Transitioning to Self-funding Playbook

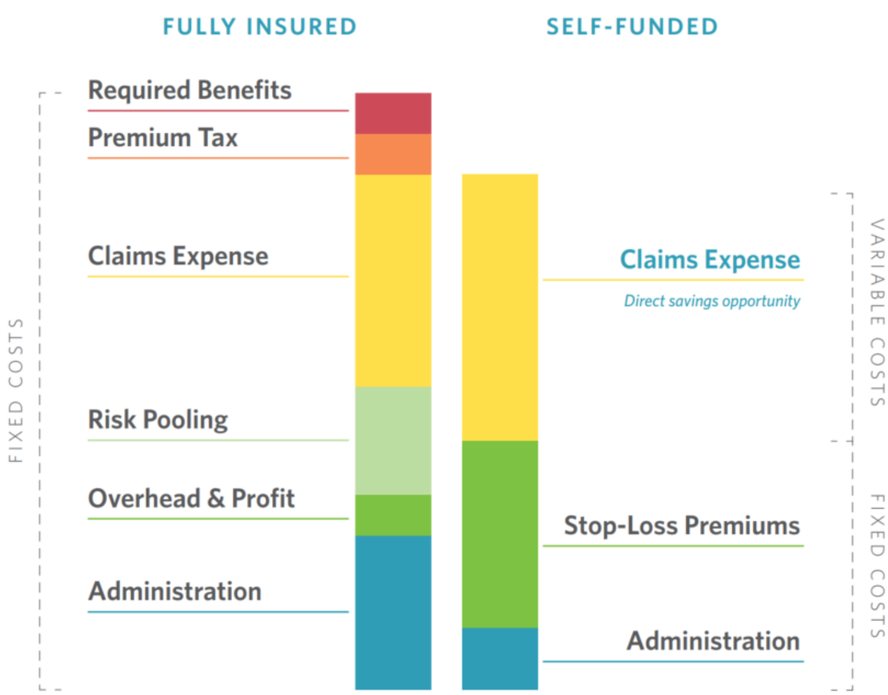
Introduction

As an employer, if you are considering self-funding, you already know some of the advantages. As health care costs continue to climb, many employers typically with more than 50 employees and a stable benefit history are choosing self-insurance to reduce costs.

Many employers go to self-insurance because of overall lower costs, exemption from state mandated benefits, control over benefit design, control of cash flow to pay for claims as they are due, choosing a provider network that meets the needs of the employees and choice of a Third-Party Administrator. As employers assume financial risk for providing health care benefits to employees, employers have a role in educating their employees.

This playbook is an introductory guide to self-insurance. In this resource, there will be a general overview of fully funded health plans vs. self-funded health plans, a transition checklist and a case study. Consult with your benefits broker and plan administrator. Speaking with them will let you know whether self-insurance is right for your company.

Transitioning to self-funding may be possible. Let SBG connect you with one of our member companies to tell you how being self-funded has benefited them and as an SBG member how they have contained healthcare costs, improved healthcare quality and positively impacted the health of our community. SBG engages in value-based group purchasing. We negotiate rates, services and access to medical providers on behalf of coalition members and have long-standing relationships with brokers and Third-party administrators. Let us help you find the health care plan that works for your company.



Fully Funded Health Plans vs. Self-Funded Health Plans

A fully insured health plan involves an employer paying a premium to an insurance company. The insurance company provides the risk protection, plan administration and healthcare claims. Fixed premiums are paid to the insurance company. Plans are subject to state regulations.

A self-funded health plan allows employers control of plan design, allows for decision point on how much risk is acceptable, increases reporting capabilities and enables companies to attract and retain employees. There are set costs such as administrative fees and stop loss and costs for claims.

Self-funding can be an effective way employers control rising cost of health care coverage.

How Does Self-Funding Work?

After careful review of your company's needs, an appropriate amount is set for your trust fund

Employees and employers contribute to the company fund

When employees receive care, the bill is paid from this fund

When an employer reaches a point where the trust fund expenses are predictable, an employer has options such as lowering contributions, lowering copay or expanding employee benefits.

Issue	Fully-Insured	Self-Funded
Risk	Risk is transferred to the carrier. With that comes a trade-off: Companies can significantly overpay, have less control and have no visibility into cost drivers.	Risk is managed through stop-loss insurance, which caps catastrophic claims. Accessible data means companies are able to actively reduce risk rather than entirely transfer it with no visibility.
Vendor Compensation	Multiple profit margins and commissions, which are often hidden from employers.	Limited external margin and transparent commissions depending on vendor selection.
Transparency	Limited to non-existent – employers don't know their actual claims cost relative to the premium paid, and the carrier keeps the difference.	Total – the firm pays claims as it goes and only pays for claims actually incurred. Firms own their own health plan data and can use it to implement the right programs to lower costs.
Cost Control	Limited—the firm is typically increased by more than 10% annually and can be increased in excess of 25% following a higher claims year.	Greater – while no firm can accurately predict it's total annual spend, the self-funded firm has more opportunity to implement programs that lower risk for future claims.
Local Regulation	Each state has different tax rates and mandates, creating a complex compliance environment.	Government intervention is limited to the Federal level.
State Taxes	Typically 2-3%, depending on the state.	No state taxes on premiums in a self-funded plan.
Ownership of Data	The carrier, not the employer owns the workforce data in a fully insured environment.	The employer owns their own employee and trend data and can use it as they see fit to lower costs.

Checklist for Transitioning to Self-funded Group Health Plans

Transitioning from fully insured to self-insured, can take 6-12 months. It is important to work with the right resources. Here are some of the steps to consider:

- Develop a project plan
- Involve appropriate resources, and subject matter experts for plan document(s)
- Select an experienced benefit advisor
- Work with your benefit advisor to secure appropriate third-party administrators for administrative services and claims management
- Acquire Stop Loss insurance to limit risk exposure-Specific and or Aggregate as needed
- Develop Administrative Service Agreements, Wrap Plan, HIPAA Policy, Plan Policy
- Issue Summary Plan Descriptions
- Check into ERISA Bonds & Fiduciary Liability insurance
- For benefit quotes, be prepared with information
    - Secure a census file, provide medical plan details on premiums, contributions and Summary of Benefits and Coverage
    - Have claims history
    - Provide large claimant report

Source: Fisher Phillips, United Benefit Advisors, Phia Group, SIIA Self Insurance Institute of America

SBG PREFERRED HEALTH RESOURCES

COMPANY PROFILE

- Based in Savannah/Chatham County
- Community owned not for profit Fire, EMS and Firewatch Department
- 450 employees/750 covered lives
- Average age: 32

The team at Savannah Business Group sat down with the HR Director of this company to evaluate how self-funding has affected their health benefit plan during the 6.5 years since implementation in 2014. Prior to self-funding their health care costs were increasing with little to no improved services and increasing costs.

"Upon review of our finances, we realized what we were paying out for healthcare was not sustainable."

GETTING BUY-IN

Uncontrolled rises in health care costs affected the bottom line for employees as well. With the previous indemnity policies, the portion paid by employees stood to increase dramatically unless something was done. The company set out ot increase employee knowledge of health care, what it meant to be self-funded for benefit options and support wellness.

OUR GOALS

- Reduce rising health care expenses
- Improve affordability and access for employees
- Create a business asset for employee recruiting and retention
- Identify cost drivers to help plan for the future

A RECENT SUCCESS

It was time to take a serious look at the benefits of self-funding and set up a plan to take control of healthcare costs.

"Since implementation of self-funding, the total cost of the medical program has decreased by 4% compared to the projected fully-insured rates for the same time period. Partnering with SBG was a huge factor in our success."

"The plan has saved approximately $388,000 from projected fully insured rates in last 6.5 years. The first year was $689k."

Source: Ironwood Insurance Service.