

# *A self-funded plan:* Is it right for you?

Over the past several years, the cost of health care benefits has continued to increase with no end in sight. To reduce these costs, many employers choose to self-fund their health plans.

Premiums paid to an insurance company are not always completely representative of the true cost of health care. Premiums include ancillary costs, such as premium taxes, commission, reserve, and insurance company profit. While the overall premium is certainly driven by a mathematical model that accounts for expected claim costs, it is also driven by the market. So it is reasonable to expect insurance companies to sell their product at the highest price that the market will bear. Self-funding reduces the cost by eliminating unnecessary expenses and containing the profit of the administrators.

As health care costs rise, employers often have to make the difficult decision of cutting benefits, passing on the additional costs to the employees, or absorbing the ever-increasing burden themselves. For an employer faced with this dilemma, partially self-funding the health plan could be an attractive method of acquiring health benefits at significantly lower costs.

Health care providers often discount their fees substantially for insurance companies. Sometimes the trick is for the employers to capture these discounts. Self-funding is a method of ensuring that the employer retains that discount. Although it's called self-funding, it is more accurately described as partially self-funding because stop-loss insurance is used to cap the total exposure to the employer.

A partially self-funded health plan doesn't require the employer to do all the work. In a partially self-funded program, a third-party administrator handles everything from designing and maintaining the plan to making the claims payments for the employers. The third-party administrator also watches over the plan's funds and makes sure it has sufficient stop-loss insurance.

## **Advantages and disadvantages of self-funding**

The obvious advantages to self-funding are improved cash flow and decreased expense. Two other big advantages are that the plan design can be customized to meet the needs of the employers and the employer owns the claims information.

However, self-funded plans are not for everyone. The bigger the employer, the easier it is to predict costs. Therefore, self-funding is less of an option for employers with fewer than 100 employees.

## **Self-funding in Champaign-Urbana**

Self-funding is very common in most markets, but it has not been used to a large extent in the Champaign-Urbana area. I have used self-funding for years in a variety of markets, including Champaign. And, as the CFO of a large employer, I would not likely ever consider a fully insured product.

Although most insurance companies have self-funded options, they are not widely promoted by either the insurance companies or the broker community. Blue Cross, Health Alliance, and PersonalCare all have self-funded options using their own infrastructures. Other offerings take a "best of breed" approach, using highly qualified third-party administrators. Community Partners Health Plans is the best local example of this and the one we use at Christie Clinic.

If you're considering switching to a self-funded plan or are reevaluating your current plan, use a request for proposal (RFP) process. Then verify the results of the RFP with the major health care providers that you intend to utilize. No one in the market knows the most cost-effective methods of accessing better care than the providers themselves. They can also provide assurance that information provided in the RFP responses is accurate.

***If you have questions about the content of this article or anything else related to your company's health plan, feel free to contact Jeff James directly. To set up an appointment, call 217.366.1270.***



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