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Self-funded Plans in the Environment of Healthcare Reform

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According to a Price Waterhouse Coopers report, the number of groups self-funding their health benefits increased by 20% between 2008-2010. The average increase in premiums for plan years 2009 to 2010 was $808 per employee per year for fully-insured plans versus $248 for self-funded plans.

Approximately 150 million Americans are covered under private employer sponsored health insurance programs. Over half of them, more than 77 million, are insured through self-funded health plans. According to the 2011 Kaiser Family Foundation Employer Health Benefits report, premiums continue to increase. For example, in 2011, premiums for family coverage increased by 9% versus 3% the prior year. Given cost increases, what are employers doing in the self-funded market?

Questions to consider:

Why do employers elect to self-fund their health coverage? What are the trends in self-funding in light of the passage of the Patient Protection and Affordable Care Act (PPACA)? What should employers who self-fund health coverage consider when selecting an administrator to pay their claims?

Reasons for self-funding:

1. Control over costs

Self-funded plans generally have lower administrative costs. Claims are paid as incurred, creating better cash flow. Immediate savings are realized when claims are lower than expected. Insurance carrier profit margins and risk charges are eliminated/reduced.

2. Control over plan design

Self-funded plans are regulated by ERISA and generally are not required to cover state mandated benefits. Therefore, employers have more flexibility in benefit plan design and have more control over quality, price, and service levels for each component of their plan.

3. Access to data

Employers have greater access to reports and claim information which can influence future plan design and funding decisions.

4. Elimination of most state premium taxes (savings of 2-3%)

Generally, state premium tax on a self-funded plan, if any, is based on a fraction of the plan's total cost rather than the entire premium.

Selecting a claim administrator:

Due to market consolidation there are fewer claim administrators for self-funded plans. As employers think about moving to self-funding, selecting the most appropriate type of payor is an important consideration.

1. Administrative Services Only (ASO)

Insurance companies sometimes offer self-funded plans the same administrative services that they provide fully-insured clients, but no risk is taken. This is known as an ASO arrangement. The advantage of ASO is that the administrative services are packaged. The disadvantage is little flexibility to carve in or out specialty vendors for best in class performance.

2. Third Party Administrator (TPA)

A TPA specializes in healthcare administration. There are a range of TPA's that offer a variety of services. Some TPA's only pay claims while others offer a wide array of services such as Case Management, RX, Provider Network Management, etc. First Choice Health, for example, owns core services which are fully integrated: Preferred Provider Network, Third Party Administration, and Medical Management. The self-funded employer has the flexibility to carve in or out all non-core services to best meet their unique needs.

3. Self-Administration

Some plans self-fund their health benefits and pay their own claims. This is rare and occurs primarily with very large plans due to the capital investment needed to operate.

Questions for selecting a potential claim administrator:

1. Is the administrator local or national?

2. What services are integrated?

3. Is the recommended PPO network leased or owned?

4. Is Medical Management in-house?

5. Does the administrator have flexibility to carve in or out important programs?

6. Do they handle Health Savings Account/Flexible Savings Account/Health Reimbursement Account and COBRA administration?

7. What reporting is available?

8. What flexibility exists to handle tiered-plan designs?

9. Does the administrator have strong relationships with Stop Loss carriers or Pharmacy Benefit Managers?

10. What is their ratio of Account Executives to the number of clients served?

These questions are a starting point for an employer when evaluating a claim administrator for self-funding. One thing is certain in this new era of PPACA, more employers will look seriously at self-funded health plans as a way to obtain control over costs.

With the passage of PPACA and its requirements, it is likely that employer sponsored health plans will experience increasing costs. Healthcare is a significant line item in the budget for any organization. This environment has never been more suitable for employers to consider self-funding. The most likely determinant to drive employers towards self-funding is potential cost control.

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