HEALTH CARE ADMINISTRATORS ASSOCIATION

INSURED VS SELF-FUNDED HEALTHCARE (OR HEALTH BENEFIT) PLANS

WHICH IS BEST FOR YOUR BUSINESS?

Most employers are very familiar with the Insured health benefit plan model, as sold by Blue Cross, AETNA, CIGNA and United. It's easy to think that many businesses employ an Insured health benefit plan. But according to the Employee Benefit Research Institute (EBRI), the percentage of health-plan-covered workers enrolled in Self-Funded health benefit plans increased from 58.2% to 60% from 2013 to 2015. And, what's more, the largest increases in Self-Funding health benefits has occurred among employers with between 25 and 999 employees.

Gone are the days where only large employers could enjoy the benefits of self-funding. Delivery of health benefit plans through a self-funded model has become mainstream thereby allowing employers of all sizes to enjoy the benefits of the most flexible, innovative customizable solutions available.

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LONG TERM COST COMPARISON

Employers covering less than 200 employees have come to expect and accept annual increases. If the group's own claims are bad, rates increase by double digits. If the group's own claims are good, rates increase by a lower single digit percentage because some other groups' claims were bad. This situation has frustrated employers for so long that they hardly question it any more. In fact, it is common to hear an employer say, "I received my annual increase and it was only 5% so we aren't even shopping for additional quotes."

The reality, however, is that employers have good years and bad years of claims experience. A normal trend is typically 3 or 4 good years for every bad year. In a self-funded plan, costs go up when a plan experiences high claims, but costs go back down again, unlike in an insured plan, when claims experience returns to normal levels.

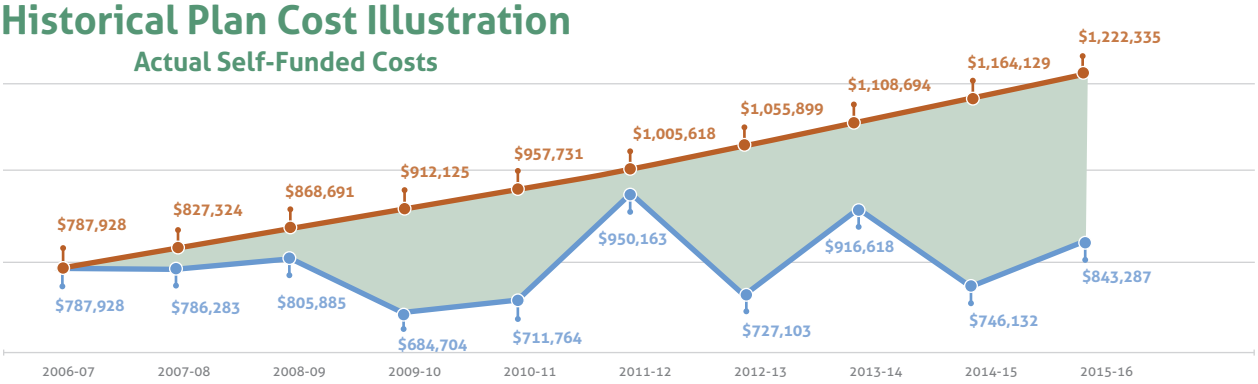
The illustration to the below compares Fully Insured plan costs to a Self-funded plan costs over a ten-year period.

On a long-term basis, self-funding saves significant money virtually every single time.

Cumulative Plan Costs

Historical Plan Cost Illustration

Actual Self-Funded Costs



$9,910,474
Fully Insured

$7,959,867
Actual Self-Funded

At Least
$1,950,607
SAVED
by Self-Funding Health Plan

	Self-Funded Costs *Actual Cost*	Fully Insured Costs *Estimated Cost*	Difference *Savings*
2006-07	$787,928	$787,928	$0
2007-08	$786,283	$827,324	$41,041
2008-09	$805,885	$868,691	$62,806
2009-10	$684,704	$912,125	$227,421
2010-11	$711,764	$957,731	$245,967
2011-12	$950,163	$1,005,618	$55,455
2012-13	$727,103	$1,055,899	$328,796
2013-14	$916,618	$1,108,694	$192,076
2014-15	$746,132	$1,164,129	$417,997
2015-16	$843,287	$1,222,335	$379,048
	$7,959,867	**$9,910,474**	**$1,950,607**

Group Size:	Average 55 employee lives
Location:	Summit County, Ohio
Plan Engagement:	Limited Cost Containment Initiatives
Number of Years:	10 years self-funded with J.P. Farley Corporation

Fully Insured Cost Illustration Assumes a 5% Premium Increase Annually and that the insurance carrier does not raise premiums after a bad year.

Cost Difference = Fully Insured Costs - Self-Funded Costs (2006-2016)

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HOW DO THEY COMPARE?

Both Insured and Self-funded benefit plan options have a place in today's healthcare space. Some employers are not comfortable assuming risk and so an Insured health benefit plan is the most viable option. For employers that want to take a more active role, a customized Self-funded health plan with associated risk management/mitigation tools allows the employer to manage its destiny.

HERE'S HOW THE INSURED AND THE SELF-FUNDED BENEFIT PLAN OPTIONS MEASURE UP:

	INSURED	SELF-FUNDED
Administrative Costs	Average $65	Average $35
Rate Increases	Substantial (often unknown) increases may occur at renewal	Increases may occur to stop-loss premiums based on known and managed claims utilization.
Claims Disclosure	Traditionally not available	Access to all claims data
Oversight Authority	All state and federal requirements	Federal requirements; ERISA
Monthly Costs	Fixed cost month to month	Can vary based on Claims Experience
State Premium Tax	Taxed on the full premium	Stop Loss is taxed only
Ability to Customize Plan	Plan design is created by insurance carrier	Plan design is customized to meet the unique needs of an employer.
Network Choices	Traditionally one network, which is owned by the carrier	Customized network and reimbursement solutions chosen by employer.
Health and Wellness Programs	Traditionally one size fits all pushed by the carrier	Customized based on employers needs
Reserves (monies left over after fixed and claims expense)	Retained by the carriers	Retained by the employer to offset future health benefit plan expenses
Profits	Retained by the carriers	Non-profit plan. Any amounts in excess of fixed and claims expense (reserves) are retained by employers Self-funded health benefit plan

THE IDEAL CANDIDATE FOR SELF-FUNDING:

- Over 25 employees
- Solid financial position
- Healthy employee base

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PRICING:

Insured healthcare premiums are known to substantially increase year to year, with little ability by the employer to have any impact on the outcome, other than reducing participant benefits or charging participants more for coverage. This lack of control is why 90% of Fortune 1000 businesses choose to Self-Fund their healthcare benefits. Self-Funded Administrative Services Only (ASO) health benefit plans administered by carriers have an associated administrative fee of $65 per employee per month (PEPM), on average. Self-funded health benefit plans administered by a professional Third Party Administrator have an associated administrative fee of just $35 per employee per month (PEPM). Why pay more to have the health benefit plan needs of your employees dictated to you?

PLAN DESIGNS:

Being forced to have the same health benefit plan offerings as everyone else is far from ideal. Businesses are unique, so why aren't plan designs unique too? With Self-funding, flexibility and customization are key. With a trusted Third Party Administrator (TPA) by your side, you will have confidence that you are selecting the health benefit plan that meets your company's needs, while also keeping your employees healthy and productive.

NETWORK:

Insurer provider networks typically include 96% of all providers in the US. Does an employer really benefit by having 900,000 providers to choose from? There's nothing 'preferred' in a Preferred Provider Organization (PPO) that includes 96% of all providers! What's most important?

We believe it is finding a network that meets the needs of your Plan's Participants. Some employers choose to forego the network all together and use a variety of location-specific network alternatives to achieve drastically higher levels of savings. Would you rather receive a 55% network discount on a $1,000,000 bill or a 40% discount on a $500,000 bill?

LONG-TERM EFFECTS:

So what role does your health benefit plan play in the grand scheme of your business? A fear of many employers thinking about Self-funding, is that a bad plan year with high claims experience could effectively mean the end of their business.

Stop-loss insurance is a policy designed to limit claim exposure to a specific amount. A Self-funded employer purchases stop-loss insurance to ensure that catastrophic claims (specific policy) or numerous claims (aggregate policy) do not upset the financial reserves of the Self-funded plan. A quality Stop-loss insurance policy is a key risk management component of any quality Self-funded program.

The bottom line is that Insured health benefit plans are designed for employers that want to pay a premium and relinquish control of their health plan. For employers that want to maintain that control and also design a customized health benefit plan that suits the needs of their employees and business, Self-funding is the solution.

To determine the best option for you, speak with a trusted Third Party Administrator or an insurance benefit advisor/consultant.