



# SELF-FUNDING

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**Cost Relief to Employers,  
Regardless of Size.**

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## Cost Relief to Employers, Regardless of Size

The price of healthcare benefits continues to increase, through the worst recession in the U.S. in twenty five years and despite the most extensive changes to our healthcare system in half a decade. According to a recent publication by Towers Watson, in 2011, employer healthcare costs for an active employee are expected to rise 8.2 percent, to an average annual cost of \$10,730.<sup>1</sup>

Self-funded plans continue to allow employers to keep short and long-term costs under control. This, as well as the other advantages of self-funding – cash flow improvement, plan design flexibility and now, increased benefits under healthcare reform – are available to companies of all sizes and financial circumstances. In fact, businesses having as few as 25 employees can overcome the obstacles that formerly made it difficult for them to self-fund. For example:

- Stop Loss carriers are becoming adept at working with smaller companies to mitigate financial risk.
- Third Party Administrators (TPAs) provide a broad range of services to supplement the human resource capabilities of small and mid-sized companies.
- Experienced health plan consultants help companies design plans to meet the needs of diverse workforces.

These resources put the benefits of self-funding within the reach of small, mid-sized and large companies alike.

### What is a self-funded health plan?

A health plan under which an employer assumes the responsibility and related financial risk for paying plan participants' healthcare expenses is known as a **self-funded health plan**.

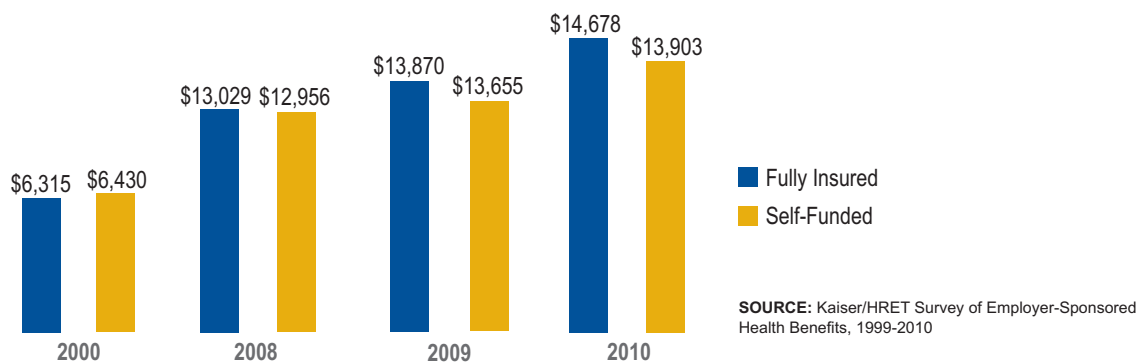
Stop Loss coverage is often purchased to protect self-funded companies from high claims by putting a ceiling on financial risk.

In contrast, under a **fully insured plan**, the employer pays fixed monthly premiums to an insurance carrier, and the carrier assumes the responsibility and related financial risk for paying plan participants' claims.

## Fully Insured Premiums Outpace Those of Self-Funding

Businesses offering fully insured plans have experienced premium increases surpassing those of self-funded companies. The 2010 Employee Health Benefits survey conducted by the Kaiser Family Foundation and Health Research & Educational Trust revealed that for large (200 or more employees) companies with a fully insured plan, premiums for family coverage have increased an average of 35 percent since 2005. In comparison, premiums for self-funded family coverage have increased by an average of 26 percent. From 2000 to 2010, premiums have increased by 132 percent in fully insured companies versus 116 percent in self-funded companies.<sup>2</sup>

### Premium Increases, by Plan Type and Funding Arrangement, 2000-2010



## Increased Enrollment by Small Companies

More and more companies have begun to enroll in self-funded plans. In 2010, slightly more than half (59 percent) of all covered employees were enrolled in a self-funded plan. This percentage has remained stable over the past few years, but since 1999 is up from 44 percent.<sup>3</sup>

It's true that covered workers in large companies were more likely to be enrolled in a self-funded plan than workers in small companies (83 percent vs. 16 percent). However, enrollment in self-funded plans by smaller companies is increasing. Since 2003, enrollment of small companies (3-199 workers) in a self-funded health plan has increased from 10 percent to 16 percent.<sup>4</sup>

### Percentage Covered in Self-Funded Plans, Small Group

	2003	2006	2010
<b>Firm Size</b>			
3-199 Workers	10%	13%	16%
<b>All Firms</b>	<b>52%</b>	<b>55%</b>	<b>59%</b>

### Percentage Covered in Self-Funded Plans by Firm Size, 2010

<b>Firm Size</b>	
200-999 Workers	58%
1,000-4,999 Workers	80%
5,000 or More Workers	93%
<b>All Small Firms (3-199)</b>	<b>16%</b>
<b>All Large Firms (200 or More)</b>	<b>83%</b>

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2010

As more companies realize the benefits, both financial and otherwise, of self-funding, these percentages could increase. With upcoming reform regulations, it's important for employers to understand the advantages of different funding methods. Self-funded and partially self-funded health plans put employers in greater control and aren't as likely to be influenced by state mandates.

## Limited Effects Under PPACA

"With employers facing the challenge of steadily rising costs plus the advent of healthcare reform, the need to rethink employer approaches to healthcare is greater than ever," said Ron Fontanetta, senior healthcare consultant with Towers Watson.<sup>5</sup>

The Patient Protection and Affordable Care Act (PPACA) is expected to have an impact on carriers, possibly resulting in significant rate increases passed on to clients.

Per James J. Scholl, CLU, CHFC, of Scholl Associates and formerly the chair of the National Association of Health Underwriters, "Many of the new requirements do not apply to self-funded plans. I do expect self-funded plans to experience an additional 5 percent to 10 percent rate increase by the end of 2014 from the new laws, but that is much less than the additional 30 percent to 50 percent rate increase the medium and large fully insured employers will experience."<sup>6</sup>

Employers can benefit from exploring alternate funding arrangements. Continuing with the status quo could cause employers to incur short and long-term costs that could be prevented.

## Advantages of a Self-Funded Health Plan

Companies gain significant advantages when they implement self-funded healthcare plans, regardless of company size:

- Financial and administrative control
- Improved cash flow
- Plan flexibility

### Financial and administrative control

Administration of a health plan is an invisible process to a company whose health plan is fully insured. Each month, the company pays a premium, which includes charges for administration of the plan as well as reasonably expected claims, and the insurer performs all administrative tasks – outside the company's vision or control.

When a company makes the change to self-funding, it assumes responsibility for administration of the health plan. With this responsibility comes the ability to:

- Operate efficiently and effectively.
- Detect areas where modification of systems and processes may be desirable or necessary.
- Make continual improvement in plan operations, with a goal of optimizing plan performance, improving employee satisfaction and, ultimately, saving money.

### Improved cash flow

Companies that self-fund their health plans receive significant cash flow advantages. These advantages are:

1. **Pay as you go.** Under a fully insured health plan, a company pays premiums to pre-fund claims and other costs. The insurer uses these pre-paid funds to pay plan participants' claims. In addition, the insurer retains a portion of the premiums to cover overhead costs and to compensate itself for the services it performs and the financial risk it assumes.

A company with a self-funded plan does not pre-fund its claims costs. Rather, the company pays claims as they are incurred. This allows the company, not the insurer, to invest and receive returns on unused claims funds. Of course, many small companies use TPAs for claims administration and plan management; however, TPA charges typically are lower than those of traditional insurers.

2. **Claims liability.** At the end of a plan year in which claims have been lower than anticipated, a traditional insurer keeps the premiums and no savings are returned to the fully insured company. When claims paid by a company's self-funded plan are lower than anticipated, the savings belong to the company alone.
3. **Premium taxes.** Self-funded health insurance plans are liable for state taxes only on Stop Loss premiums. Conversely, fully insured plans are liable for state premium taxes on total plan cost. According to industry experts, this disparity results in direct, automatic savings to a company that self-insures. These savings are estimated to be two to three percent of the premiums' dollar value.

All the cost-saving advantages of a self-funded health plan help employers beat ever-increasing healthcare trends and leave more money to be invested back into the success of the company.

### Plan flexibility

Traditional insurers offer "one-size-fits-all" health plans. As a result, a company with a fully insured health plan may be forced to pay for benefits its employees will not utilize. In addition, the company may be unable to offer other benefits its employees particularly need.

The flexibility of self-funding allows a company to custom-design a cost-effective health plan tailored to employees' specific needs. For instance, high-cost benefits that employees do not value can be eliminated, replaced by benefits that employees want – often for a lower cost.

With the help of experienced plan design specialists, a company can identify additional cost-saving opportunities while custom-building a plan that supports corporate objectives and offers a range of options matching the needs of a diverse workforce. For example, a company may:

- Develop a more cost-effective plan by excluding or limiting non-applicable benefits, while still meeting employees' needs.
- Implement a care management program to direct participants toward the most efficacious and cost-effective medical care.
- Offer alternative health plan options, such as Consumer-Directed Health Plans.
- Provide coverage for alternative treatment procedures, such as chiropractic services and acupuncture.
- Design prescription drug plans that provide cost-saving opportunities.

The flexibility of self-funded health plans offers another important advantage to companies with multiple locations. Because self-funded plans are not bound by state law requirements, a multi-location company is not burdened with managing multi-state plans. Instead, the company can design and manage a single self-funded plan that fits the needs of employees in diverse locations.

## Challenges of Self-Funding to Small and Mid-Sized Employers

When small and mid-sized companies explore the potential benefits of self-funding, they may encounter challenges not faced by larger corporations. For instance, small and mid-sized companies may:

- Be wary of taking on the financial risk inherent in self-funding.
- Experience large cost fluctuations due to the unpredictability of the timing of claims.
- Lack internal resources (e.g., personnel and specialized expertise) to manage and administer self-funded plans.

Fortunately, these challenges can be met through appropriate risk management strategies, accurate claims administration and effective plan design.

### Alleviating risk through Stop Loss coverage

Although companies with fewer than 100 individuals may feel that self-funding is a gamble, there are ways to mitigate risk and ease concerns. One approach is through Stop Loss coverage, which protects self-funded companies from high claims by putting a ceiling on financial risk. Practically speaking, Stop Loss coverage changes a fully self-funded plan into a partially self-funded plan that still offers the same cost control opportunities.

“While it may be easier for large companies to obtain Stop Loss insurance, the Stop Loss industry has matured and become more and more adept at tailoring services for small plans.”<sup>7</sup>

There are two types of Stop Loss coverage: specific and aggregate.

- **Specific Stop Loss coverage** protects a company against claims above a specified amount on a per-participant or per-family basis. An experienced consultant can work with a company to set the amount at a level that reflects the company's risk tolerance.
- **Aggregate Stop Loss coverage** protects a company against accumulated claims that exceed a specified ceiling. The Stop Loss insurer is responsible for any claims above this ceiling.

Aggregate Stop Loss coverage is generally provided on an annual basis; however, it also can help protect a company from interim cash flow problems that arise when monthly claims fluctuate above projections. The difference is made up as claims in other months fluctuate below projections. At year-end, an annual reconciliation is performed. At that time, an adjustment can be made if overall claims for the year were higher or lower than projected.

How much Stop Loss coverage does a company need and how much will the coverage cost? The answers to these questions depend on a number of interrelated factors. These factors include the company's assessed level of risk, the size of its workforce and the amount of risk it is willing and able to assume. The majority of companies that self-fund typically obtain both specific and aggregate Stop Loss coverage.

"There is some evidence that the financial risk associated with self-funding for small companies may actually be lower than the risk associated with self-funding for larger companies. For example, self-funded health plans with 200 employees have a 14 percent probability that actual claims will exceed projected claims. This risk increases to 26 percent for companies with 1,000 employees. The reason? The larger the number of employees in a group, the larger the chance that a member or members of the group will incur catastrophic healthcare costs."<sup>8</sup>

### **Alleviating risk through strategic plan design**

As discussed earlier, self-funded plans have a great deal of flexibility when it comes to plan design. As a result, companies that self-fund can custom-design their health plans to drastically reduce risk. Effective strategies to reduce risk include excluding or limiting certain benefits and implementing strong care, disease and pharmacy management programs.

### **Claims administration and plan management**

Frequently, a small or mid-sized company's self-funded health plan is managed and administered by a TPA. Third party administration is not a new industry. Since the inception of self-funded health plans, TPAs have provided services such as claims administration and eligibility management.

Services offered by TPAs to administer self-funded plans include:

- Managing plan eligibility and enrollment.
- Issuing identification cards.
- Conducting enrollment meetings.
- Providing employee education.
- Responding to plan participants' questions and resolving issues.
- Negotiating, obtaining and renewing Stop Loss coverage.
- Managing/monitoring Stop Loss administration.
- Providing (or contracting with vendors to provide) case management, disease management, pharmacy benefit management and provider network management.
- Negotiating provider discounts.

## Is Self-Funding a Good Fit?

This question should be explored with the help of a specialist in health plan design. Factors to be considered in evaluating whether a self-funded plan meets a specific company's objectives and fulfills the needs of its employees include the following:

- Current and projected healthcare cost trends.
- The company's healthcare claims history.
- The company's projected future claims.
- Makeup of the company's workforce.
- The projected cost of plan management and administration.
- Availability of Stop Loss coverage.
- Financial risk tolerance.

An experienced plan design specialist also can help a company explore the potential benefits of developing a health benefits program with multiple plan options (including Consumer-Directed Health Plans and traditional PPO plans) and assist in obtaining Stop Loss coverage.

## Self-Funding as a Long-Term Solution

Companies continue to experience annual increases in healthcare costs, with no end in sight. With upcoming healthcare reform regulations and the impact PPACA could have on the cost of insurance, now is the time to consider a different method of funding. Self-funding may be a lifeline, connecting small, mid-sized and large employers to valuable opportunities for increased cost control and improved cash flow. Additionally, the flexibility of self-funding allows for the development of comprehensive health benefit programs with options matching the needs of employees from diverse backgrounds and lifestyles.

## About Meritain Health

Meritain Health is the country's largest independent provider of services for self-funded health plans, offering employers comprehensive, integrated wellness and cost management services. To successfully control healthcare and health benefit costs, today's employers need fully integrated, end-to-end solutions to their health benefit requirements. Our client service approach includes customized plan designs, high touch plan management and a strong focus on wellness and education; this is what Meritain Health delivers.

### **A total solution to employers' health benefit requirements**

Meritain Health services are comprehensive, fully integrated and customized to each client's unique needs.

Comprehensive services include:

- Consultation and innovative plan design.
- Healthy Merits<sup>SM</sup> total population management program.
- Long-term cost management solutions.
- URAC-accredited medical management programs.
- Multi-media employee education.
- High-touch member services.
- Efficient plan administration.
- Pharmacy benefits management.
- PPO administration.

### **Self-funding solutions for small companies**

Large and mid-sized employers have long enjoyed the advantages of self-funding over fully insured health benefit plans. Now, MeritainEASE simplifies and facilitates the transition to self-funding for organizations with 25 to 250 employees.

MeritainEASE achieves this through an innovative aggregate-only Stop Loss insurance program that reduces overall maximum costs to a level equal to or lower than fully insured premiums.

### **Employee wellness, education and communication**

Meritain Health is an industry leader in promoting healthy lifestyles for employees. Healthcare industry experience and research has shown that health and wellness programs are critical drivers in creating health-conscious members. The Meritain Health Healthy Merits<sup>SM</sup> total population management program provides employee health screenings and assessments, smoking cessation programs, weight loss programs, health education and decision-support tools.

These, and other program components, are fully integrated with an employer's overall health benefits plan.

Meritain Health also delivers triple-URAC accredited in-house medical management programs. These programs, which incorporate personal health coaching, online wellness tools and informational mailings, improve employees' abilities to select effective, appropriately priced healthcare services. This, in turn, leads them to become more independent, knowledgeable healthcare consumers.

### **Customized, flexible plan design**

Meritain Health consultants are knowledgeable, experienced industry professionals. Working closely with clients and their brokers, Meritain Health consultants design customized benefit plans that include innovative cost-management strategies and support the client's short and long-term goals. As the pioneer and now the leading independent provider of Consumer-Directed Health Plans (CDHPs), Meritain Health proudly offers these plans, as well as traditional PPO plans, for incorporation into flexible benefit programs. Throughout the plan year, Meritain Health consultants monitor plan activity and results, routinely meeting with clients to review plan reports and analyses. By developing lasting client relationships, they are able to identify opportunities and formulate recommendations to strengthen plan performance.



### **Meritain Health history and operations**

Meritain Health has been exceeding the expectations of clients for more than 30 years. With more than 2,300 clients and over 1.4 million members in all 50 states, Meritain Health is the largest independent provider of services for self-funded health plans in the country. A top Consumer-Directed Health Plan provider, Meritain Health serves clients and members through its dedicated 1,700 employees.

For more information, visit [www.meritain.com](http://www.meritain.com).

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