

## Making the Transition to Self-Funding, Step-by-Step

As health insurance premiums continue to rise and the federal government passes new regulations that must be fully implemented by 2014, employers are beginning to understand that their best chance of controlling both their costs and the scope of benefits they offer employees is to self-fund health care. With the proper guidance and resources, making the conversion to self-funding can be a fairly simple process.

*You:* A broker who has partnered with an employer to sort through the most attractive options in the wake of federal health reform.

*Your customer:* A savvy benefits purchaser who agrees with you that it is time to try self-funding.

*Dilemma:* How to get from here (fully insured) to there (self-funded) without disrupting medical care for employees.

As employers look to self-funded plans, brokers who have built their professional careers on fully insured plans are working hard to get up to speed in the self-insured world. Brokers want to bring their customers the best recommendations so they can thrive as they make the transition to self-funding.

What follows are strategies for two of the most important decisions a broker can help employers make, as well as some tips for a smooth transition to self-funding.

### Designing a Plan

The first step, once an employer decides to self-insure, is to design a plan that meets the needs of the employee population and the budget of the employer. If the group is currently fully insured, a good place to start is to examine that plan and try to replicate it or improve upon it. A broker can be particularly helpful at this stage by encouraging the employer to think through the goals and capabilities involved, as well as review what works and what doesn't work with the employer's current plan. This is an excellent opportunity for employers to customize a plan that fits their unique needs.

One consideration is what philosophy the employer wants to embrace as the underlying approach to health benefits. Is the goal to have an extensive plan that covers every procedure and treatment, or is a basic plan more in line with what's needed? Should employees be protected from the first dollar of expenses, or will they share in the costs in a meaningful way that makes them more aware of their health care choices? Should there be a waiting period for enrollment, or will benefits begin with the first pay period? Is the benefit package keyed to individuals, or is family coverage available — and if so, at what level of employer subsidization?

Demographics are another factor to examine. A workforce that is young, including families with children, will have much different needs and expense patterns than a workforce that is more mature. One type of population will require preventive care, pregnancy coverage and other sporadic services in contrast with a population that may be more prone to major illnesses and chronic diseases, such as heart conditions, diabetes and high blood pressure.

Finally, the employer will want to consider what is being achieved by offering health benefits. Are the benefits being used as a tool to attract and retain a highly skilled workforce? If so, the employer may need to offer a competitive package that matches or exceeds others in the industry. Is one of the goals to reduce absenteeism by making sure workers have access to health care? In that case, offering first-dollar coverage on doctor appointments may be important. Is the goal simply humanitarian? If an employer believes all companies should provide at least some health coverage, then a minimalist policy may be a sound idea for workforces that tend toward low-wage or low-hour earners.

By helping an employer answer these questions, a broker can guide the decisions that determine a plan's offerings. These can range from providing a full benefits package to a limited medical plan or even a catastrophic plan coupled with individual health savings accounts.

### **Finding the Right Administrator**

The second step is for the broker and employer to find a third-party administrator (TPA) that will take on the back-office operations that make a health care plan work smoothly.

Employers who now participate in the fully insured world are likely to have little experience with building medical provider networks, enrolling employees, processing claims and handling disputes. They will no doubt be reluctant to take on the kind of staffing required to perform these functions with the expertise needed to transition transparently to a self-funded plan. This is where a TPA comes in.

A broker can assist employers with this important selection by identifying TPAs with broad experience and a solid track record of performance. The best TPAs have streamlined, online processes for enrollment, handling claims and tracking medical care trends. They also provide call center services that are comprehensive and sensitive to employee needs.

TPAs under consideration should also provide employers with flexibility by offering a full range of customization and a deep database of vendors to provide the services. They should demonstrate that they can help reduce employer costs through reporting and management tools that can monitor spending patterns, identify erroneous billings and manage quality-of-care issues. Finally, the capability of providing administrative audits to identify overspending and areas for cost savings is critical.

When working with employers on TPA selection, brokers should also make sure their clients are considering the TPA's provider network and discount availability. Some TPAs may have limited provider networks or may not receive the same provider discounts that the employer may currently receive from larger carriers under a fully insured plan. Before signing on with a TPA, employers should consider the availability and/or amount of provider discounts, hospital discounts, the size and reach of the network, the availability of tertiary care providers, and how and where referrals are submitted, among other things.

In short, a TPA should be prepared to provide an experienced team that works on behalf of the employer to deliver high-quality care to employees while controlling costs and mitigating risks.

## Addressing High-Risk Areas

While moving to a self-funding strategy doesn't come without risks, a large number of companies — of all sizes — have converted to successful self-funded programs. One secret to their success is finding the right ways to mitigate high-cost risks.

A broker can help employers identify key areas where a single individual on the workforce with an expensive medical problem can wreak havoc on the benefits budget. Among the steps an employer can take to address these issues are:

- **Buying Stop-Loss Insurance.** Stop-loss insurance puts a ceiling on what an employer will spend. Specific stop-loss insurance takes over when a single employee's costs exceed a limit set by the employer, such as \$100,000. An aggregate stop-loss policy establishes a ceiling, such as \$1 million, for the employer's total medical care spending in a year. Stop-loss insurance controls costs while still allowing the employer to enjoy the benefits of self-funding (flexibility of plan design and sidestepping the insured world's overhead costs).
- **Focusing on Chronic Conditions.** While the cost of a single catastrophic medical condition can punch a hole in a benefits budget without stop-loss insurance, the much more common chronic diseases can become a high-cost drain on a spending plan. While costs related to treating chronic conditions seem unavoidable, studies have shown that patients who follow their doctor's recommendations for diseases such as diabetes, high blood pressure and heart conditions are less likely to need expensive hospitalization and other interventions. A good TPA can help an employer create a wellness plan that encourages employees to improve their own care, as well as provide a case management approach that focuses on treatment follow-through for chronic conditions.
- **Carving Out Transplants.** The number of organ transplants is rising; today, more than 100,000 people are registered on various organ donation lists. The cost of a transplant, including before and after care, can exceed \$1 million. Arranging for separate insurance coverage for this low-incidence, high-severity risk is an economical way for an employer to protect the benefits budget from the unexpected.
- **Managing Dialysis Treatment.** Like transplants, kidney disease that requires ongoing and expensive dialysis treatment is on the rise. In 2007, about 365,000 people were undergoing dialysis, with a single-patient cost that can range from \$30,000 to \$50,000 per month. By contracting with dialysis management specialists, an employer can reduce costs — and in some cases, even improve patient care. For example, in addition to being less costly than center treatment, home dialysis has been shown to increase the quality of life and improve longevity. Specialists also can arrange for drug discounts and challenge invoices that exceed usual and customary charges.
- **Addressing Specialty Pharmacy.** Another area of rising medical care costs is drugs that are classified as specialty treatments. Used for treating cancer, chronic diseases and other conditions, these pharmaceuticals can cost hundreds of thousands of dollars per year. Contracting with pharmaceutical benefits management experts can ensure that patients get needed treatment at costs that are rigorously reviewed and reduced where possible.

## Self-Funding Solution

Employers are looking for a way out from under the growing costs of the fully insured market. Brokers can see that life as they once knew it under fully insured coverage for their customers is disappearing. Commissions are being squeezed by insurance carriers intent on protecting their profits in a world that dictates how much they can spend on non-medical costs.

Self-funding is the solution that allows employers to take control of their benefit package, designing coverage that is customized for their workforce and setting the cost at a predictable, sustainable level. Self-funding is also a smart business specialization for brokers because they can make themselves invaluable as partners who help employers through the transition and beyond.

By stepping up their level of expertise, brokers can steer employers toward a self-funding strategy that provides high-quality medical care while protecting the benefit budget from unexpected risks. It's a win-win-win for employers, their employees *and* brokers.



#### About Samuel Fleet

Samuel H. Fleet is President of AmWINS Group Benefits ([www.amwins.com](http://www.amwins.com)) of Warwick, RI, a leading wholesale broker of comprehensive group insurance programs and administrative services. With more than 20 years of health

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