Top Five Features of a Self-Funded Insurance Plan

By Heather Hill

Self-funded employee healthcare plans were once considered an option only for very large companies with 1,000 or more employees. More recently, the surge in the costs of healthcare and fully-insured healthcare has companies of just about any size looking at self-funded plans. Indeed, the average-size company using self-funded plans now falls in a range between 300 to 400 employees, and some 57 percent of all companies are using a self-funded approach for part or all of their healthcare plans. Self-funded employee healthcare plans cover more than 100 million Americans.[1]

Of course, every company wants to use operating expenses as efficiently as possible. And offering a competitive healthcare plan for employees—not to mention one that helps keep your team healthy—is a business essential. Both self-funded and traditional (fully insured) healthcare plans can satisfy those essentials. But there are huge differences between approaches in how you get there.

Here are the top five features of self-funded plans to help you decide whether they are right for you.

1. Pay for the coverage you use, and no more.
Traditional insured healthcare plans can cost employers close to $10,000 per employee per year. Costs are driven up by the fact that insurers must plan for the cost of the entire insured population plus a buffer to account for higher than expected risk.

With a self-funded plan, you pay only for coverage employees use—which can add up to a 12 percent savings alone.[2] Carrier profit margins and risk charges are also eliminated with a self-funded plan, adding another 3 to 5 percent annual savings.[3]

Furthermore, with fully insured healthcare plans, cash for coverage flows out of a business at regular intervals in the form of a prepayment to the carrier. A company pays for the insurance regardless of how many times its employees use it. With self-funded plans, employers pay only for claims as they are incurred, and the company holds on to its cash reserves for claims payments. Any interest earned on the reserve funds is also held. The cash-flow benefit is immediate and ongoing.

2. Customize a plan to your needs.
Whereas fully insured healthcare plans take a one-size-fits-all-companies approach to costs and employee coverage, the self-funded approach allows for customized plans that are tailored to the specific needs and priorities of the companies they serve. Plan customization adds yet another layer of savings without compromising care. In fact, companies can still select best-in-class healthcare providers, pharmacy vendors, and wellness programs that meet objectives. Stop-loss coverage can also be purchased to help protect a company's financial reserves against higher-than-expected claims or a catastrophic claim.

3. Use data to mitigate costs.
There's another phenomenon, born out of the digital age, that's driving the growth of self-funded healthcare plans: big data.

Progressive self-funded plan administrators like HMA use sophisticated analytics platforms to collect and share data with clients (unlike fully-insured carriers), and then turn that data into actionable insights. Armed with the right information, plan administrators can pinpoint savings opportun -ities, be more prepared for sudden change, and control expenses based on the specialized care needs of its employee population. Data insight helps planners match the specific needs of an employer's staff with the right programs, and it helps them avoid wasteful spending on those that don't fit health and wellness objectives.

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4. Lower regulatory burdens and expenses.
Health insurance regulations can be daunting, and they vary from state to state. But under the Employee Retirement Income Security Act (ERISA), self-funded company healthcare plans are exempt from state insurance regulations, as well as premium taxes. Self-funded healthcare plans are also exempt from many of the provisions of the Affordable Care Act (ACA). For companies with employees in multiple states, savings from tax exemptions can amount to a 1.5 percent to 3 percent savings over traditional healthcare plans.[3]

5. Leverage help from an administrator if you need it.
For most employers, the level of in-house effort is very similar to that of a fully insured plan. With the help of an administrative partner like HMA, employers and members can expect an easy transition to a self-funded plan featuring broad access and plan choices. HMA also provides on-going support for members and employers, access to provider networks and data analytics, and coordination with stop-loss insurance and pharmacy benefits coverage.

Summary
With self-funded healthcare insurance, an employer can get a better finger on the pulse of its company health and healthcare needs. With that understanding comes more control, greater flexibility, the ability to customize plans, and cost savings that can help keep a company's bottom line healthy too.

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