

Why Choose Self-Funding

The Many Advantages of a Self-Funded plan

Cost Containment & Flexibility

Self-funding has experienced significant growth in the last several years as both private- and public-sector employers search for more affordable health insurance options to ease the effects that rising care costs have had on their employee benefit plans. How are self-funded plans different from their fully insured counterparts? What are the advantages of moving to the self-funding model and partnering with a third party administrator (TPA)? These articles give you a closer look. You'll learn about the two big factors that have contributed to the success of self-funded plans in the United States - cost containment and flexibility. You'll also learn how you can gain better control of your employee benefits plan by teaming up with a TPA.

- Minimal rate increases compared to traditional plans [Click Here](#)
- Savings that stay with the health plan [Click Here](#)
- Better control of health claim costs [Click Here](#)
- Plans custom-designed by workforce [Click Here](#)
- Increased employee involvement [Click Here](#)
- More uniform regulations/transparency [Click Here](#)
- Risk management/stop loss protection [Click Here](#)
- Partnership with an experienced TPA [Click Here](#)
- An employee retention tool [Click Here](#)

Why Choose Self-Funding

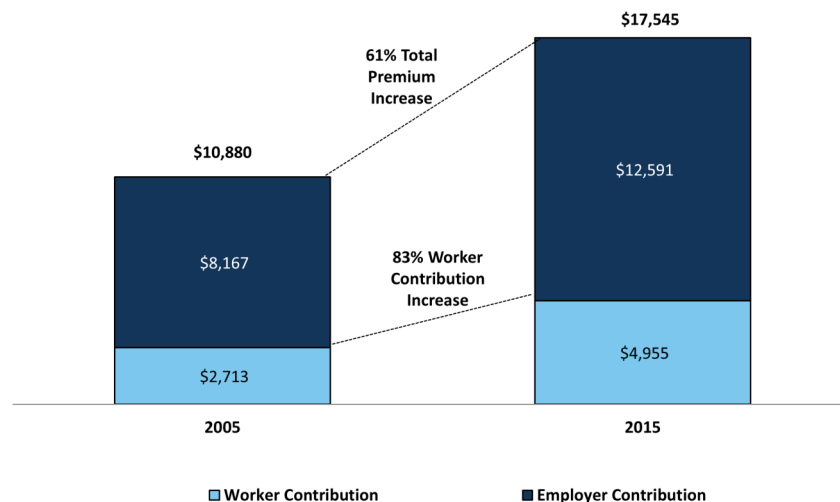
Minimal Rate Increases Compared to Traditional Plans

Health Plan Premiums on the Rise

As the cost of health care continues to rise year after year, how have these added expenses affected employee benefit plans? They've had a huge impact.

According to the Henry J. Kaiser Foundation's 2015 Employer Health Benefits Survey, the amount workers have contributed to their health plans has gone up 83% in the past 10 years as the overall premium cost has increased by 61%. Plan premiums that once cost workers an average of \$2,713 annually in 2005 (\$226 per month) now cost them \$4,955 a year in 2015 (\$413 per month).

Exhibit A:
Average Annual Health Insurance Premiums and Worker Contributions for Family Coverage, 2005-2015



SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2005-2015.



**Better
with Self-Funding**

Control

The study takes all types of health plans into account, but the reality is that these price hikes are not nearly as common among self-funded plans. That's because self-funding offers more control as well as added flexibility and savings. Employers are able to keep health claim costs in check with more thorough review and scrutiny, and any money saved stays with the employee benefit plan instead of going toward excess insurance fees and commissions. The ultimate result? Reducing overall health plan costs and minimizing rate increases over time.

[Return to Top](#)

Why Choose Self-Funding

Savings that Stay with Health Plans

Eliminating Inflated, Pre-Set Rates

In a fully insured health plan, employers are paying a set annual rate that's determined by the carrier. A big problem with this? If the group's total health claim costs don't reach the amount charged by year's end, the company isn't credited the difference ... it doesn't see those savings.

This is not the case with the self-funded structure. Any money that is saved throughout the year stays with the health plan to be used to pay for future costs. Health claims are paid as they are incurred, giving both private sector and public employers more control of where their plan dollars are going and how much is being disbursed. Since self-funding affords employers the opportunity to save money, businesses can actually reserve funds for leaner budgetary years - a situation sometimes more keenly felt by public employers.

Benefit Administration Fees at a Fraction of the Cost

Unlike most fully insured plans, there are no hidden fees or commissions built into the rates for self-funded plans. As the main law regulating these health insurance plans, ERISA prohibits this with its strict transparency and reporting requirements. The fees negotiated and paid to a third party administrator (TPA) must be clearly outlined when employers choose the services for their customized employee benefit programs.

In summary, self-funded plans that are well-designed and well-executed can make good financial sense for many private- and public-sector businesses for the following reasons:

- self-funded plans aren't inflated with extra fees or hidden costs
- self-funded insurance eliminates standard, pre-paid rates and focuses on actual costs
- self-funded plans allow employers to enjoy the benefit of any savings they realize through plan design

[Return to Top](#)

Why Choose Self-Funding

Controlling the Cost of Health Claims

One of the main reasons so many U.S. employers have turned to self-funded plans is that they offer more control in managing health claim costs. Here's a look at how things work by plan type:

The Traditional, Fully Insured Health Plan

- Insurance carrier sets a fixed, annual rate for each group
- Employer must prepay this rate no matter how much claims, administration, etc., costs amount to for the year
- Claims are typically automatically paid
- If a health plan's total expenses are less than what was charged by the carrier over the year, the employer isn't compensated for these savings - it is the carrier who benefits

The Self-Funded Health Plan

- Employers work with a third party administrator (TPA) to manage health claims and these bills are paid after services are provided; plan administration fees are negotiated based on the services needed by the health plan
- Claims typically go through a detailed review process to identify any errors, inconsistencies or overcharges
- If a self-funded plan's total expenses are less than what's budgeted for that year, the employer is able to funnel these savings back into the health plan
- Employers can see actual claim costs (but no personally identifiable health information), analyze any trends and budget accordingly

How TPAs Approach Claim Review

As part of the strict fiduciary duty required under federal regulations for self-funded plans, health claims are closely analyzed by the TPAs who administer the plans. These fiduciary duty reviews can result in hundreds to thousands of dollars in savings per claim as they uncover miscoded items, duplicate entries, services billed at higher rates, medical necessity issues and much more.

Self-funded plans eliminate the all-too-common "process and pay" approach to health claims. Paying for claims as they are incurred and doing so by reviewing charges according to federal fiduciary rules is just one way costs are better controlled in self-funding.

[Return to Top](#)

Why Choose Self-Funding

Custom-Designed Health Plans by Workforce

Fully Tailored Employee Benefit Programs

The strength and success of self-funded plans over the past several decades is tied to personalization in plan design for each workforce and personalized services by independent/entrepreneurial-minded TPA firms.

With this model, every health plan is customized to the company and its workforce, while also complying with the federal requirements - a win-win for employers and employees. Self-funded plans are just the opposite of standard policies offered through insurance companies. They are designed to include the employee benefits and health coverage solutions which are considered to be the most necessary and beneficial to plan participants. They also take into account the administrative needs of each company as well as government compliance.

The ability to tailor health plan options to its employee groups even enables public employers to more readily negotiate with different unions. Public employers frequently have a number of unions to bargain with and a self-funded plan gives them the flexibility to do so. These plans provide the ability to bargain for the benefits each union wants and the ones employers can afford. They also give employers the ability to negotiate with different unions at different times instead of all at policy renewal time which is the case with a fully-insured plan.

Consider these examples:

- The staff of a veterinary clinic would like health insurance coverage related to prophylactic rabies and other things that apply to working with animals.
- A metal manufacturer wants its employees to have access to regular toxic screenings.

Both of these employee benefits are very specific to each industry and would only apply to a very small percentage of plans - and thus would typically not be included in prepackaged fully insured plans. That's the advantage of self-funding. Employers are able to custom-build an employee benefit program that fits the individual requirements of their workforce and adapt these benefits over time.

Tailoring Plans with a TPA

To tailor self-funded plans, employers will often partner with a third party administrator (TPA), but the final say on all benefit-related decisions remains in their own hands. This can make a huge difference as plan spending and health coverage are focused accordingly and the overall group benefits plan winds up being much more cost-effective and beneficial to the plan participants. The independent-thinking TPA brings expertise and experience from many plans with knowledge of what works.

Every business or public entity has different needs based on the populations it employs. Self-funding allows companies to narrow in on the group benefits that make most sense for their staff and work with a TPA to build the appropriate health plan at a reasonable price.

[Return to Top](#)

Why Choose Self-Funding

Employee Involvement: Promoting Healthy Living

Acting on Generic Trends Data

An employer with a self-funded plan in place has the distinct advantage of learning from generic trends data that in no way identifies the patient or worker. Most fully insured employee benefit plans do not provide access to workforce health trends. Under the Federal Health Insurance Portability and Affordability Act (HIPAA) laws, employee personal health information is protected by privacy firewalls.

Plan data is valuable, for, as trends emerge, companies can identify areas for improvement and may introduce new employee health benefits or coverage that focuses on targeted areas and promotes healthy living. Many third party administrators (TPAs) will work with employers to implement wellness programs with incentives for employee participation, as well as disease management that offers one-on-one consultation. Other options range from on-site health risk assessments to professional health coaching.

A Population Focused on Health

What is the advantage of these education and engagement efforts as part of employee benefit plans? Workers who are actively involved in their own health can take steps to improve their overall wellbeing. This, in turn, can result in better outcomes for them and lead to fewer high-cost health claims in the long-term. Self-funded plans administered by TPAs allow employers to better engage employees and promote healthy living. They offer the added benefit of access to and analysis of personally de-identified claims data, which offers opportunities for employers to incorporate flexible wellness-related programs based on a company's unique health needs.

[Return to Top](#)

Why Choose Self-Funding

Uniform Regulation/Transparency with ERISA

Federal vs. State Requirements

For the most part, the regulation of self-funded plans is uniform nationwide under federal law and the 1,000+ state-mandated benefits do not apply. This is not the case with fully insured health plans as they are subject to federal requirements and regulated on a state-by-state basis. Some public entities may be subject to special rules or guidelines.

The Employee Retirement Income Security Act of 1974 (ERISA) is the main law that applies to self-funded plans offered through private (non-government) employers. The Employee Benefits Security Administration (EBSA), a division of the Department of Labor (DOL), administers this series of standards with a focus on fiduciary duty.

ERISA was designed to be - and remains as - the ultimate consumer protection and transparency law, with considerable protection and structure for employers and employees.

Compliance Help from TPAs

There are many provisions under ERISA and keeping track can become complex. Third party administrators (TPAs) are specially trained to work with these laws and they have an in-depth understanding of the details. Self-funded plans are also regulated by a number of other federal agencies, including:

- Department of Treasury
- Department of Health and Human Services (HHS)
- Equal Employment Opportunity Commission (EEOC)
- Department of Labor

How does the emphasis on federal regulation versus state regulation benefit self-funded employers? Those with multiple offices and/or employees spread throughout the United States, whether private or public entities, don't have to adjust their administrative or compliance efforts by individual location. On top of that, TPAs are well-versed in working with ERISA and other federal requirements and serve as an invaluable resource when it comes to plan compliance.

For more information on ERISA and how it regulates self-funded plans, www.dol.gov.

[Return to Top](#)

Why Choose Self-Funding

Risk Management/Stop Loss Protection

Coverage for High-Cost Health Claims

As employers and plan sponsors consider the logistics of switching to a self-funded plan, there's a common question that gets asked right away:

"What happens if a few unexpected, high-cost health claims come in or the total amount in claim charges goes way beyond what we anticipated?"

This is where stop loss insurance comes in. Just as the traditional insurance company invests in re-insurance should costs exceed the money they have budgeted toward health claims, companies who self-fund frequently protect their plans with stop loss insurance.

True to the theme of customizing self-funded plans, stop loss allows companies many options for coverage. Those who have a strong cash flow and reserves may be willing to absorb more of the claim costs and have a higher specific deductible/attachment point for when stop loss kicks in to reimburse the plan or employer (whichever pays the premium for stop loss).

The Two Types of Stop Loss Coverage

Many stop loss policies provide self-funded plans/employers with a double trigger, which offers protection based upon two different levels of coverage:

- **Individual Level: Specific Deductible** - Total dollars for claims incurred by a plan member exceed a set point (the total claim amount for this one employee may not necessarily trigger the aggregate attachment point)
- **Aggregate Level: Attachment Point** - Total dollars of all claims incurred by the employee benefit plan exceed a set point (dollar amount) after adjusting for specific insurance reimbursements

When choosing the right stop loss insurance option, many of the conditions and levels of coverage can be negotiated to best fit the employee benefit plan or employer. This insurance is specially designed to provide protection and peace of mind for unexpected, and sometimes catastrophic, expenses.

[Return to Top](#)

Why Choose Self-Funding

Partnership with an Experienced TPA

Closer, Connected Relationships

Nearly all self-funded plans - no matter the size or format - work in conjunction with a third party administrator (TPA).

These partnerships differ from those between employers and insurance carriers as they tend to be much more interactive in nature. The role of TPAs is similar to law firms or accounting firms which are hired to provide ongoing professional services for the employer and/or health plan. TPAs take a team approach in working with employers, and the two form close, highly connected relationships. Communication is also more constant in the self-funded structure. This is a stark contrast to other employee health plans where contact is often limited to certain times of the year or info is only shared on a need-to-know basis.

TPAs have the experience to help both private- and public-sector employers better customize their health plans, the associated medical benefits, service offerings and stop loss insurance coverage. They stay up-to-date on the latest issues and trends in self-funding and are proactive about helping employers make any plan changes. Because TPAs work with multiple clients, they have first-hand experiences with trends and issues. Members of the national association of TPAs, SPBA, are also able to brainstorm with other TPAs nationwide and regulatory officials.

There are TPA firms of all sizes across the country. While all have their own strengths, some advantages of the smaller-sized TPAs include knowledge of the local health care market, flexibility, efficiency and highly personalized customer service.

The TPA's Active Role with Regulations

When it comes to rules and regulations, TPAs play an integral role in assisting employers operating self-funded plans with ongoing compliance. This is especially helpful as agency regulatory requirements are constantly changing - and while employers may not have the resources to do so, TPAs remain vigilant about keeping up-to-date on them.

On a similar note, many TPAs are very involved on the regulatory front and actively participate in the process of shaping rulings with government officials, who recognize that TPAs are an accurate source of broad real-world situations.

Every employee health plan is as unique as the company that offers it, and TPAs fully understand this. Employers who self-fund have the added benefits of close working relationships with their TPAs, more flexibility in meeting their health coverage needs and ongoing compliance help.

[Return to Top](#)

Why Choose Self-Funding

Benefit Plans as an Employee Retention Tool

An Added Emphasis on Health Benefits

In the age of rising health care expenses, employee benefit plans have taken on a very important role as workers weigh their employment options. For some, the benefits an employer offers can be a deciding factor in choosing to join a company or stay with it for the long term. More affordable health insurance is something many applicants are in search of.

How do self-funded plans serve as employee retention tools? It all comes back to the added opportunities for savings and flexibility, which include:

- More cost-effective premiums, since hidden fees and extra commissions are eliminated with self-funding
- Expanded options for providers and procedures
- Ability to customize health insurance plans according to the specific wants and needs of the workforce ... it can be invaluable to provide these tailored medical benefits.
- Integrating cutting-edge solutions like on-site medical and telemedicine services to manage costs and enhance convenience

Minimizing Down Time

Along with helping attract new employees and retaining veteran workers, self-funded plans also keep companies functioning more efficiently. That's because they allow for flexibilities and conveniences with medical benefits - such as alternative access to care services (telemedicine, on-site clinics, etc.) - that make it easier for staff to schedule and attend appointments, receive any necessary treatments and return to work in a timely fashion.

The type of employee health benefits offered is no longer an afterthought for employees. Having a solid, attractive and affordable benefits plan in place helps employers attract workers and keep them on the job.

[Return to Top](#)