Why Consider Self-Funding Your Medical Stop Loss Benefits Plan?

Self-insuring is not for everyone. Risk tolerance and business objectives vary by employer. But many groups are taking a second look at self-insuring health plans.

- Costs can often be mitigated by several means:
  - Paying a fraction of the insurance premium compared to a fully insured benefit plan premium
  - Lowering premium tax liability on the smaller stop-loss premium
  - Paying administrative costs to a TPA, which are typically lower than those an insurance carrier factors into a fully insured premium
  - Having greater control over plan design provisions, which can lead to savings
- By self-insuring, an employer has unlimited access to and control over its own claims and related data. Analysis of this data, especially with the right partner, can lead to smarter benefit decisions—including wellness, disease management and productivity programs—that can result in direct savings.
- A self-insured plan is completely transparent. The employer sees all claims as well as all related claims costs. There are no hidden fees, margins or charges.
- Employers can sponsor and maintain a single health plan across multiple states, potentially reducing administrative costs.
- Through stop-loss coverage, an employer can limit overall risk and financial exposure, just like in a fully insured program, but at a potentially lower price point.

Once only open to the largest employer groups, the self-insured solution has become more appropriate for middle market companies, thanks to data, technology and market demand.

How is Self-Funding Different?

Self-funding uses the employer's money to pay employee medical claims, not an insurance company's. Therefore the employer benefits when funds set aside for claim payment go unused. The majority of the cost of a self-funded plan, therefore, is VARIABLE. The employer establishes it's own claim account and may reconcile against future contributions with any unused funds or reserves. And interest earned on the pre-funded claim account is the employer's to keep, not an insurance company's.

Advantages of Self-Funding

Employers often find the following advantages when operating a self-funded program (many of these benefits overlap, but they all may affect any employer).

1. Elimination of most premium tax. In most states, there is no premium tax for the self-funded claim fund; thus, an immediate savings equal to 10 times the amount of the premium tax (approximately 2% to 3%) is realized.
2. Lower cost of operation. Employers frequently find that administrative costs for a self-funded program through a professional TPA are lower than those charged by their previous insurance carrier.
3. Carrier profit margin and risk charge eliminated. The profit margin and risk charge of an insurance carrier are eliminated for the bulk of the plan.
4. Cost and utilization controls. The TPA may offer a second surgical opinion program, an outpatient surgical program, a hospital bill audit program, a large case management program, access to a preferred provider organization (PPO), and other programs through a variety of sources, rather than the employer being able to use only the insurance company's in-house programs.
5. Cash flow benefit. The employer's cash flow is improved when money formerly held by the insurance carrier in the form of various reserves, such as for unreported claims and pending claims, is freed for use by the employer.
6. Return on investment for reserves. Interest on reserves established by the employer remains under the employer's control.
7. Control of plan design. The self-funded employer has flexibility in the original plan design. The employer may also redesign the plan to eliminate plan abuses if they are encountered.
8. Mandatory benefits avoided. State regulations mandating costly benefits are avoided because self-funded programs are subject to ERISA (Employee Retirement Income Security Act).
9. Administration tailored to the employer's needs. The employer usually has a choice of TPA's, each of whom is interested in providing the employer with flexible services to meet the employer's needs.
10. Risk management effectiveness through stop-loss insurance. The employer may choose the amount of risk to retain and the amount to be covered by stop-loss coverage. An insurance company has set pooling levels allowing little flexibility.
11. Return of unused claims dollars. The employer retains the dollars accumulated in the interest bearing account that is unused at the end of the plan year, where insurance companies keep as profit. These dollars can be used to offset premiums at renewal, to increase employee benefits or return to employees in the form of a bonus or premium refund.

RSL Risk Solutions® is a flexible program of group stop-loss insurance designed to help employers maximize their control over health care spending. For more information, please contact your Reliance Standard representative or visit www.reliancestandard.com.