



An alternative to private medical insurance

What is a Corporate Healthcare Trust?

A corporate healthcare trust is a trust arrangement through which an employer self-insures healthcare benefits for their employees, and which can offer cost savings and better cost control. Instead of paying premiums to an insurer, contributions are paid into a trust which pays for the medical benefits, with employers paying a service fee to a provider to manage the trust and employee claims.

Who should be interested?

Any employer which provides private medical insurance as a benefit to a significant number of employees in the UK (e.g. over 100) and/or pays medical insurance premiums, in aggregate, exceeding £200,000 per annum.

Why switch?

Providers report that a trust arrangement typically saves employers 10% p.a. as compared to the costs of private medical insurance. Part of this cost saving comes from the fact that contributions into a trust are free of insurance premium tax which now applies to insurance premiums at a rate of 10%.

Additional benefits

Employers should also find self-insurance provides:

- Better value benefits
- A better claims handling experience for employees
- More control over healthcare cost inflation
- The advantage that, unlike an insurance product, contributions not used to pay out for claims remain in the trust to be used to subsidise future claims
- The flexibility to design health care cover to meet the specific needs of the employer's workforce.

Things to consider

As a self-insured arrangement, there is the risk that claims might exceed the claims fund in any one year. However, there are now

many secondary products on the market which can mitigate or eliminate that risk. Also, funds left over from 'good' claims years can buffer the consequence of 'bad' claims years.

Tax treatment

Broadly, the tax treatment mimics that of private medical insurance. Employees are taxed on contributions to corporate healthcare trusts in the same way as an employer paying an insurance premium – as a benefit in kind. Payments for treatment out of the trust are made tax free.

For employers, contributions are free of insurance premium tax and are tax deductible for corporation tax purposes.

Providers charge a services fee to manage claims which will be subject to VAT but this may be recoverable depending on your group structure.

What next?

If you are interested in investigating the potential benefits that a corporate healthcare trust could provide to your business, we can:

- Explain the various alternatives you have
- Help you select a provider
- Advise you on any employment law aspects of switching
- Draft and advise on all trust documentation
- Provide as much help as you need in making the switch.

Contact

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