Innovative Benefits
IBT Consulting

SELF-FUNDED EMPLOYEE HEALTHCARE PLANS

A guide for employers exploring the benefits of self-insurance

Once a strategy for only the most sophisticated CFO, large and mid-market employers are realizing the advantages of self-funded health plan arrangements. In this overview, we will discuss the driving factors behind increased employer adoption, outline the fundamentals of self-funding, showcase the employer and employee benefits and give you insight into how to transition your company to a self-insured model.

SELF-FUNDING: AN OVERVIEW

Traditionally, many companies have opted for a fully insured plan, in which employers pay a predetermined premium to an insurance company to cover the annual cost of care for all plan members. The premium is based on the number of employees in a population, and the employer is not reimbursed if their actual claims cost is lower than the premium.

In contrast, employers under a self-funded plan pay only for claims incurred. They estimate assumed risk based on claims history and health data and protect against unexpected increases in claims with reinsurance, or stop-loss, coverage.

In this model, instead of blindly paying premiums, employers can influence claims cost through detailed health data and custom clinical outreach programs.

"It's not just the absolute amount, or that we face double-digit increases every year, it is the total lack of control."

– Textile Manager, CFO

THE SHIFT TO SELF-FUNDING: BY THE NUMBERS

In or around the year 2000, the percentage of all employees under self-insured plans tipped from less than 50% to greater than 50%. By 2015, 63% of all employers and 83% of companies with over 200 employees were self-insured.

In some regions the trend is even more pronounced. Southeastern states including North Carolina, South Carolina, Georgia and Maryland all boast statistics near or above 90%.

WHAT'S DRIVING THE TREND?

The increase was aided by the passage of the Employee Retirement Income Security Act of 1974 (ERISA). ERISA allows multi-state employers to self-insure or directly fund healthcare expenses of workers in order to offer consistent health care benefits. The passage of ERISA also resulted in additional employer cost savings as insurance carrier premiums, over-funding and broker fees were partially or entirely removed from the equation.

While a less measurable trend, industry analysts expect recent changes in legislation, specifically the Patient Protection and Affordable Care Act of 2010 (PPACA) will continue to drive up costs resulting in more companies adopting self-funding in the face of unsustainable annual cost increases.

While these legislative changes paved the way for increased adoption, employers are also inticed by the promise of greater control and opportunity for cost savings, which can be as significant as 10-25% of total medical spend.

HOW SELF-FUNDING HELPS EMPLOYERS REGAIN CONTROL

In operating his or her organization, a business owner would be unlikely to hand over control of assets that impact long-term financial stability. Those functions are kept under close watch.

Yet, in fully insured health plans, employers relinquish all control over healthcare costs by paying a fixed premium regardless of actual claims cost.

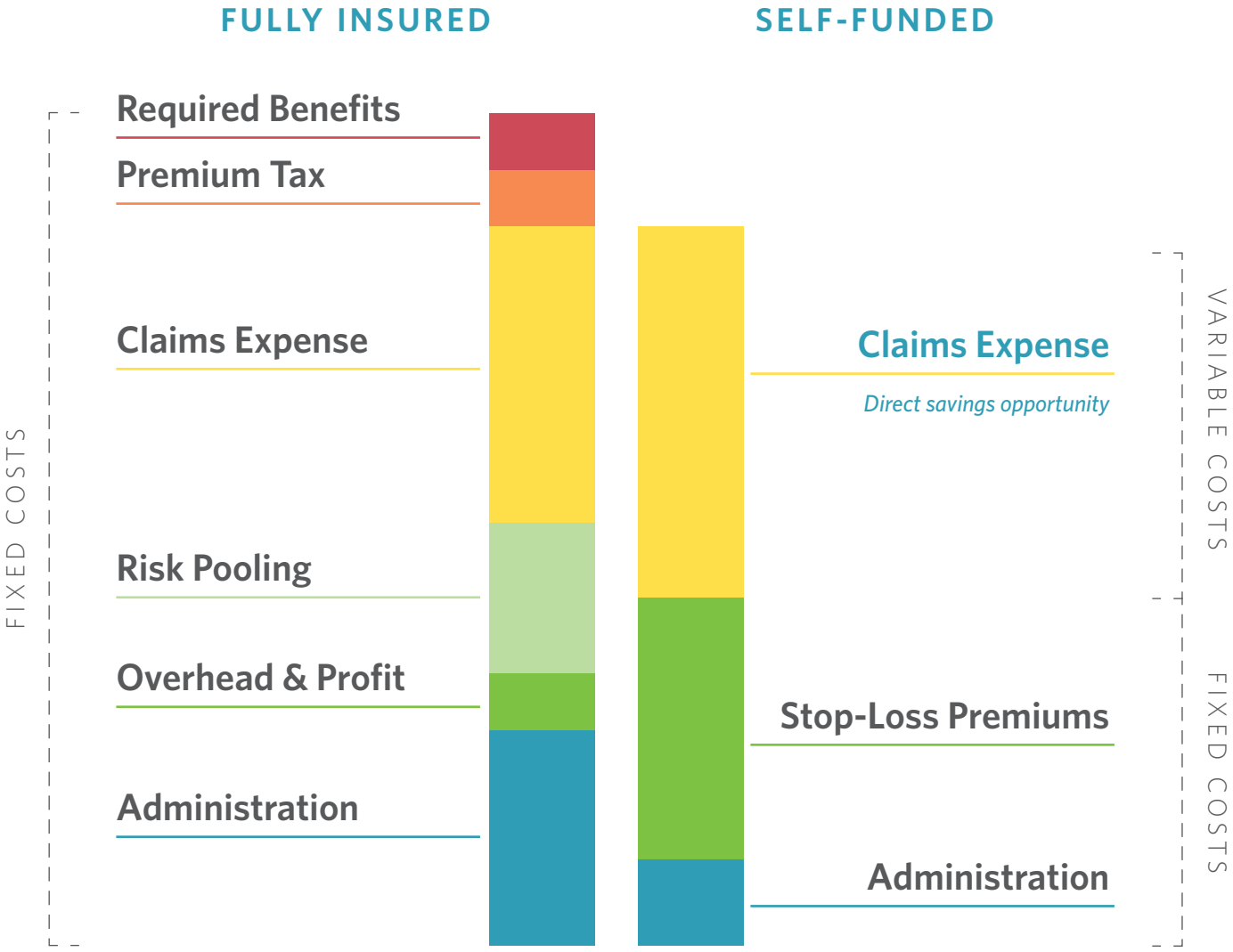
In a fully insured plan, employers have no insight into how their health plan is performing, and simply receive a renewal rate increase each year based on data they can't access.

When this major expenditure of your business is managed in obscurity, can you really feel confident about the performance of your investment?

In a self-funded model, corporate leadership has more control over how the risk is funded. Because claims are paid as they actually occur, the impact on cash flow is significant.

Self-funded employers have more visibility into exactly where their healthcare dollars are going. CFOs no longer need to tolerate lack of transparency and sub-optimization of working capital. These employers have a vested interest in keeping employees well and claims cost down, and with a self-funded health plan, are able to put programs in place to do so.

Fixed and Variable Costs in Fully Insured and Self-Funded Plans



IMPROVED CASH FLOW

Even for organizations with as few as 100 employees, savings with a self-funded plan can be substantial. For instance, if a company spends $1,000,000 on healthcare in a given year through a fully-funded plan, typically 10 to 15% of that goes directly to the carrier in premiums based on employee count and history. Again, actual claims may be less than the contracted premium amount, and the difference is kept by the carrier. Fully-insured companies also traditionally pay brokers through a commission structure that typically adds another 5-7%. Finally, states tax insurance premiums at a rate of 2-3 percent. Self-funded plans are not subject to these charges.

Using the million-dollar scenario outlined above, assuming no savings due to improvements in health, a company can easily save 20% in carrier profits, commissions and taxes alone.

INFORMED CHOICES

When the fixed cost of premiums is removed, employers have more opportunity and incentive to manage claims expense. They can more easily implement clinical outreach programs and make strategic decisions about funding, plan design and the vendors that will partner with the organization. Firms can choose providers, become part of a proprietary network and generally put their employees in a position to make smarter consumer choices.

Companies who choose to self-fund also face less local regulation. State mandates which limit plan flexibility and create additional cost burdens do not apply under a self-funded model. The result? Self-funded plans can be designed to meet the needs of the workforce as opposed to a focus on regulatory compliance.

ACHIEVING SAVINGS THROUGH POPULATION MANAGEMENT

Self-funded employers have more access to workforce-specific data, and use it to identify health issues and cost drivers within their populations and put appropriate health improvement programs in place.

Strategies such as smoking cessation or condition specific health coaching can be implemented easily and more effectively. High-value services such as preventive care and medication adherence regimens give employers more control of positive outcomes while increasing workers' quality of life and decreasing costs.

Lastly, as we enter a new landscape characterized by patient consumerism, procedure cost data and member advocacy are critical to encouraging and rewarding utilization of fair-price providers.

Consider the following example: one of your employees suffers a knee injury. Their doctor recommends anterior cruciate ligament (ACL) surgery and refers the patient to a partner facility. The member has the procedure at the recommended facility and is recovering well. In most cases, the story ends there.

The critical piece missing from this all-too-common scenario happens between the doctor recommending the procedure and the member selecting a facility. Depending on location, ACL surgery can range in price between $4,694 and over $51,000 among in-network providers, a 965% price variance. That's a difference of $46,306 that both the member and employer pay for in the form of claims paid and coinsurance. This scenario is not uncommon.

What members often don't know is that they have the option to choose a high-quality facility at a fair price. For self-funded employers, the increasing availability of this medical cost data is crucial. Making it available to your employees in the form of a coordination team pays off significantly. Over time, they learn how to compare costs and how to use healthcare appropriately.

AT A GLANCE SUMMARY

The table below provides a quick overview of some of the differences between a fully insured model and a self-funded approach to risk management.

Issue	Fully-Insured	Self-Funded
Risk	Risk is transferred to the carrier. With that comes a trade-off: Companies can significantly overpay, have less control and have no visibility into cost drivers.	Risk is managed through stop-loss insurance, which caps catastrophic claims. Accessible data means companies are able to actively reduce risk rather than entirely transfer it with no visibility.
Vendor Compensation	Multiple profit margins and commissions, which are often hidden from employers.	Limited external margin and transparent commissions depending on vendor selection.
Transparency	Limited to non-existent – employers don't know their actual claims cost relative to the premium paid, and the carrier keeps the difference.	Total – the firm pays claims as it goes and only pays for claims actually incurred. Firms own their own health plan data and can use it to implement the right programs to lower costs.
Cost Control	Limited—the firm is typically increased by more than 10% annually and can be increased in excess of 25% following a higher claims year.	Greater – while no firm can accurately predict it's total annual spend, the self-funded firm has more opportunity to implement programs that lower risk for future claims.
Local Regulation	Each state has different tax rates and mandates, creating a complex compliance environment.	Government intervention is limited to the Federal level.
State Taxes	Typically 2-3%, depending on the state.	No state taxes on premiums in a self-funded plan.
Ownership of Data	The carrier, not the employer owns the workforce data in a fully insured environment.	The employer owns their own employee and trend data and can use it as they see fit to lower costs.

CHOOSING AN ALIGNED VENDOR

There are several options available to a company choosing to self-fund, and potential partners vary dramatically in their ability to strategically and proactively manage well-being. To help navigate their options, many employers work with a broker or consultant.

The most traditional option is the Third Party Administrator. These organizations pay claims and, as their name suggests, administer plans. They are typically paid based on the number of lives enrolled in the plan.

While the term "Third Party Administrator" suggests a purely administrative function, successful plan management is anything but.

Integrated healthcare management firms go beyond the administrative duties of traditionally TPAs. Tasked with maximizing your self-funded plan both clinically and financially, these firms:

- Are truly independent with respect to carriers;
- Make healthcare decisions based on your workforce's predictive and historical data;
- Allow you to own the data and understand relationships between programs and outcomes;
- Offer a tailored approach to managing variable costs from onsite clinics, wellness programs and plan design to pharmacy management;
- Offer all services as part of one integrated program.

The best firms provide health management and delivery tools supported by powerful analytics. These tools and the people trained to use them can improve the health and wellbeing of a firm's workforce. When claims occur, they can also, through a variety of strategies, help contain cost.

In other words, they are not simply insuring the inevitable. They are preventing illness, absenteeism and catastrophic claims. Simultaneously they are also more effectively managing claims as they occur. This two-pronged approach not only saves money but improves well-being, morale and productivity.

Vendor Evaluation Checklist

Employers work with third party administrators (TPAs) to design plans and pay claims. Use this checklist to align your team with a proven TPA.

For employees:

A smart employee engagement strategy includes:

- Concierge-level issue resolution with one point of contact
- Provider cost guidance that guides employees to highest-value care
- Personalized care plans for ongoing health issues
- Omni-channel and customizable communication strategies
- Cost containment strategies that go beyond cost-shifting

For your executive team:

A successful TPA partner will provide executives with:

- An independent entity who can act on your behalf
- Year-round transparency into plan performance
- Line-item visibility into paid claims
- Data-driven programs that encourage and reward smart healthcare decisions
- Proactive and customized cost management solutions for emerging cost drivers such as large claims and specialty prescription medications

For your HR team:

HR can best protect the health and competitiveness of your workforce when they have:

- Dependable customer service that allows HR to focus on strategy over employee questions
- The ease of working with one integrated vendor
- Fast issue resolution with one convenient point of contact
- Notification of large claims in the pipeline
- Minimal disruption that allows HR to successfully manage through a benefits change

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MAKING THE TRANSITION - A CASE STUDY

When considering any changes to your employee benefits strategy, it's important to have experts on your side to make the transition seamless. one employer's experience:

A Georgia community services organization new to the self-insured model experienced poor communication with their previous carrier, a lack of clarity regarding claims status and low employee satisfaction. Confusion ran rampant among employees with carriers changing frequently as executives attempted to regain control over costs. In Healthgram, they found a long-term consultative partner in optimizing their self-funded plan.

OUTCOMES-AT-A-GLANCE

Healthgram's employee-centric approach to customer service quickly quelled any confusion during the transition. In addition to improving employee experience and communication internally, Healthgram helped the company achieve:

35% decrease
in medical costs in year one

Over $450k
saved on medical claims spend over first two years

30% below
national average PEPY costs

"It's been a wonderful transition to Healthgram. We've developed great relationships with account and claims managers and communication is clear. "

- Ann, Human Resources Director

SEE HOW YOU CAN BENEFIT FROM A SHIFT TO SELF-FUNDING

Healthgram's diverse suite of services and personalized approach set you up for success from the start. We'll create a strategy that works for you and your members, and support your team every step of the way.

YOUR NEXT STEPS

SEE US IN ACTION
consultIBT.com

SCHEDULE A
customized demo

GET IN TOUCH
support@consultibt.com