Self-funded Plans – Why and How
by HealthTechnolgy.com

You will perhaps agree unanimously on the decision that health care is a sector that enjoys top most priority in service industry and the concerns that appear challenging are how to design an apt health care scheme and finance them properly. Self funding programs have emerged as an alternative to the conventional forms of fully insured schemes. But before adopting it you need to take into account some integral factors that make it as the chosen one.

- **Controlled scheme design:** This scheme suggests every employee in a concern should get uniform healthcare benefits. This is irrespective of the designation and state to which an employee may belong.
- **Better cash flow:** Self insured health plans aim at regularizing cash flow and optimizing in as well. A self funded plan enables groups of employees and administration to manage cash flow and fund the claims.
- **Tax exemption:** Fully insured health plans also exempt a number of state taxes and lead to about 1.5% to 3% savings.
- **Other eliminations:** Self funded schemes also expel the risk charges and profit margins enjoyed by intermediate carriers. This again leads to about 3% to 5% annual savings.

What are Self Insured Health Plans?

Self Insured Health Plans is precisely an arrangement of self insurance where the employer of an organization funds employees with general health care and disability facilities from the company's fund. There are certain characteristics of it, like:

1. It is different from a fully insured plan where the employer seeks monetary assistance from the insurance company for attending to the employees and their dependants.
2. In this case the payments are directly taken over the employer. Thus, he can also apprehend the risks involved in direct payment against claims. So, conditions of eligibility and the permitted coverage are strictly mentioned in a plan document.

History of Self-Insurance:

There was still a time when self insured healthcare remained in the gray area. But with the emergence of regulations like Federal Liability Risk Retention Act of 1986, Employee Retirement Income Supplement Act of 1974 as well as captives and rent-a-captives schemes, self insurance plans have also taken their position. Today, the scheme holds a firm position and had got improvised with the provision of specialized services too, such as risk transfer benefits extended by insurance agencies, loss control institutions and third party administrators.

Types of Self-Insured Health Plans:

- **Risk retention group:** This is self controlled healthcare plan that allows self insurance and has been licensed by a home state. This group is categorized under the Liability Risk Retention Act and once it gets licensed it can render services to its members in every state.

- **Captive insurance companies:** The characteristic of these companies is that they provide risk management from their parent bodies. However, in certain occasions they finance customers who are the company's employees. They exist to provide services when it is otherwise unavailable.

- **Stop loss coverage:** This arises due to any unfavorable situations like war, accident, eruption of disease, etc. Stop loss limits the employer's burden; say to a particular amount in a given year, no matter what happens outside. This helps them to be financially stable, even if any drastic event takes place. In today's market, we generally come across two type of Stop Loss:

  ✓ Individual Stop Loss which limits the employer's liability to a set amount in a given year.
  ✓ Aggregate Stop Loss which limits employer's liability based on overall claim fluctuation observed in a given time frame.

- **Specific and cumulative policies:** Specific stop loss coverage starts functioning when the risk claims of an employee reached the limit set by the employer. This coverage entitles employees to enjoy lifetime limit. Likewise, cumulative policies include the risk coverage of a total group when the heath care insurance limit set by the employer exceeds.

Advantages of Self Funded Plans:

In an age where providing health care benefits is a part of compensation package and functions as a lucrative factor that attracts skills and talents of the industry to a particular organization, it is undoubtedly a worth trying scheme. Moreover, you cannot even deny that such a policy renders greater flexibility to the employers too and help them provide different types and amounts of benefits in a much simplified manner. So, in nutshell the benefits are:

1. Controlled risk management

This scheme is better adaptive to handle risks. It makes the best possible utilization of the available funds to render benefits like handling claims, managing funds and harnessing benefits from the claims. It makes provisions for allocating more towards medical claims by elimination factors like risk charges, insurer commissions, etc.

2. Regularized cash flow

Since claims are self funded in this scheme so emergency claims are met instantly by delaying the payments of regular health plans.

3. Novel plan design and management

Since the self funded policy enjoys freedom from benefit laws that have been formulated by any state so there is always a greater flexibility in the plan design. Therefore, employers are at liberty to develop lucrative health plans and tailor them according to the needs and profile of their employees.

4. **Tax relief**

While employers remain perennially burdened by that state imposed premiums taxes that are passed onto them by their insurers, employees who enjoy self funded healthcare coverage are exempted from such taxes. Therefore, they can save more!

5. **Freedom from state regulations**

Similarly, the Employee Retirement Income Security Act of 1974 has exempted this self funded scheme from the control of every state law. Thus, there is a regulatory stability of employees who come under this policy and the need for adopting a hodgepodge arrangement of design variations in order to harmonize with the different state laws does not rise at all.

6. **Limiting exposure**

Self funded plans are responsible only for the employees who are within a particular organization and covered under the plan. This gives an advantage to the employers over those who are pooled by the multitude of claims made by all those who are insured, whether within a concern or outside it.

7. **Risk controlling options**

The policy provides extensive risk control by providing schemed like partial insurance and stop-loss coverage.

8. **Better wellness facilities**

The increase in medical costs have made sponsors find preventive methods and improved maintenance care for chronic diseases to reduce these costs. In self funded schemes employers can make a flexible wellness design that is customized according to the demography and specific needs of each of the employees.

9. **Better judgment decisions**

When funding happens to be the key factor of healthcare insurance, self funding plans enjoy the privilege to estimate areas where the percentage of claims can be curtailed and where majority of health care spending must be done. This analysis of claims is done by means of specialized software and investigative measures.

10. **More savings**

The cost control attribute of self funded plans work towards increasing saving. Since the money recovered from the sponsor gets deposited in the general fund of the plan so it helps to meet the employee medical claims in time. Consequently, it helps employees detect fraudulent medical claims and thus monitor spending on wellness.

How Do Self Insured Medical Plans Work?

The basic attribute of self insured plan is that it does not contact an insurance company for meeting the medical claims of its employees. Actually, everything is handled by the company itself and takes care of operations, processes and other expenses on its own. However, it does not need much explanation that such a plan can only be implemented by a company that is quite large indeed!

Compliance for Managing Self-Funded Plans:

Self-insured health plans have to follow almost all the major federal laws in it operation. Due to this, formation and administration of self funded plan becomes quite complex. These include:

- Employee Retirement Income Security Act (ERISA)
- Health Insurance Portability and Accountability Act (HIPAA)
- Consolidated Omnibus Budget Reconciliation Act (COBRA)
- Americans with Disabilities Act (ADA)
- The Pregnancy Discrimination Act
- The Age Discrimination in Employment Act
- The Civil Rights Act
- Tax Equity and Fiscal Responsibility Act (TEFRA)
- Deficit Reduction Act (DEFRA)
- Economic Recovery Tax Act (ERTA)

Plans Available to Self-Funded Employers:

Self-funded Plan employers have the privilege of choosing wide varieties of plans. Some of the most widely used plans are HMO, PPO, EPO, POS and indemnity plans, all with managed care and cost containment programs. In the current market scenario, PPO plans are the most sought after in the self-funded arena. The basis of PPO's success in self funded plans is that, it is mostly perceived by employees as a fully insured or traditional health plan which offers doctor or hospital access on a regional or nationwide basis.

Recent Trends in Self-Insurance:

Some of the latest trends observed in self funded insurance in a survey carried out by Kaiser Family Foundation and the Health Research and Educational Trust are as follows:

- Nearly sixty percent of employed resources in American are covered under a self-insured plan.

- In 2010, 16% of covered workers at small employers (3 to 199 workers) had self-insurance coverage, compared with 93% of covered workers at very large employers (5,000 or more workers)
- Workers at small employers (3 to 199 workers) in self-insured plans paid higher premiums than those in fully-insured plans.
- Workers at large employers (200 or more workers) in self-insured plans paid statistically significantly lower annual premiums than those in fully-insured plans.
- Among workers at large employers, average family coverage premiums have grown faster over the past decade for fully-insured plans than for self-insured plans.
- Workers paid a larger share of their family coverage premiums when their plans were fully-insured for self-insured plans.

Consulting Firms Advising on Self-Funded Plans:

A.T. Kearney	Effective Compensation	MullinTBG
Accenture	Ernst & Young LLP	Northern Trust
Actuarial Consultants	Fidelity Financial Advisor Solutions	Northwestern Mutual
ADP	FMR	Oliver Wyman
Aon Hewitt	Gallup	PA Consulting
Bain & Company	Hay Group	PricewaterhouseCoopers
Benecon Group	HR Solutions	Right Management
Booz Allen	KPMG	Russell
Boston Consulting	LHH	Schloss & Co.
Clark Consulting	Marsh & McLennan	SEI Investments
Condrey and Associates	McKinsey & Company	The Segal Group
Deloitte & Touche	Mercer	The Vanguard Group
Diversified Investment Advisors	Milliman	Towers Watson

Self-funded Plans Sponsor List in America:

Accenture	Kaiser Foundation Health Plan, Inc	Southern California Edison
Alere, Inc	Metropolitan Atlanta Rapid Transit Authority	Stanislaus County
American International Group, Inc	Pacific Gas and Electric Company	Target Corporation
County of Kern	Pinnacol Assurance	The Episcopal Church Medical Trust
Honeywell Corporation	Qualcomm, Inc	The Men's Warehouse, Inc
IKEA North America Services, LLC	Sandia Corporation	The MITRE Corporation

Intel Corporation	Sisters of Charity of Leavenworth Health Systems	University of Colorado

Role of the TPA in Self-Funding:

TPAs are considered to be best bet for self funded plan because of a number of reasons. Some of the important ones are highlighted here:

a) They are specialists at adjudicating claims and servicing employer needs
b) Have domain knowledge of self-funded health plan administration
c) TPAs have the required infrastructure and facility to administer the plan as they invest huge sum of money in computer systems, costly software and employees.
d) They also protect sensitive personal-health information which are considered to be utmost important in healthcare industry.

Services Provided by TPAs:

TPAs provide innumerable benefits to plan sponsor by managing everything related to its plan which tend to be complex at times. The broad areas of services covered by TPAs for self-funded employers are as follows:

- Access to real-time eligibility and claims history reports
- Accounting Support and Reconciliation
- Ancillary Benefits Administration
- Billing/Premium Billing
- Eligibility
- Enrollment
- Capitation Payment Management and Processing
- Case Management
- Claims
- Claims Adjudication
- Claims Auditing
- Claims Investigation
- Claims Repricing
- Claims Runoff
- Claims Subrogation
- COBRA Administration
- Concurrent Review
- Coordination of Benefits

- Customer Service/Call Center
- Disease Management
- EDI Compliance
- Flex Plan Administration
- HIPAA Compliance
- Identification Cards
- Issue employee materials
- Member Education/Communication
- Legal expertise
- Payment Structure Support
- Pre-Admission Review
- Pre-certification
- Recovery/Collections Management
- Reporting
- Reporting for claim funding
- Reporting to the stop-loss carrier
- Retrospective Review
- Risk Management
- Second Surgical Opinion
- Stop-Loss administration
- Stop-Loss provision
- Summary Plan Descriptions
- Utilization Review/Utilization Management
- Voluntary Benefits Administration
- Underwriting

HealthTechnolgy.com and Self-funded Plan Administration:

HealthTechnolgy.com is New York City based, an integrated Health IT & Services firm, laser focused at Medicare, PBM & TPAs solutions. In self funded space, we can help our prospective client in the following arena.

- Appeal administration
- Claims adjudication and payment
- COBRA administration
- Customer services
- Enrollment
- Financial and utilization analysis and reporting
- HIPAA Certificate of Coverage production

- Provider network access
- Stop loss insurance assistance
- Summary plan descriptions and ID cards
- Underwriting and risk analysis

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