AmWINS Group Benefits

CLIENT ADVISORY

ACA Costs and Regulations Drive Self-Funding Down Market

The Patient Protection and Affordable Care Act (ACA) imposes new taxes, fees and restrictions on fully insured medical plans, changing the way employers of all sizes design, fund, and administer these plans. In contrast, self-funded medical plans are exempt, not only from many of these restrictions, but also from the taxes and fees that will eventually grow to 10 percent or more of premium.

Self-funding, however, is not without risk, which is a major reason many smaller employers have shied away from it in the past. In 2013, 94 percent of employers with 5,000 or more employees self-funded their health insurance plans. The percentage shrinks to 79 percent of employers with fewer than 5,000 but more than 1,000 employees, and falls to 58 percent for those with fewer than 1,000 employees but more than 200. Only one in seven employers with fewer than 200 employees self-funds their medical plans.

It's expected that the last percentage – 16 percent – will change as this group of smaller employers consider self-funding their benefits after comparing them to their fully insured renewals. The key drivers will be not only the avoidance of federal and state premium taxes and fees but also the avoidance of modified community rates and state-mandated benefits.

Insurers' shrinking margins could also play a role in smaller employers seeking out self-funded arrangements, as insurers will likely attempt to pass some of their increased costs on to them. Add these costs to other drivers mentioned earlier in this article, and you have a recipe for a growing exodus from fully insured to self-funded plans.

Why the shift?

Today, the ACA limits how insurers address different health risks, including pre-existing health conditions, and has done away with risk-based pricing for fully insured plans with fewer than 50 employees, growing to fewer than 100 employees in 2016. As a result, modified community rating does not fully reflect the distinction in a fully insured population between healthy and less healthy employees. Yet modified community rating isn't the only factor increasing medical premiums for employers; new taxes are grabbing headlines with good reason. Under the ACA, a health insurance tax designed to fund provisions of the law is between 2 to 4 percent of premium. An exchange fee to support the health insurance exchanges costs another 3.5 percent, while state premium tax is 2.5 percent of premium.

And that's not all. Add $1 per member, per year charge as a risk-adjustment fee to fund adverse selection and fully insured plans now have an entire menu of new costs; self-funded plans are exempt from these costs. While fully insured plans bear the burden of modified community rating, additional taxes and fees, as well as state-mandated benefits, self-funded plans bypass these and many other ACA regulations. The savings can be significant.

Greater control

Self-funded plans generally enjoy enhanced risk management and cost management, in part because they have greater access to detailed claims data and analytics. Self-funded medical plans typically have complete claim history transparency – something that is hard to find in fully insured plans. Potential savings also offer employers a return of excess premium, something else a fully insured plan tends not to offer.

Determining appropriateness

Self-funding isn't for every employer. The ideal organization should be financially stable and committed to funding its own health benefits. It should contain a larger percentage of younger employees, who are typically the healthiest. And it should take a long-term view of its medical plan offerings, as giving this solution time is crucial to an organization's ability to measure success. A single-year's poor claims experience is not necessarily indicative of how a self-funded plan will perform over the long term. That being said, smaller employers who cannot achieve stability do have the option of going back to fully insured arrangements if the cost is cheaper than a level-funded renewal.

Once comparing the pros and cons of self-funding, brokers can help smaller employers assess their risk profile. To achieve this, brokers need to gather information on claims and/or the employee population's health status. Comprehensive employee questionnaires are vital when plan participant claim and health information is not available.

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For more information, please reach out to your local AmWINS broker. If you do not have a contact at AmWINS, contact marketing@amwins.com.

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Bringing stability to self-insurance

Opponents of self-funding make the valid point that very large claims do happen. However, as a group matures, the following four strategies can carve out the most likely high-cost risks.

- Cover organ transplants such as heart or lung transplants, which can cost up to $1 million or more outside of the self-funded plan, by purchasing a fully insured organ transplant carve-out policy
- Work with dialysis management specialists to control the increasing costs of this treatment for the growing number of people with end-stage renal disease
- Contract with a specialty pharmaceutical manager to control costs of higher-priced prescription drugs
- Work with plan participants to better manage chronic conditions, including diabetes and cardiovascular disease

While the preceding options may be parts of a comprehensive cost containment strategy for self-funded medical plans, level-premium equivalent plans bend the cost curve even further. By purchasing aggregate stop-loss with accommodation as well as specific stop-loss with immediate reimbursement, employers are guaranteed maximum annual costs and fixed monthly payments.

The self-funding solution

A comprehensive self-funded medical plan should offer more flexibility and greater control with potentially lower costs than a fully insured arrangement. When these attributes work together, employers have more plan options and the opportunity to offer higher quality of care.

Smaller employers can compete with larger organizations when it comes to self-funding medical benefits through a level premium equivalent arrangement. This approach is not for every employer, but a self-funded medical plan can provide big-employer advantages for those smaller employers that fit the bill.