

Help carry the load

How self-funding helps companies control costs **Interviewed by Amy Dison**

Have you tried to find a health benefit design plan to meet the needs of each of your employees? By self-funding employee health benefits, you can have more control over the benefits offered to employees and not be limited to a set design. While no benefit design plan will ever be perfect, self-funding health benefit plans allow an employer more flexibility and control while reducing costs.

“Self-funding means the business owner is actually taking on the risk or paying the claim,” says Julie Salem, manager of new business sales with Priority Health. “Many business owners are qualified for self-funding but have not broken down the numbers to see the savings such changes may make for their business. Self-funding works by involving both employers and employees in the health care process. By giving employees an active role in their health care coverage, they are more likely to adopt a healthier lifestyle and spend wisely on health care.”

Smart Business spoke with Salem about determining which employers are qualified to self-fund health benefit plans, the benefits of self-funded plans and how such plans can help reduce overall health care costs.

Do you have to run an extremely wealthy business to self-fund employee health benefits?

No, but first you must decide if self-funding is the correct option for your company. If you believe that fully insured premiums are higher than the actual risk, self-funding is an option you want to explore.

This works well for owners who have younger employees who are healthy and/or willing to adopt healthy lifestyles. As a business owner, you should be ready to implement wellness programs for employees to help improve overall health care.

Depending on which company is used as the third party or administrator, a business owner may need to make a



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financial deposit to self-fund. Other parties may allow you to pay as you go. At minimum, you will need the equivalent of a one-month premium on deposit.

How do you determine if self-funding is the best coverage option for your company?

A comparison should be done between annual costs of a fully insured plan versus a self-funded plan to determine what option is the best for the needs of your employees.

First, the annual costs of a fully insured plan should be determined to see where those premiums would put health costs at the end of the year. Then use the same number of employees to determine the cost of reinsurance (specific or aggregate stop-loss) and the dollar amount of aggregate liability plus the fixed costs (administration of program and the premiums for stop loss). If that total number is equal to or less than the fully insured plan, self-funding is a good risk.

In addition, owners must determine the cost of purchasing reinsurance or stop-loss protection to self-fund health

benefits. There are two types of stop-loss coverage. The first is ‘specific,’ which is a per-claim dollar amount that limits the risk the employer is liable per claim, much like a deductible. The second is ‘aggregate,’ which limits the overall total risk. This is similar to umbrella coverage.

Does self-funding really reduce costs?

If the risk is less than the premium, it should save money for both employers and employees and make coverage more inclusive. As health care costs continue to rise, more business owners are looking into this option. Employers are getting creative and looking for cost-saving methods. If they implement and utilize tools such as wellness programs, this option can be very effective. Typically, an employee who exercises regularly and maintains a healthy diet will have fewer health care costs than a person living an unhealthy lifestyle.

Some states tax employers on their fully insured premiums. The state also mandates the benefits that must be included in fully insured premium designs. If a plan is self-funded, the employer has the option of including such benefits. This may save employers money.

What are the biggest risks to self-funding?

The risk is based on actual claim dollars. There is a potential for the utilization to be higher than fully insured premiums. It is important that employers capture such risks with reinsurance. This provides owners with the worst-case scenario of what insurance may cost any given year.

With self-funding, claims change from month to month. While this may create a cash flow advantage, it also creates a risk that high utilization could cause overall costs to exceed insured premiums. <<

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