

EMPOWERING EMPLOYERS: HOW SELF-FUNDING LEADS TO LOWER HEALTHCARE COSTS



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Many small to midsize employers with fully insured plans are seeking solutions to cut healthcare costs in the face of inflation. One study predicted if health insurance premiums continue to rise at the current rate, the average family's health

RATHER THAN CHOOSING FROM ONE-SIZE-FITS-ALL FULLY INSURED PLANS, SELF-FUNDING ALLOWS SMALLER BUSINESSES TO TAILOR THEIR COVERAGE TO THEIR WORKFORCE, LEADING TO MORE MEANINGFUL BENEFITS OPTIONS FOR EMPLOYEES.

insurance premium will surpass wages by the year 2055. One way for employers to take control of their healthcare spending and better tailor benefits to employees is to consider the move to self-funding.

A common misconception seen by brokers, especially among employers with fewer than 500 employees, is that fully insured health plans are their only option. However, the unprecedented rise in premiums has changed the available options for smaller companies.

FULLY INSURED VS. SELF-FUNDED

Fully insured options provide employers with easy implementation and a third party taking on the financial risk of high-cost claims. But there's a trade-off: Plan options are more limited and premiums are higher than with self-funded plans, reflecting the need for insurance carriers to mitigate the risk they are taking on. Fully insured plans are largely regulated at the state level but are required to meet some federal standards, such as COBRA, HIPAA and the ACA.

With self-funding, companies pay actual claims, as they occur, which leads to fewer fixed costs and more opportunities to manage overall expenses related to claims. Many self-funded companies employ a third-party administrator to handle the management and processing of employee claims. Self-funded companies can also purchase stop-loss insurance to protect against significant financial losses, purchased on either a per-employee or covered group basis. Despite these additional costs, self-funding can still offer more flexibility and cost savings than fully insured healthcare options.

Self-funded plans follow a slightly different set of rules than fully insured plans. For example, self-funded plans are exempt from state insurance laws and oversight since they are regulated under ERISA at the federal level. However, they must comply with HIPAA and the ACA, just as fully insured plans do. Additionally, self-funded groups of 20 or more employees must also comply with COBRA.

These differences give employers more flexibility when designing self-funded plans and can allow employers to tailor customized coverage to the actual needs of employees. Employers that self-fund also gain access to healthcare usage data that can inform future decision making. By regularly reviewing and acting on data, employers can maximize plan utilization and actively manage overall costs.

ADDRESSING MISCONCEPTIONS ABOUT SELF-FUNDING

For companies that have never considered self-funding, the term itself can be daunting. Clients may associate self-funding with mega-corporations or assume that the shift would increase administrative burdens for employees. Here are four of the most common misconceptions about self-funding and how to address them with clients:

Only large companies have self-funded plans. While in the past this might have been true, it is not accurate anymore. Many carriers have introduced models that allow for scalability, meaning that transitioning to self-funding is no longer restricted to companies with thousands of employees. The 2022 Employee Health Benefits Survey by the Kaiser Family Foundation found that among employers with 200 or more employees, 82% of covered workers have self-funded plans. Rather than choosing from one-size-fits-all fully insured plans, self-funding allows smaller businesses to tailor their coverage to their workforce, leading to more meaningful benefits options for employees.

Self-funded plans are not cost-effective. Many employers mistakenly believe that self-funded coverage requires them to have a substantial amount of cash readily available to cover employee claims as they arise. In reality, plan sponsors make fixed monthly payments, which accumulate to create a reserve for future claim payments. These monthly

payments are tailored to the size of the company and the specific needs of employees. Self-funded plans result in reduced overall costs for plan sponsors, immediately delivering a two- to three-percent cost reduction for their plans, with the potential for even greater savings. Furthermore, under self-funded plans, companies only pay for the actual medical expenses incurred by their employees, so if a business's healthcare expenditures fall below their premium payments, they receive a refund at the end of the plan year.

Self-funded plans are labor intensive. Plan sponsors assume that self-funding employee coverage will increase their administrative responsibilities. However, this is also not true, especially when collaborating with a reputable TPA. A TPA is responsible for designing a company's plan and managing all administrative tasks, including enrollment, compliance and answering employees' questions regarding their benefits. By entrusting these responsibilities to a TPA, plan sponsors significantly reduce their in-house administrative workload and associated costs.

Employees will be confused by a self-funded plan or not understand their responsibilities. Many employees enrolled in self-funded plans are not even aware of how their insurance plans are funded. To the typical covered employee, reference materials, identification cards and communications all display the logos of well-known insurance providers. Employees are still able to select and visit providers and make copays just as they would under a fully insured plan. The transition from fully insured to self-funded can be a seamless and almost imperceptible shift for employees.

COST-SAVING STRATEGIES FOR SELF-FUNDED PLANS

In addition, there are further steps employers can take to enhance savings within their organization through self-funded plans. By employing the following four strategies, employers can efficiently optimize cost savings for their company:

Reduce Risk with Stop-Loss Captives: Companies that self-fund healthcare costs typically purchase stop-loss coverage to protect against substantial claims. Rather than opting for traditional stop-loss coverage, employers can consider joining a group medical stop-loss captive. This approach allows each participating employer to maintain its self-funded health benefits plan independently from other member employers.

Optimize Pharmacy Benefits: One cost-saving strategy is to separate the drug plan from medical insurance and annually review pharmacy benefits through a competitive bidding process. This approach can result in more favorable terms, particularly for expensive specialty drugs.

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Implement Reference-Based Pricing: Certain routine healthcare services exhibit significant price variations depending on the provider. Employers can control costs by capping reimbursements at a percentage above Medicare's standard pricing, known as reference-based pricing. This encourages employees to seek care from providers charging prices within reasonable limits for non-emergency services.

Provide Clinical Care Management for Chronic Illnesses: Chronic conditions such as diabetes, musculoskeletal pain and heart disease remain a significant contributor to employers' healthcare expenditures. Offering wellness programs can reduce chronic illnesses in employees, while disease-management programs empower employees to manage their conditions effectively.

These strategies offer valuable avenues for companies, especially those with self-funded plans, to manage costs ef-

fectively and enhance their competitiveness in the employee benefits landscape. 📊



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