WHY YOU SHOULD CONSIDER SELF-FUNDING

ESIS INC.
EMPLOYERS SELECT INSURANCE SERVICES

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INTRODUCTION

Self-funding has always been a potential cost-saving option for larger employers, particularly as health care costs have risen and the employee benefits system has gotten more complex with the introduction of ACA. Self-funding offers many potential benefits for employers:

- More cost flexibility and often lower costs, as employers simply pay for medical expenses as they come rather than paying a premium to a health insurance carrier, in addition to lower administrative costs
- More flexibility in plan design, rather than having to find a plan through an insurance carrier that fits the needs of their employee group and budget
- Less regulation, because self-funded health plans are regulated differently than fully insured plans

Traditionally, self-funding was thought to be most feasible for larger employer groups, as they could assume the risk necessary with managing their own health care claims. However, today self-funding is moving down market as costs rise and regulations increase for small groups. Self-funding has become more of an attractive option for groups of all sizes, and the protection of stop-loss insurance helps mitigate the financial risk.

But due to the common perception that self-funding is for large groups only, many small groups don't realize it's even an option for them. Even many larger groups have never considered self-funding simply because they are familiar with traditional fully insured plans.

If you've never considered self-funding, or simply thought it wasn't a good fit for a group of your size, this ebook is for you. Read on to learn more about self-funding and how it may be able to benefit you in this time of rising health care costs and increased regulations.

CHAPTER 1

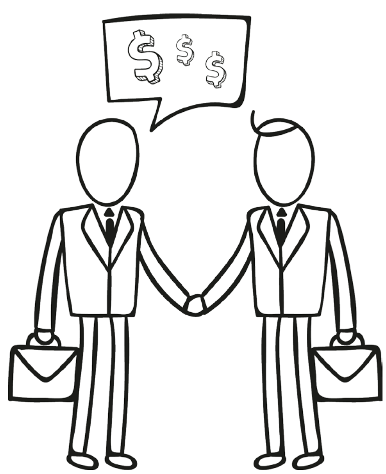
MORE PLAN DESIGN & COST FLEXIBILITY

Self-funding has become an attractive option for employers of all sizes, as it offers more flexibility with plan design and can be an opportunity to manage soaring costs.

SELF-FUNDING ISN'T JUST FOR LARGE EMPLOYERS ANYMORE

Employers of all sizes are starting to explore self-funding as a cost saving option—even smaller groups who traditionally never considered self-funding in the past. Why this move toward self-funding? It's no secret that health care costs have continued to rise, and the Affordable Care Act (ACA) has only added costs for many groups of late, especially for smaller groups. Self-funding offers a way to avoid many of the costs associated with ACA, while designing a plan that prevents some of the extreme cost increases that groups are facing today.

Plus, ACA actually makes self-funding a less risky option for small groups than in the past, due to the guaranteed issue provision. In the past, smaller groups may have worried about choosing self-funding, in case they couldn't get a reasonable quote if they chose to go back to a fully insured plan at some point. With the guaranteed issue provision, groups need not worry about that risk, as insurers cannot deny individuals or groups coverage under ACA.



CHAPTER 1, CONT.

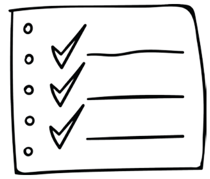
MORE PLAN DESIGN & COST FLEXIBILITY

SELF-FUNDING ALLOWS FLEXIBILITY NOT FOUND WITH FULLY INSURED PLANS

One of the central benefits of self-funding is that employer groups have more options in terms of plan design, because they are not limited by the plans the health insurance carriers offer in the area. This allows more plan design and cost flexibility than shopping on the fully insured market. Self-insuring allows employers to get creative with their plan design to choose one or more plans that fit their budget as well as their employee needs.

This creativity in plan design is an important tool for employers looking to manage increasing costs while still providing a competitive plan to their employees. In the fully insured market, employers are limited by plan designs offered by health insurers, but can be much more flexible and creative when designing their own self-insured plan. Though self-funding is not for every group, many small companies are finding this option a good alternative as it allows them to tailor a plan that fits the unique needs of their small employer group.

In addition, rather than paying a premium each month, self-funded groups only pay medical claims as they come in—which can be a significant benefit for groups with healthier employee populations and active wellness programs. Plus, there are generally fewer administrative costs, which make self-funding more cost effective in many situations.



CHAPTER 2

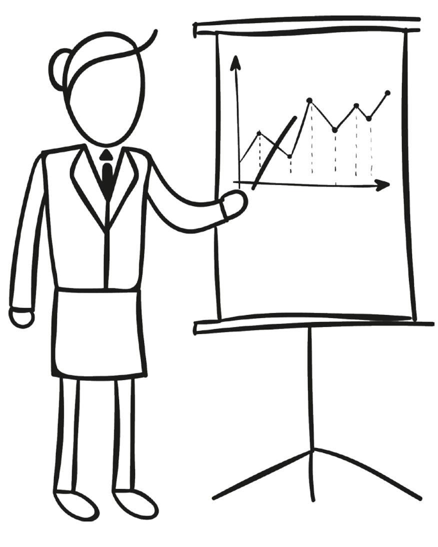
FEWER REGULATIONS TO COMPLY WITH

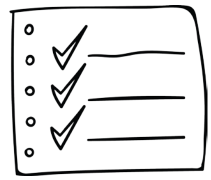
Not only has ACA increased costs, as mentioned in Chapter 1, but it has also introduced many new regulations with which to comply. In addition to increasing costs, these provisions add complexity and extra work to managing employee benefits. However, many of these provisions apply only to fully insured plans, which is another reason that self-funding has become more appealing for employer groups of all sizes. In this chapter, we'll discuss some of the more prominent ACA provisions that have negatively impacted employer groups.

COMMUNITY RATING

Adjusted Community Rating caused costs to increase for many small groups, in some cases significantly. In addition, quotes for smaller groups are now much longer and more complicated due to the Community Rating changes, making benefits planning more of a headache each year.

For this reason, small groups who many never have considered self-funding before are exploring that option to avoid the complexity of Community Rating.





CHAPTER 2

FEWER REGULATIONS TO COMPLY WITH

WELLNESS

Another part of the Community Rating provision addresses wellness, and applies to employers of all sizes. It specifies that employers with wellness programs no longer get lower premiums for their healthier employee populations. Previously, investing in a wellness program and achieving a healthier employee population would pay off in the form of a lower premium in the fully-insured marketplace. Now that Adjusted Community Rating is in play, the employer no longer gets benefits for their wellness accomplishments and pays the same as any other company, negating the efforts of their wellness program.

Self-funding offers these companies the opportunity to take full advantage of the improved health of their employee population and design their health plan how they chose, without needing to comply with the Adjusted Community Rating provision—for example, they can offer lower premiums as incentives based on their wellness program.

COMMUNITY RATING

The Medical Loss Ratio (MLR) provision states that insurers can only spend a certain percentage of their profits on “administrative” costs. For that reason, insurers have streamlined their operations in a variety of ways, with many insurers offering fewer plan options to small groups to keep operations lean and costs down. The result for small employer groups is that it is tougher to find a more tailored health plan to meet the unique needs a small group has, which makes self-funding an attractive alternative.

Employers who choose to self-fund are not limited by the plan design options provided by health insurers, and can design a creative plan that fits both their budget and employee needs.

CHAPTER 3

WHAT YOU NEED TO KNOW ABOUT SELF-FUNDING

Self-funding is an attractive option to many employers because it offers more flexibility than traditional fully insured plans. However, there are other important factors to consider when self-funding.

- **ERISA:** Self-funding frees you from some regulations, such as ACA, but is governed by ERISA, which is a federal law. This means that employers who self-fund have certain documentation and reporting requirements under ERISA.

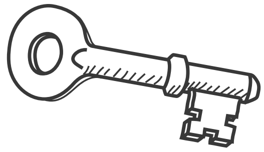
- **Stop-loss insurance:** Stop-loss insurance is a vital part of self-funding, particularly for a smaller group who cannot afford to take on too much risk. This helps the employer manage costs and offers a safety net for large claims.

- **Wellness:** Self-funded plans can benefit significantly from an effective wellness program; the healthier an employee population is, the fewer claims there are likely to be. For employers who already have a wellness program, this is a benefit of self-funding. Otherwise, employers want to considering implementing a wellness program if they explore self-funding.

- **Administration:** Administration is different for self-funding, so this needs to be a consideration. Many employers choose to work with a third-party administrator (TPA) to administer their plan.

- **Financial impact:** Moving to a self-funded plan requires a much different budgeting and forecasting model, as claims must be paid when they occur, as opposed to paying a monthly premium. So while self-funding can certainly save money, it can also have a significant financial impact on an employer's budget. It's important to plan ahead for this change in budgeting and forecasting of costs.

- **Discrimination testing:** Another important regulation on self-funded plans is that they are not discriminatory, so discrimination testing is a must.



CONCLUSION

Self-funding isn't for everyone, but it isn't just for large employer groups anymore. With the implementation of ACA and perpetually rising health care costs, self-funding is becoming another cost-saving option for many employer groups searching for the ideal benefit plan solution.

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Want to explore the concept of self-funding for your employer group? Contact ESIS today at (916) 248-4777 or shannon@eselectins.com to schedule a plan design consultation.