

The

FUTURE

of Self-Funded Plans

The rising cost of health care is a constant concern for employers trying to provide a reasonable benefit program for their employees. Recent reports place the annual increase in health care costs around 15 percent, with prescription drug costs rising between 16 and 20 percent annually. The average employer, on the other hand, can usually afford no more than an 8-percent increase.

The silver lining in this diverging scenario is the opportunity for producers to bring new benefit options to the negotiating table. Employers, the primary purchasers of health care, want choices. They want to understand their cost structure and protect the bottom line. >>>

More employers are turning to self-funding to meet their health care needs, and it's helping the bottom line.



A self-funded health plan is one option that provides useful insight into company expenditures and encourages client participation in managing health care costs. While the concept of self-funding isn't new, evolving purchasing criteria and economic realities have caused companies to seek out creative funding alternatives.

KNOW YOUR MARKET

The first step in selling self-funded plans is to understand important client characteristics. To determine good candidates for self-funding, look for the following traits:

1. Employers with a relatively healthy population or a history of good claims experience.

A healthy workforce may be indicative of an industry, or the result of comprehensive wellness practices. Either way, good health equals lower claims costs, which makes self-funding a viable option for employers.

To assess the health of an organization's employee population, the company has two options: First, it can try to access information from the current carrier, or it can submit underwriting information that would allow a carrier specializing in self-funding to determine whether the company would be a good candidate.

If results indicate good health and low claims costs, the employer should be aware that fully insured plan rates might not reflect this sound healthcare management. By pooling the costs of an entire segment to set an average price, the majority of the groups within the segment tend to subsidize the unhealthy, high-cost participants. Self-funding allows employers to back out of the pool and get the benefit of their own experience.

2. Employers who want to lower costs by adjusting benefit offerings.

With fully insured plans, most states require coverage for certain mandated benefits. Because self-funded plans are governed by ERISA and not by state laws, the employer has greater flexibility

in deciding whether to add these benefits to the plan. The savings realized from excluding state mandated benefits could be as much as 10 percent.

3. Employers who want to trim tax liabilities. States impose premium taxes of up to 3 percent, which obviously adds to the cost of the plan. Under a self-funded arrangement, the self-funded portion of the cost (not including stop loss) is exempted from state premium tax. This can result in another savings opportunity for the employer.

4. Multi-site employers who want to offer the same benefits to all employees. Because fully insured plans must comply state-by-state with mandated benefits, companies often cannot provide a consistent benefit plan. Self-funding allows the employer to offer the same plan to employees in all states.

5. Employers who want to improve cash management. With self-funding, companies pay for claims when they are incurred instead of paying a flat premium every month regardless of actual claims costs. Any necessary claim reserves can be retained by the client, creating the opportunity for an additional increase in cash flow.

TAKE HEED OF THE UNKNOWN

Once you have identified your clients' needs, you need to understand and mitigate possible issues. Sometimes clients can be leery of new concepts or unfamiliar plans. This is often the case with self-funded plans, as companies that have not used them often fail to protect against large claims. While this is an understandable concern, producers owe it to their clients to provide them with an overview of all potential health benefits solutions that can meet their goals.

Though most common in groups of more than 1,000 employees, self-funding can provide enormous benefit solutions to small- and mid-size companies. And, if the goal is to reduce costs or increase cash flow without sacrificing coverage or cutting employees' benefits, self-funding is a viable alternative you should be prepared to explain.

Another common concern with self-funding is weighing risk and reward. Similar to the "glass is half full; glass is half empty" analogy, companies fear having to fund a catastrophic health care event. On the other hand, companies obviously value the reward of cash flow savings that self-funding can provide. While there is validity in these dichotomous positions, perception is not always reality. If clients shy away from risk but embrace the benefits inherent to a self-funded plan, the following four benefits can alleviate employer concerns:

Risk can be mitigated.

Great rewards don't always entail great risk. The name of the game



with self-funding lies in implementing cost containment strategies, which you can assist the client in creating. Such strategies include:

- Specific stop loss, which provides a coverage cap on any individual claim at a specific dollar amount, such as \$25,000. Any claims in excess of this cap are the insurer's responsibility.
- Aggregate stop loss, also known as excess loss, provides a guarantee of the policyholder's maximum claims liability for the entire group and reduces the overall liability of the employer.
- Health care and disease management programs that focus on managing the health care of those members with chronic or potentially catastrophic conditions. Typically, approximately 10 percent of members account for 80 percent of all claims dollars.
- Carefully calibrated plan designs, contribution strategies, and support tools that engage members, which help employers to become conscious, proactive health care consumers instead of passive users.

Detailed costs can be reviewed.

Because of their pooled nature, fully insured plans typically don't provide insight into claims data. In a self-funded arrangement, however, companies have access to actual claims information, allowing an employer to:

- Understand the true cost drivers and make educated decisions about plan design
- Reevaluate budget allocations
- Introduce programs targeted to the needs of their population, such as disease management

When negotiating health care plan coverage, whether at renewal or plan enrollment, access to claims information also gives you and the client various options to consider, which shows you are working to find the best benefit plan to meet their needs.

Engaging plan members in health care decisions can lower costs.

Most companies realize that a healthy workforce contributes to the ultimate success of the company, but they don't always realize what resources are available to make this happen. In addition to traditional wellness programs, benefit decision-makers should understand the variety of tools available to guide informed, cost-conscious health care decisions. Health plans may provide access to interactive online wellness systems, drug and hospital comparison tools, provider cost and quality data, and proactive disease management programs. With self-funding, health plan savings fall directly to the employer's bottom line.

Self-funding can improve cash flow and long-term savings.

With fully insured plans, companies pay a fixed amount in advance, but receive no benefit or cost savings if they take proactive measures to reduce costs. With a self-funded plan, companies pay as they go. If claims are less than the expected amount, savings accumulate in the employer's account. Companies that have a lower-than-average health care use can keep the difference instead of giving it to the insurance company.

SELF-FUNDING PAYS

As you can see, balancing the risks and rewards of self-funding is a matter of understanding your clients' needs and exploring their options. At first glance, selling fully insured plans may appear to be a simple, secure way to serve your book of business. However, if you limit your product offerings, you will limit your clients' options. While selling self-funding requires education and research, a client will appreciate the work you have done to help him understand cost and manage health care risks. ■

Mark L. Stadler is the senior vice president for U.S. markets for Great-West Healthcare, which operates a national health care network that includes more than 4,600 hospitals and 400,000 physicians and provides health care coverage to nearly 1.95 million individuals.

