THE SELF-INSURANCE SOLUTION: Exploring Self-Funded Plans In California’s HMO Country

By PAUL JOHNSON

It’s open enrollment for the 2017 benefit year, and business owners nationwide are facing the same challenges that have plagued them for years. Insurance rates continue to skyrocket – even for companies with very low utilization – cutting deeply into the bottom line. Employers are forced to make a difficult choice: pay higher premiums year after year for traditional insurance plans – typically for less coverage – or offset premium increases by cutting coverage, passing more of the costs to employees, or reducing their workforce.

Given these dismal options, it is no surprise that business owners are feeling trapped. Regardless of the rise in insurance costs, the Affordable Care Act (ACA) requires many employers to provide healthcare. Other business...
owners, including those with fewer than 50 employees, may not be bound by the law, but know they must offer healthcare if they want to recruit and retain top talent.

Brokers whose clients are rumbling about increases have the opportunity to offer an alternative: self-insurance. Simply stated, employers who self-insure assume the claims risk of their staff. Combined with stop-loss insurance for catastrophic or chronic illnesses and accidents, self-insurance eliminates administrative costs of traditional health insurance and may cost considerably less than a major medical plan.

Given Kaiser Permanente’s foothold, self-insurance is underutilized in California, but it’s worth a closer look. In fact, it may be the silver bullet for companies struggling to maintain financial solvency amid annual insurance rate hikes. Even companies that offer Kaiser are sick of the high cost of healthcare, yet they feel trapped. Their brokers are in a tough spot: they can offer an alternative: self-insurance. Self-insurance may also give companies a competitive advantage in hiring.

Large corporations and government entities, nationwide, have used a self-insurance model for decades. The trend is just beginning to take hold, self-insurance is underutilized in California, but it’s worth a closer look. In fact, it may be the silver bullet for companies struggling to maintain financial solvency amid annual insurance rate hikes. Even companies that offer Kaiser are sick of the high cost of healthcare, yet they feel trapped. Their brokers are in a tough spot: they can offer a different healthcare solution or risk losing the business to someone else. Self-insurance may be just the thing these clients want and need.

Large corporations and government entities, nationwide, have used a self-insurance model for decades. The trend is just beginning to take hold with small- and mid-sized businesses, spurred by overwhelming cost increases, federal regulations, and a healthcare system that is difficult and daunting to navigate.

REDUCING COSTS
Companies that self-insure can meet all of the mandates of the ACA, avoid the state premium tax, pay fewer ACA taxes and fees, and are not on the hook for carrier profit margins. Businesses can save even more by working with a third-party partner that helps employees navigate the healthcare system, and directs them to the right level of care and most cost-effective facilities.

For example, many medical expenses are needlessly incurred in hospitals. MRIs, X-rays, blood tests, and other common procedures may cost five to 20 times more than the exact same services performed in an offside imaging center, lab, or independent doctor’s office. A partner organization can serve as a healthcare concierge, directing employees to seek treatment at lower-cost (but equally effective) sites of service. This is a key aspect of decreasing costs through self-insurance.

MITIGATING WORKERS’ COMP
Likewise, self-insuring may prove a smart solution for companies in industries with high workers’ compensation claims. Far too often, employees claim workers’ comp for very minor injuries that require only first aid – and workers’ comp is a high price to pay for a few stitches. In other cases, people claim workers’ comp for injuries sustained outside the workplace, simply because they don’t have other healthcare options. With a well-designed plan – combined with a clear process for guiding employees through the healthcare system – workers are more likely to seek the right care through the right channels, helping businesses keep workers’ comp claims in check.

AN EDGE IN HIRING
Self-insurance may also give companies a competitive advantage in hiring. While insurance premiums are killing business’ profitability, the cost of healthcare also is creating a hardship for individuals who don’t get benefits through their employer. Many of those people start looking for jobs with bigger companies that are required, by law, to offer healthcare, leaving small companies at a distinct disadvantage. However, self-insurance may be a good option for businesses of all sizes – even those with just a handful of employees – and may aid them in hiring.

STRATEGIC PLAN DESIGN
Self-insurance might just be the best-kept secret in healthcare. A smart, strategic plan should include these three components:

1. **Everyday care that most employees need:** Many of today’s traditional health insurance plans offer stripped-down benefits that do not cover routine health services. Other plans, including minimum essential care (MEC) coverage, are heavy on diagnostics and light on treatment – MEC-only plans do not address employees’ ongoing medical needs. A smart partial self-insured plan should include primary and injury care, rehabilitation and chiropractic care, labs, immunizations, generic medications and preventive services at little or no out-of-pocket.

2. **Stop-loss insurance:** To supplement the partially self-insured plan, companies can purchase stop-loss insurance to cover the most expensive healthcare – chronic illnesses, catastrophic diagnoses or accidents – and to ensure the business meets Minimum Value Plan requirements.

3. **Streamlined Care Delivery:** Companies may elect to hire a partner organization to manage the care delivery and logistics process, help employees navigate the system, and eliminate the waste, administration and overpricing rampant in today’s healthcare industry. ★