Self-Insurance Guide

A growing number of U.S. employers are making the switch to self-insuring as a way to reduce costs and improve service. With a variety of alternative risk strategies now available to small and mid size employers, every employer should be reviewing the opportunities available in the self-funded market.

About Self-Insurance

What is self-insurance?
According to the Self-Insurance Institute of America, Inc., “a self-insured group health plan (or a self-funded plan as it is also called) is one in which the employer assumes the financial risk for providing health care benefits to its employees. In practical terms, self-insured employers pay for each out-of-pocket as they are incurred instead of paying a fixed premium to an insurance carrier, which is known as a fully-insured plan. Typically, a self-insured employer will set up a special trust fund to earmark money (corporate and employee contributions) to pay incurred claims.” Employers can be partially or fully self-insured. Employers that choose to partially self-fund, may decide, for example, to continue third-party coverage of mental health or prescription benefits, but self-fund all other medical claims.

Is self-insurance common?
According to federal statistics, self-funded plans cover 59 percent of the private-sector workforce — almost 41 million workers — and the number of small and mid-size employers who self-fund continues to climb. A 2010 Kaiser Family Foundation survey reported the rate of companies that self-funded between 2008 and 2010 rose from 12 percent to 16 percent for small companies (fewer than 200 workers), and 47 percent to 58 percent for mid-size companies (200 to 999 workers).
Advantages of self-insurance

The primary reasons employers site for self-insuring are:

1. Reduced insurance overhead costs. Carriers assess a risk charge for insured policies (approximately 2 percent annually), but self-insurance removes this charge.

2. Reduced state premium taxes. Self-insured programs, unlike insured policies, are not subject to state premium taxes. The premium tax savings is about 2-3 percent of the premium dollar value.

3. Avoidance of state-mandated benefits. Although both insured and self-insured plans are governed by Federal law (predominantly ERISA), self-insured plans are exempt from state insurance laws. State benefit mandates can add to the cost of insured employer benefit programs. For multi-state employers, self-funding can help create national consistency by elimination of the need for state-by-state compliance.

4. Employer control. Employers who want to revise insured benefits and the levels of coverage are free from state and federal regulations that mandate coverage and the carrier negotiation typically required with changes in coverage. By self-funding, employers are able to design their own customized health benefit packages.

5. Employers see improved cash flow since they do not have to pre-pay for coverage. There is also a cash flow advantage in the year of adoption when "run-out" claims are being covered by the prior insurance policy. Employers pay for claims rather than premiums and earn interest income on any unclaimed reserves. Payments made by employees for their coverage are made through payroll deduction and held by the employer until claims become due and payable or put into a tax-free, employer-controlled trust if being used as reserves.

6. Choice of claim administrator. An insured policy can be administered only by the insurance carrier. A self-insured plan can be administered by the company, an insurance company or independent third-party administrator (TPA), which gives the employer greater choice and flexibility. When selecting a TPA, employers should consider whether the TPA efficiently handles claims, has contacts with stop-loss carriers, has a strong reputation, cost management skills and negotiating clout, has medical expertise on staff and provides excellent customer service and claims administration.

Alternative Risk Strategies

Many employers shy away from self-funding because of concerns of fluctuation in funding levels, the ongoing risk of unknown high dollar claims, and the uncertainties of the business environment.

EHD, working with our partners, has developed programs that can help employers to limit exposure in a self-funded program, through the use of health care captives, as well as health insurance consortiums.

All of our programs help employers obtain lower deductible risks as well as cost containment through group purchasing.
These programs also allow employers to interact with like minded employers to share ideas and develop best practices through the exclusive arrangements provided by EHD.

If you are interested in learning more about self-funding as a way to lower your health insurance cost and secure more control over your benefit program, contact EHD at 800-544-7292 or mtmcclintock@ehd-ins.com.