# The Employer's Guide to Self-Insuring

## Why and how to self-fund your group health plan

Bernard Benefits

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## When it comes to benefits, think like a CFO

Benefits are typically the largest expense item in a company's budget next to payroll. Traditionally, managing the benefits budget hasn't been like managing other business expenses, as employers have had little to no transparency into these costs. While most employers would be averse to accepting annual increases of 10 or 15 percent on other business expenses, they have never been able to apply the same level of scrutiny to their healthcare spend.

But things are changing. As healthcare spending continues to rise with no end in sight, maintaining the status quo is simply no longer an option. Fortunately, action steps similar to those you'd take in other parts of your organization are available for your health plan.

Purchasing a fully-insured health plan may be what you've always done, but employers have more choices than they realize when it comes to financing their employees' healthcare.

There are a lot of funding alternatives that aren't as complex as they seem, including self-funding a continuum of other options. These strategies can potentially save your organization tens of thousands of dollars. If you want to take control of your health insurance costs while giving employees more benefit options than ever before, we can help.

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## The problem employers face

Annual premium increases for group health plans don't seem to be slowing down anytime soon, even as organizations have implemented plan design changes, wellness programs, and more. When faced with a big premium increase at renewal, the natural next step for many employers is often to look at other carriers and shop for a better rate. However, moving from carrier to carrier doesn't address the issues that are actually driving healthcare costs for employers.

In particular, rising and often inaccurate claims are contributing to higher costs for employers in fully-insured health plans. In other words, the problem employers face won't be solved with an insurance solution.

# Are insurers in the best position to drive down claims?

Insurance costs can be broken down into two parts — administrative costs and claims spending. Most employers would like to do a better job of containing their claims spend, but fully-insured health plans offer little to no transparency as to where the employer dollar is actually being spent.

Further, a piece of the Affordable Care Act may actually be incentivizing insurers against helping employers reduce their claims spend. The ‘Medical Loss Ratio’ requires insurers to spend 80 percent of all premiums collected on claims, with the remaining 20 percent put toward administrative costs, marketing, and profit. That split is somewhat more favorable for large employers at 85 percent and 15 percent, respectively. If the insurer doesn’t spend the requisite allocation for their individual, small and large group risk pools, those employers are due a rebate.

In other words, the maximum profit insurers can collect is 20 percent of premiums. As a result, the avenue to profit growth is to increase premiums altogether, especially for those not surpassing the 80 percent threshold.

Employers are left to question whether insurers are best positioned to help employers lower medical claims, and what really drives annual premium increases of 10 percent, 15 percent, 20 percent or more.

To get out of the status quo of premium increases, employers who are frustrated with rising costs may have to change how they look at their health plan and how it's financed.

## What is self-insurance?

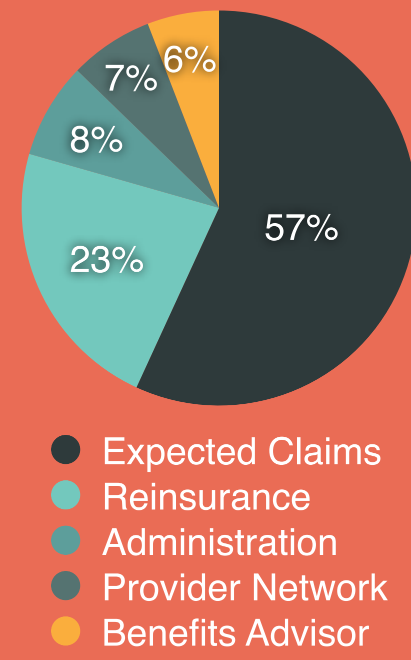
Self-insurance is an alternative financing option for group health plans.

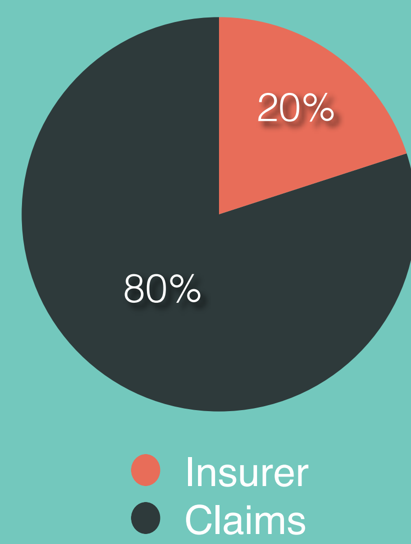
The major difference between self-insured and fully-insured plans are in regards to who operates the plan, and who pays the claims.

With **self-funded insurance**, the employer operates the plan and pays the claims, hiring a third-party administrator (TPA) to review those claims for accuracy and payment. Self-funded plans have fixed costs *and* variable costs. Variable costs refer to medical claims incurred by employees or their dependents, while fixed costs cover administering the plan. The fixed costs include stop-loss also known as reinsurance coverage, which protects the employer from very high claims, and can also include auditing services, claims support, medical management and more.

With **fully-funded insurance**, the insurance company operates the plan and pays the claims. Fully-insured plans only have fixed costs.

## Self-insurance




## Full-insurance


# The benefit of self-insuring

There is more transparency in self-funded plans, and many employers find that they obtain more value and better control over their healthcare costs through this strategy.

The big benefit of self-insurance is the savings potential. Because employers pay the claims, they reap the benefit of low-claim years. Additionally there are also blended options, where employers can take on less risk and still benefit in low-claim years while minimizing risk in high-claim years.

- More transparency
- More savings
- More value
- Take on less risk
- Better control over healthcare costs

# Strategies for lowering claims

Having more transparency in claims allows employers to deploy more effective cost containment efforts. There are three main ways to reduce claims spend:

**Audit:** Industry groups estimate 80 percent of medical bills contain errors, and employees are often over-billed. Since insurers don't have the incentive to lower claims, their expertise in auditing these bills to drive claims down has to be questioned. This area presents a big opportunity to reduce cost pressure in the benefits plan. Part of the administrative costs in a self-insured plan can include auditing services to ensure bills are accurate.

**Negotiate:** Increasingly, employers are finding that they can receive better value in their healthcare spending by contracting or negotiating directly with hospitals or provider groups, rather than relying on insurance company negotiations.

**Avoid:** Employers can take steps to direct employees to lower-cost sites of care by working with medical management organizations. These groups ensure patients are able to receive the care they need from the most cost-effective and highest-quality hospital or doctor.

Ultimately, as healthcare costs continue to eat up larger portions of employer's budgets, many organizations are finding that they can recognize significant savings by moving away from the fully-insured model. There are several steps organizations of all sizes can take to obtain more transparency and better value in the health plan.

# Self-insurance myths

These ideas commonly keep small employers from considering self-insured health plans, but they aren't the roadblocks many employers think they are.

## X My company is too small

Self-funding plans require working with stop-loss carriers and third-party administrators to manage the plan. Traditionally, these vendors didn't see the small and mid-sized employer market as a viable option, because their fixed-cost fees didn't allow enough room for a small employer to have enough money to pay claims. But with changing dynamics in healthcare—most notably the ever rising cost of fully-insured health plans—these vendors now see enough margin to offer their solutions to employer groups as small as 15 to 20 lives. Ask your broker if they can recommend vendors for a group your size.

## X We can't sustain a bad month of claims

Plan administrators recognize that most small and mid-sized employers would prefer a plan that is easier to budget. New plan structures minimize the risk of a high-claim month and make it easier for organizations to spread their costs over time.

## X We'll lose our insurance network

Many carriers with national networks are available through self-insurance plans.

Self-insured

Fully-insured

## Many options for groups of all sizes

Another concern that often keeps employers fully-insured is that the jump to self-funding is too significant to do all at once. Fortunately, there is a continuum of options that employers can adopt to ease the transition while still obtaining more transparency and better control over healthcare costs.

Bernard Benefits has over a decade of experience helping employers of all sizes build the benefits strategy that is right for their organization and their employees.

## About Bernard Benefits

Bernard Benefits is a fast-growing benefits brokerage and HR software company based in Nashville, Tennessee. Our team of healthcare experts provides strategic health insurance advice to employers in Nashville, Austin, and Indianapolis and to individuals all across the U.S.

*Our mission is to be the world's most trusted advisor when it comes to helping people plan for their healthcare.*

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