PAY, PAY MORE, REPEAT.

Identifying Alternate Funding Options to Combat Rising Costs of Health Benefits

Pay. Pay more. Repeat. That's the cycle employers are stuck in as they deal with the continual cost increases of providing health insurance benefits for employees. Fortunately, there are strategies beyond traditional, fully insured models that could help employers effectively contain costs.

> For the 12-month period ending September 30, 2022, the cost of providing benefits to U.S. employees rose 5%.

Among those alternate funding options:

SELF FUNDING

Unlike traditional, fully insured health plans, **self-funded plans allow employers to pay employee healthcare claims from their own funds instead of buying insurance from a health insurer** (and paying a premium upfront). Employer and employee contributions are usually set aside ("reserved") to pay the claims, and a third-party administrator (TPA) provides claims administrative services.

PROS

- Allows more control over health insurance costs and budgets
- Improves cash flow because premiums aren't prepaid to a separate insurer
- Provides the flexibility to customize coverage and contract with healthcare providers that best meet their employees' needs
- Subjects employers to less regulation and taxes than other types of plans
- Provides insight into claims data which can be monitored for more informed risk management that can lead to potential cost savings
- Offers potential for investment income from unused funds set aside to pay losses
- Can limit liability with stop-loss coverage that can pay claims over a certain amount

CONS

- Transfers financial risk to employer to pay claims
- Reserved mostly for larger employers who have sufficient funds to pay all costs
- Can be difficult to predict claims from year-to-year
- Makes employer more vulnerable to catastrophic losses, especially if excess insurance is not purchased
- Requires long-term commitment and expertise to set up

LEVEL FUNDING

Level-funded health plans offer a middle ground between self-insured and fully insured plans. Based on estimates, an employer pays a fixed amount into its own fund to cover claims, TPA fees, and other expenses.

PROS

- Offers opportunity for a potential refund if actual claims, costs, and expenses are lower than estimated
- Provides ability to better predict monthly costs and improve cash flow
- Offers flexibility to tailor coverage to workforce and provide access to optimal health networks
- Can offer less financial risk than self-funded plans

CONS

- Must pay claims, no matter how much they cost
- Assumes the risk that cost savings can be outweighed by administrative fees
- Can be complex; requires team of experts to assess situation and set up
- Usually reserved for smaller employers
- Places financial risk to pay claims on the employer

CAPTIVE

According to the National Association of Insurance Commissioners (NAIC), "a captive is a wholly owned subsidiary created to provide insurance to its non-insurance parent company." A form of self-insurance, a captive lets organizations take financial control of insurance costs by acting as their own insurance company instead of paying premiums to a separate a health insurer.

PROS

- Lowers potential for escalating renewals every year and provides more stable pricing
- Offers tailored coverage based on organization's needs and claims experience
- Offers the opportunity to cover a variety of product lines beyond employee benefits, including general liability, property, professional liability, workers' compensation, etc.
- Can exert greater control over claims by instituting more risk management
- Expands control over cash flow because premiums are paid and retained within the arrangement; not paid out to a separate insurer
- Offers potential tax benefits if the arrangement meets certain IRS rules
- Offers a range of structures, including: single-parent, group or association, segregated cell, agency, and risk retention groups
- Provides access to reinsurance market to transfer risk above $250,000
- Provides the opportunity to benefit from loss control incentives

CONS

- Takes time; requires independent actuarial study to set up
- Requires long-term commitment
- Puts employer's own capital at risk if claims rise
- Can be expensive; minimum $500,000 annual premium
- Can be confusing with many details to consider
- Must have substantial financial resources to keep sufficient reserves to pay claims
- Requires expertise to establish correctly

REFERENCE-BASED PRICING

Reference-based pricing is typically adopted by self-insured plans. An employer pays healthcare providers a set price (based on standard CMS [Medicare] charges) for various health service and treatments instead of negotiating prices with providers. If the provider wants to charge more money for the service, it can bill the patient for the unpaid amount.

PROS

- Offers potential to lower overall healthcare costs
- Caps how much employer will pay for services
- Avoids network contracts, which tend to increase every year

CONS

- Limited to out-of-network emergency and lab claims
- Places more financial burden on employees because they can be billed for the balance if the provider wants more than it receives from the employer
- Transfers more of the cost of care to employees and healthcare providers
- Does not factor in quality; only focus is on low-cost providers
- Excludes prescription drugs, a major contributor to rising healthcare costs

Time to think about your options?

It's important to talk to your broker about which options are best for the size of your organization. For an expert assessment of your current benefits plan and more guidance about which cost-containment strategies may be right for your organization, contact a member of our Employee Benefits team today.

Contact us today to find out how we can help you manage healthcare rising costs.

Contact Us

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