Oregon Healthcare News

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Why Now is the Time to Self-Fund

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Because of the uncertainty created by Health Reform, many group health plans may be "gun-shy" about making changes before the dust is fully settled and all regulations promulgated. Is concern about losing grandfathered status causing you not to make any Plan changes? Over time, maintaining this status may be more costly than cost effective for your plan. Curious? Read on.

Healthcare costs are projected to increase about 9% in 2011, on top of a 9.5% increase in 2010 (PricewaterhouseCooper's). Plans that are "grandfathered" under Health Reform are severely limited in the changes they can make to their Plan design, cost sharing arrangements, co-insurance levels, co-pays, and employer/employee contribution relationships and yet still retain grandfathered status. If your Plan is currently grandfathered, and you are unwilling to make the change to self-funding because this may result in the loss of that status – consider the following:

- The maximum permitted changes to cost-sharing arrangements, co-insurance levels, co-pays, or the employee/employer contribution ratio allowed under the health reform regulations if a Plan wants to retain grandfathered status are not indexed for inflation. So over time, grandfathered plans – unable to increase employee contributions or reduce employer contributions beyond the limited parameters provided in the law – will be forced to absorb increasingly higher costs because of medical inflation, and these costs will build year over year.
- The regulation writers themselves estimate that in 2011, up to 33% of the Plans that were grandfathered under Health Reform will have relinquished that status in order to address rising plan costs and make plan changes that are not permitted under the grandfathering regulations. By 2012, this percentage increases to 55%.
- Grandfathered plans will be, in effect, frozen in place—unable to nimbly respond to market or internal forces that may require reductions in employer contributions or Plan changes.
- Grandfathered plans must comply with the majority of the significant health reform provisions anyway. The benefit to retaining grandfathered status is extremely limited. For more information on what grandfathering means to a Plan, please see HMA's "Healthcare Update on Grandfathered Plans," available on our web site (http://www.accesshma.com/news-regulatory-updates/).

However, if your Plan is looking to control increasing medical inflation, manage plan costs, and provide the most effective coverage for plan participants, self-funding is the answer, and now is the perfect time for your plan to change to self-funding. The reasons for self-funding are stronger than ever. You gain:

- The ability to custom design your benefits plan to meet the needs of your employee population, rather than accept an insurance carrier's predetermined benefits plan.
- Exemption from state insurance laws and state insurance mandates. Most self-funded plans are governed by ERISA, a federal law, rather than state insurance laws.
- Freedom to design the eligibility requirements for the plan as broadly or as narrowly as needed (as long as eligibility is not discriminatory).
- The ability to partner with a third party administrator

(TPA), that provides claims administration, medical management, customer service, and all other services that a self-funded plan needs, at a much lower cost, and with greater efficiency, than a large insurance company. TPAs provide exceptionally responsive service to their self-funded clients and are known for their innovative thinking, creative approaches to plan design and managing healthcare costs.

- The ability to completely control the Plan, plan design, and contribution ratio. Fully insured plans must adhere to the plans offered by the carrier, as well as meet the carrier's requirements for contributions and participation. Insurance carriers make many unilateral decisions about their plans without consulting the Plan itself, i.e. deciding if a plan will be grandfathered or not. Self-funded plans make these determinations themselves.
- Last but not least, self-funding enables the Plan Sponsor to retain control of the funds used to pay claims, and to retain the profit margin built into fully insured premium rates. Stop loss coverage is available to limit the financial risk to the Plan.

Though self-funding is not the answer for every plan, it may be the answer for yours. This brief article cannot enumerate all of the reasons why self-funding may be the best option for your Plan. But if you are looking for agile, innovative thinking, the ability to quickly make changes to the Plan as a result of economic or business needs, and plan customization that can only be offered through self-funding, consider making that change now for your Plan!

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