



The fundamentals of self-funded insurance.

An introduction to the
most utilized health plan
solution in healthcare.



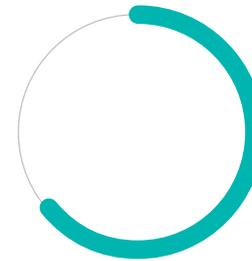
Self-funded healthcare is more popular than ever.

Today, the majority of American workers are covered by a self-funded health plan. In fact, the percentage of public- and private-sector workers enrolled in employer-sponsored self-funded plans has surged in the last two decades, from 44% in 1999 to around 64% today. Why are more companies choosing to self-fund their employer-sponsored healthcare? This guide answers that question by explaining the mechanics of self-funding and introducing the benefits of a self-funding strategy.

Self-funding, defined

Let's start by answering this question: What is self-funded insurance? As it relates to employee benefits, self-funding (also referred to as self-insurance) is a funding mechanism in which an employer incurs the risk to fund healthcare claims directly for eligible employees. This is different than the fully insured model, in which the business pays an insurance company a monthly premium to purchase health coverage for eligible employees and the insurance company incurs the risk.

This health plan strategy offers a number of advantages to employers over fully insured health plans, including new opportunities for cost containment, increased transparency, greater flexibility and more control over health plan design – all of which we'll review in this guide.



64%

of American workers are covered by a self-funded health plan.*

*Kaiser Family Foundation's 2021 Employer Health Benefits Survey

Fully insured versus self-funded:

Fully insured health plan

- ✓ The employer purchases health coverage from an insurance company.
- ✓ The insurance company carries the risk and pays healthcare claims to the claimant's providers.
- ✓ Fully insured businesses typically pay a monthly per-employee premium (PEPM) to their insurance carrier.

Self-funded health plan

- ✓ The employer provides health benefits directly to employees.
- ✓ The employer incurs the risk and pays healthcare claims as they are incurred.
- ✓ Self-funded businesses pay employees' healthcare claims, plus administrative fees and stop loss coverage.

The mechanics of self-funded insurance.



The main components of a self-funded strategy remain consistent across plan designs.

- The employer pays healthcare claims as they are incurred versus paying pre-determined premiums to an insurance carrier that pays health insurance claims as they are incurred.
- Employees may contribute toward the cost of the plan. These contributions typically are invested in accounts specifically earmarked for health claims.
- Nearly all self-funded employee benefit plans are managed through a third-party administrator (TPA). TPA firms may be owned and operated by a large insurer or, alternatively, are independent companies that assist employer-sponsored plans with overall plan operations, benefit coordination and claims processing.
- Self-funded employers typically purchase stop loss insurance to minimize financial risk and protect the company from large or catastrophic claims.

Partnering with TPAs

Most self-funded businesses typically contract with a third-party administrator (TPA) to manage the plan, including making claim payments to providers. TPAs provide employers with greater flexibility and can help set up group health plans, coordinate stop loss insurance coverage, deliver provider network contracts, if desired, and offer customized reporting.

The cost advantages of self-funding.



As businesses in all industries face the challenge of finding affordable health insurance, many are finding that self-funding offers a smarter and more cost-effective alternative to buying traditional health insurance coverage. This has proven to be true for both private and public employers. Self-funded health plans offer several cost-containment opportunities that, oftentimes, make them less costly than fully insured plans for both employers and their employees.

Reduction in taxes and fees

A major driver behind the savings is reducing administrative and tax expenses that are rolled into the fees of fully insured health plans. All told, these taxes and fees can account for up to 20% of an employer's cost. These fees often include:

- Administrative and underwriting costs
- Higher commissions
- State and local taxes
- ACA (Affordable Care Act) taxes on health insurance premiums

Traditional insurance carriers administering fully insured healthcare plans sometimes employ many of these fees to increase revenue and increase profit margins at the expense of the group driving increased health insurance premiums year after year.

More efficient operations

For fully insured businesses, state taxes and laws drive more regulations and drive up the internal cost of managing varying mandates. Especially for organizations with offices in multiple states, a complex compliance environment can exist with significant personnel resource requirements. Self-funded plans are generally exempt from state laws that regulate insurance, which provides consistency in the plan's operation, decreases complexity and saves valuable time for the finance, legal and HR teams.

Increased transparency and control.

Self-funded health plans provide better insight into the healthcare needs of a business's workforce. As HR and benefits experts review health plan trends, organizations can customize a plan designed to meet the needs of their workforce.

Data transparency can drive down costs

Armed with more insight into plan utilization, self-funded employers can adjust their plan design to help control costs. For example, if a business identifies that a high number of mental health prescriptions are being written, it can add additional psychological support services. Or, if employees have high claims related to physical health issues, employers can design early intervention and wellness programs. Over time, these programs can help create a healthier employee and employee family population that reduces the number and costs of claims, drives productivity improvements and decreases time out of the office.

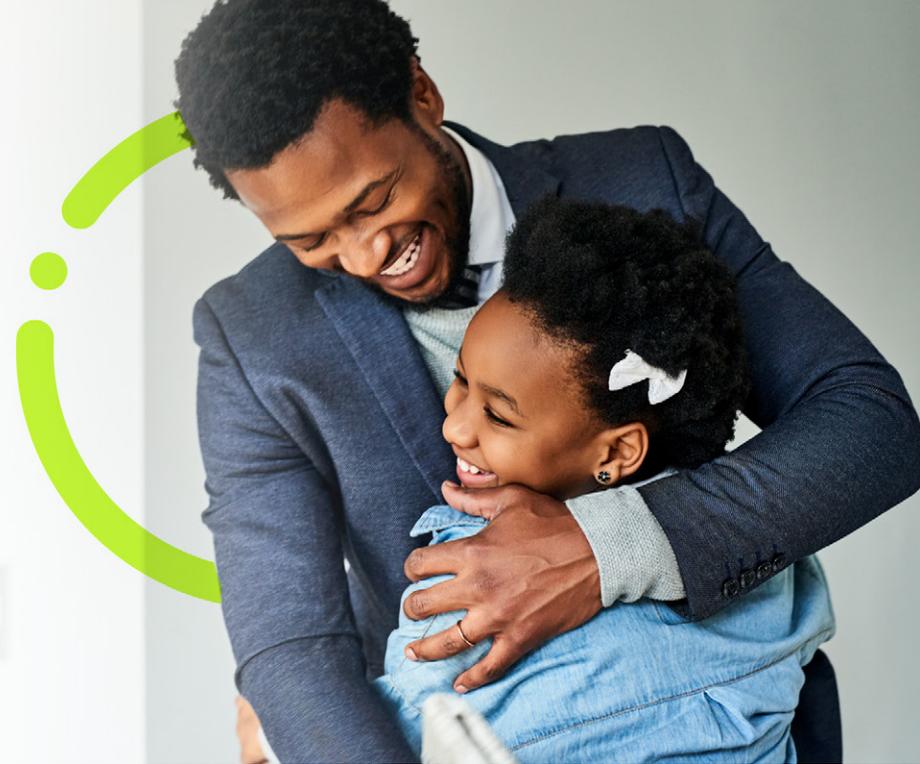
More control over health plan fund investments

Employers can make strategic decisions about how to invest healthcare funds and subsequent savings based on insight into their actual plan data throughout the year. With a self-funded plan, businesses can manage their funds, giving executives the ability to:

- Reinvest savings back into the business.
- Lower employee premiums, copays or out-of-pocket costs.
- Expand employee coverage and benefits.



Greater insight and increased flexibility.



Companies that self-fund healthcare have greater visibility into utilization and paid claims, which enables the business to understand both the plan's big picture and its details.

Visibility into health plan performance

With access to aggregate health plan data, employers can more easily manage costs, proactively engage in preventative measures, provide alternative care, deliver wellness programs and secure savings.

With more visibility into the types and frequency of claims, employers can also improve their long-term financial planning – opposed to traditional health plans that don't provide claims data and, ultimately, put companies at a disadvantage during annual negotiations with carriers.

More flexible plan design

When businesses self-fund their employer-sponsored health plan, HR can easily customize options that make the most sense for the workforce, instead of being locked into a traditional insurance carrier's options. With a wide variety of healthcare options from numerous providers, savvy organizations leverage their self-funded health plan as a competitive hiring advantage by offering better features and coverage, which might include telemedicine, mental healthcare, physical wellness and maternity/paternity leave.



Telemedicine



Mental healthcare



Physical wellness



Maternity/
paternity leave

Opening the door to reference-based pricing.

Employers leveraging self-funded health plans can incorporate cost-containment strategies, like reference-based pricing (RBP), into their plan design. Reference-based pricing is a means to significantly reduce the cost of a business's health plan, while ensuring fair reimbursements are paid to healthcare providers.

Understanding the advantages of RBP

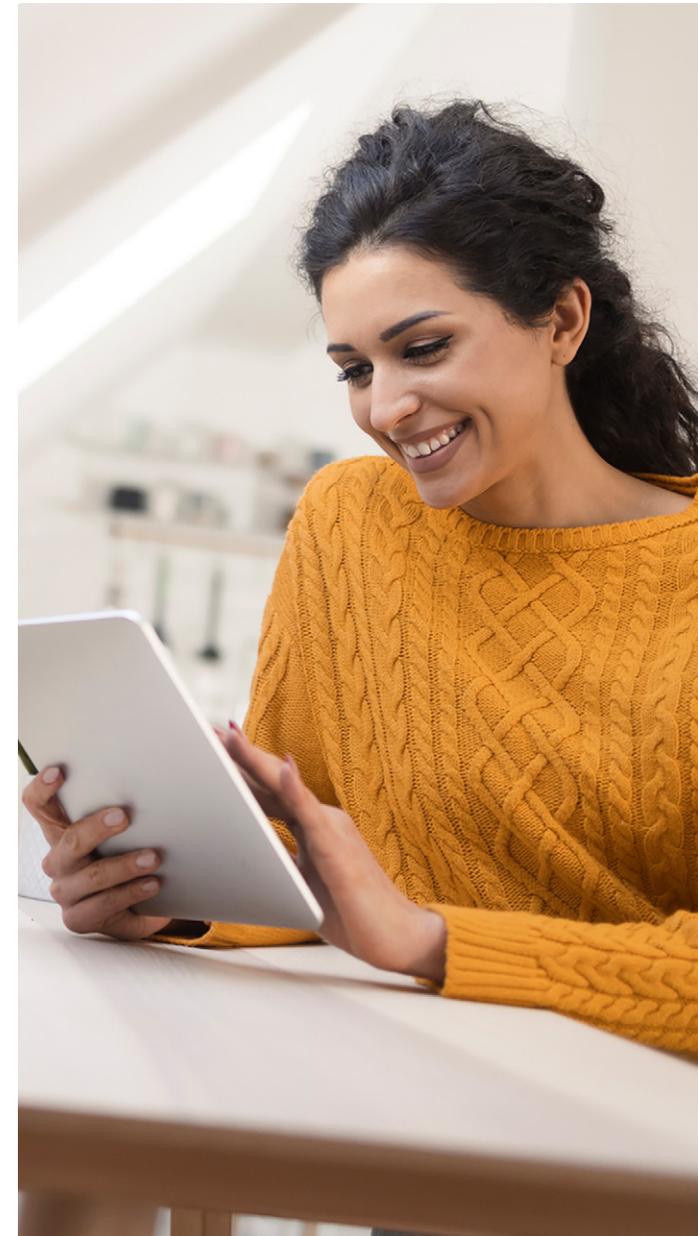
RBP uses an established benchmark, like Medicare, to determine what is paid under the terms of a group health plan for a member's healthcare services.

- The group health plan sets forth a maximum amount it will pay for any claims under the terms of the plan.

- RBP providers review and audit medical bills, reprice them based on Medicare or another benchmark like the actual cost reported by the hospital, and recommend that the plan pay a fair markup on those costs.
- As a result, employers and employees save money on their healthcare spending. Self-insured businesses can add an RBP solution to their health plan and potentially reduce annual costs by up to 30%.

Comparing RBP versus a PPO

Think of reference-based pricing as a bottom-up approach, starting at the bottom with a reference metric and then adding a fair profit margin to determine provider payment. This is in contrast to the Preferred Provider Organization (PPO) system, which starts at the top with a price that originates on a facility's chargemaster and then discounts it to reduce the inflated price.



The basics of stop loss coverage.

For self-funded health plans, stop loss insurance helps to limit an organization's liability in the event of a catastrophic claim or a year with an unusually high number of claims. A stop loss policy is a prudent backstop for many employer-sponsored health plans, since unusually high medical expenses could compromise cash flow or severely deplete a company's reserve fund.

To select the right type of policy, know the options.

- **Individual stop loss (ISL):** Provides protection against large claims incurred by individuals by creating a payment threshold or "specific deductible". If total claims for a claimant exceed that determined threshold amount, ISL reimburses the plan for claims paid above the deductible.
- **Aggregate stop loss (ASL):** This coverage caps your liability for claims that fall below the deductible and are, therefore, not eligible for reimbursement under the ISL coverage. The total of these claims over the contract period are capped by an attachment point or threshold. Eligible claims above that threshold are reimbursed by the carrier up to a predetermined maximum.

Understanding regulations

Self-funded plans are subject to federal regulations such as the Employee Retirement Income Security Act of 1974 (ERISA).

- ERISA was enacted in 1974 to protect workers from the loss of benefits provided through the workplace and preempts state insurance regulations.
- The Act sets requirements for disclosure, reporting and fiduciary standards, claims and continuation of health coverage.
- With few exceptions, self-funded companies are not required to comply with state insurance laws that apply to medical benefit plan administrators.

In addition to ERISA, there are other laws that impact self-funded health plans. Federal compliance for self-funded plans is overseen by an in-house employee, a TPA or legal counsel that functions as the plan administrator and fiduciary.

- [Health Insurance Portability and Accountability Act \(HIPAA\)](#)
- [Consolidated Omnibus Budget Reconciliation Act \(COBRA\)](#)
- [Americans with Disabilities Act \(ADA\)](#)
- [Economic Recovery Tax Act \(ERTA\)](#)
- [Age Discrimination in Employment Act](#)
- [Tax Equity and Fiscal Responsibility Act \(TEFRA\)](#)
- [Deficit Reduction Act \(DEFRA\)](#)
- Other mandated laws



Getting started.

Ready to take the first step to self-funding?
We can help.

At Imagine360, we work with self-funded employers and their brokers to help maximize the performance of their health plan strategies. When you're ready to take the next step, our experts will work with you and your broker to develop a self-funded health plan that delivers results for your company and your workforce.

[Contact us today to learn more.](#)



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