

# Self-insured vs. Fully Insured Health Plans



# Agenda

- Introduction to self-insurance
- Self-insured plans and stop-loss insurance
- Benefits of self-insured plans
- Disadvantages of self-insured plans
- Considerations with self-insured plans
- What's next?

A group of business professionals are gathered in a modern office with large floor-to-ceiling windows. The windows offer a view of a city skyline with various buildings. The group consists of several individuals, including a man in a dark suit standing on the right and talking to a seated man. Other people are seated around a table, engaged in conversation. The lighting is bright, coming from the natural light through the windows.

# Introduction to Self-insurance

## What is a self-insured health plan?

- A **self-insured health plan** is a funding arrangement in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims.
- Rather than paying fixed premiums to an insurance company—which, in turn, assumes the financial risk of paying claims—the employer pays for medical claims out-of-pocket as they are incurred.



# Self-insured vs. Fully Insured Health Plans

	Self-insured Plans	Fully Insured Plans
Payments	Employer doesn't pay premiums, but instead pays: <ul style="list-style-type: none"><li>• Fixed costs: administrative fees and stop-loss premiums</li><li>• Variable costs: employee claims</li></ul>	Employer pays monthly premiums to an insurance carrier.
Assumption of Risk	Employer assumes the risk.	Insurance company assumes the risk.
Plan Design	Employers have more control and freedom in regards to plan design.	Employers are more limited by their insurer's plan design options.
Compliance Payments	Health plan must comply with ERISA, but not state regulations.	Most health plan must comply with state regulations.

# Self-insured vs. Fully Insured Health Plans

- With a **fully insured plan**:
  - The company pays a premium, typically fixed for a year, to the insurance carrier.
    - The monthly premium normally only changes during the year if the number of enrolled employees in the plan changes.
  - The insurance carrier collects the premiums and pays the health care claims based on the coverage benefits outlined in the policy purchased.
  - The covered persons (that is, employees and dependents) are responsible to pay any deductible amounts or co-payments required for covered services under the policy.

# Self-insured vs. Fully Insured Health Plans

- With a **self-insured plan**:
  - The fixed costs include administrative fees, any stop-loss premiums and any other set fees charged per employee. These costs are generally billed monthly by the third-party administrator (TPA) or carrier handling plan administration, and are charged based on plan enrollment.
  - The variable costs include payment of health care claims. These costs vary from month to month based on health care use by covered persons (that is, employees and dependents).
  - To limit risk, some employers use stop-loss or excess-loss insurance which reimburses the employer for claims that exceed a predetermined level. This coverage can be purchased to cover catastrophic claims on one covered person (specific coverage) or to cover claims that significantly exceed the expected level for the group of covered persons (aggregate coverage).

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# Self-insured Health Plans and Stop-loss Insurance



# Self-insured Plans and Stop-loss Insurance

- The purpose of stop-loss insurance is to provide financial protection to a self-insured plan sponsor by capping and further defining the plan's financial exposure.
- When a plan is self-insured, the stop-loss contract insures the employer against catastrophic losses under the plan.
  - The medical plan established by the employer accepts the responsibility for paying providers' claims for individuals but limits its risk with stop-loss coverage.
  - Stop-loss insurance operates like a catastrophic coverage plan that indemnifies a plan sponsor from abnormal claim frequency and severity.

# Self-insured Plans and Stop-loss Insurance

- Stop-loss claim reimbursements can be made for a variety of benefits, including medical, prescription drug, dental and others.
- Severe, high-dollar claims such as cancer, organ transplants and dialysis are considered “shock loss” claims which can give plans the most concern when they consider self-insuring.
- The protection afforded by a comprehensive stop-loss coverage shows its value in helping to financially manage these catastrophic events.

# Self-insured Plans and Stop-loss Insurance

- Specific stop-loss insurance example:
  - An employer with a specific stop-loss attachment point of \$25,000 would be responsible for the first \$25,000 in claims for each individual plan participant each year. The stop-loss carrier would pay any claims exceeding \$25,000 in a calendar year for a particular participant.
- Aggregate stop-loss insurance example:
  - Aggregate stop-loss insurance with an attachment point of \$500,000 would begin paying for claims after the plan's overall claims exceeded \$500,000. Any amounts paid by a specific stop-loss policy for the same plan would not count toward the aggregate attachment point.

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# Benefits of Self-insured Health Plans



# Benefits of Self-insured Health Plans

- Cost savings:
  - Reduced insurance overhead costs. Carriers assess a risk charge for insured policies, but self-insurance removes this charge.
  - Reduced state premium taxes. Self-insured programs, unlike insured policies, are not subject to state premium taxes.
- Increase in cash flow:
  - Employers see improved cash flow since they do not have to pre-pay for coverage. Claims are paid as they become due. There is also a cash flow advantage in the year of adoption when "run-out" claims are being covered by the prior insurance policy. Employers pay for claims rather than premiums and earn interest income on any unclaimed reserves.

# Benefits of Self-insured Health Plans

- Increased employer control:
  - Self-insured health plans provide employers with greater control, freedom and flexibility over plan designs. By self-funding, employers are able to design their own customized health benefit packages.
- Choice of claims administrator:
  - An insured policy can be administered only by the insurance carrier. A self-insured plan can be administered by the company, an insurance company or independent TPA which gives the employer greater choice and flexibility.

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# Disadvantages of Self-insured Health Plans

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- The main risks of self-insuring involve situations where claims are higher than anticipated. While stop-loss coverage will protect employers from paying excessive claims in a given year, the cost of that coverage will likely increase, and it may be more difficult to get rates from other stop-loss providers.
- Higher-than-expected claims in a self-insured plan may also make it more difficult for employers to go back to a fully insured plan in the future.
- And, an employer's assets may be exposed to liability as a result of any legal action taken against the plan. Legal matters in regards to self-insured plans can be complex.



# Disadvantages of Self-insured Health Plans

- Higher administrative costs:
  - For organizations that choose to run their self-insured plans internally, the administrative costs involved can be significant.
- Responsibility of finding a qualified TPA:
  - Not every TPA is the same. An employer must do their due diligence to find a TPA that is experienced in self-insured health plans in order for their plan implementation to run smoothly.

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# Making the Decision: Considerations

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- Self-insurance isn't the right option for every employer. When evaluating if it is right for their organization, employers should consider:
  - Stop-loss coverage: Most self-insured employers purchase stop-loss insurance on their self-insured health care benefit plans to reduce the risk of large individual claims or high claims for the entire plan. Obtain multiple different stop-loss coverage quotes for different coverage levels.
  - Coverage goals: Decide on such things as eligibility, benefit coverage, exclusions, cost sharing, policy limits and retiree benefits. Weigh the self-insured plan advantages of flexibility and lower average cost versus the increased risk and administrative responsibilities.

# Making the Decision: Considerations

- Employee health: Knowing facts such as whether your workforce is mostly young or old, whether the majority of claims were due to chronic illnesses or one-time incidents and the total dollar amount of claims will help you budget for claims in the future. Self-funding should be viewed as a long-term strategy in which good and bad years average out in the employer's favor.
- Cash flow analysis: Self-insured plans work best for companies that have a strong cash flow or reserves. Understand what your cash needs are so you have money available to make timely claim payments.
- Administration: Decide whether it makes sense to administer the plan internally or through a TPA. If you decide that it is best for your organization to use a TPA, make sure you factor TPA fees into your decision to self-insure.





What's Next?

Contact Insure NW  
for more information  
regarding self-  
insured health plans  
or with any  
questions you may  
have.