to fix plan design or contribution issues.

WHY THIS MATTERS

Level-funded plans can bring real savings and predictability, but they are not hands-off. The compliance responsibilities move from the carrier to the employer, and the stakes are high. Miss a deadline, and penalties follow. Report inaccurately, and audits are on the table. Mishandle refunds or COBRA premiums, and ERISA or IRS issues can get expensive fast.

Too often, employers don't realize these obligations until they're already out of compliance. That leaves agents in the tough spot of explaining penalties or fixes right in the middle of renewal season, when stress is already high.



**With the right plan in place,
employers can capture the benefits
of level-funded coverage without
the compliance missteps.**

BOTTOM LINE

Level-funded plans give employers flexibility at a time when fully insured renewals are climbing. But they also come with responsibilities that can't be brushed aside. Success depends on planning ahead, documenting processes, and making sure everyone knows their role.

At CRC Benefits, we help brokers protect their clients by adding structure, clarity, and compliance expertise to every level-funded plan. From ACA reporting to COBRA rates and more, our team equips you with the tools and guidance to keep groups compliant and confident.

If you have clients looking at a level-funded arrangement for 2026, now is the time to prepare. Reach out to your CRC Benefits representative to get compliance checklists, filing calendars, and resources that make administration manageable. With the right plan in place, employers can enjoy the advantages of these plans without the risk of penalties or compliance missteps.

CONTRIBUTOR

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