Alternative Funding

How funding your own health plan can save you money and better target employee needs

Many employers shy away from funding their own health insurance, fearing that doing so could lead them into bankruptcy.

But for some companies, this alternative method of health plan funding may not be any riskier than using a traditional fully funded plan, and it has the added benefits of potentially lowering your premiums and benefitting your company should the plan show a surplus, says Mark Haegele, director, sales and account management, at HealthLink.

“There is the misperception that alternative funding is too risky for companies with fewer than 500 employees,” says Haegele. “But if you structure the plan properly, you can minimize potential risks while seeing the benefits that come from a healthier-than-average work force.”

What kinds of companies can benefit from alternative funding?

Alternative funding is becoming popular for employers with 20 to 200 employees that believe their population is healthy and that don’t understand why they face rate increases of 15 to 20 percent or more. If an employer feels it doesn’t have control over its plan, and it actively supports the health and welfare of its employees, it is a great candidate.

Many companies keep paying the same increases each year, hoping for something different, but may instead continue to pay more with no opportunity to share in the benefits of having a healthier-than-average work force. Take ownership of the plan and evaluate the alternatives.

The dynamics are such in the marketplace, with health care reform implications and new products to protect businesses, that now is a great opportunity to take a hard look at whether alternative funding is the right choice for your company.

How does alternative funding work?

With alternative funding, employers are still buying insurance over a specific risk threshold. Some people use the term ‘self-funding,’ but that is a misnomer because you’re not taking on all the risk. It’s partially funded for most employers, generally, unless they have more than 1,000 employees.

Employers should ask their broker or consultant for a proposal for an administrative services-only health plan that has four main components: a third-party administrator, a health network, a pharmacy benefit manager and a reinsurance carrier. Assess the plan based on how much risk the employer is willing to take on and evaluate proposals from reinsurance carriers based on risk tolerance.

With an appropriate alternative funded plan, the employer may be taking on no more risk than with a fully insured health plan, and its maximum exposure may be no more than it would be if the plan were fully funded. Typically, the employer will purchase specific and aggregate reinsurance; claims up to a specific threshold on an individual person are the responsibility of the employer, and the reinsurance kicks in for anything over that amount.

Alternative funding gives employers the flexibility to design a health plan that fits their member populations. Coupled with education and access to wellness programs, alternative funding will deliver a measurable health care cost savings over an extended period of time.

What are the current benefits of choosing an alternative funded plan?

First, the employer avoids premium tax. Second, it has lower fixed costs than with a traditional plan.

Third, it has the ability to customize its plan design in accordance with specific employee needs. Under fully insured, a plan must meet state mandates such as coverage of bariatric surgery and infertility treatments. But if an employer has an employee population that is all young, single, healthy men, it doesn’t have to cover those mandates.

It has complete control over its plan and can move its dollars to better suit its employees’ needs. For example, if it has a population with a high number of diabetics, or employees with high blood pressure, and it wants to cover those conditions 100 percent, it can do so.

In addition, it has control over plan information. If the plan is fully insured, the employer generally doesn’t have access to the trends associated with its population. With alternative funding, it has total access to that information, which gives it the ability to adjust the health plan to best suit its members’ needs.

As a result, the employer can turn that data into actionable information. For example, it can identify members with chronic illnesses and enhance the benefits to ensure compliance with medication and standard treatment protocol to improve the health of its employee population. That data can also allow it to identify if employees are misusing the emergency room, driving up costs. It can then educate them about the proper use of the ER and the availability of services such as a 24-hour nurse line, clinics and urgent care centers.

An alternative funded plan also gives employers the ability to manage cash flow. With fully insured, the company pays a premium every month, and any upside goes to the insurance company; if it has low claims, it still pays the same premium. But with an alternative funded plan, the employer only has to spend the dollars for the care provided that month.

What are the future benefits?

Under health care reform, there is a defined tax for insurance companies that goes into effect in 2014. That tax bill for insurance companies is estimated at $8 billion in 2014 and as much as $12 billion by 2018, which will be passed on to employers. If an employer has an alternative funded plan, it will avoid paying toward that upcoming tax.

With changes in the market, now is the ideal time for employers to make a change and take ownership of their plan through alternative funding.

About HealthLink

HealthLink is an organizer of provider networks, which it makes available by contract to a variety of payors of health benefits, including insurers, third party administrators, union trust funds and employers. HealthLink's network includes more than 50,000 providers serving approximately 800,000 medical members.

HealthLink has been part of the WellPoint family of companies since 2002 and benefits from powerful organizational synergies in its alliance with the nation's largest health care company.

The future is bright. As part of WellPoint, HealthLink enjoys expansion opportunities, new programs and more comprehensive services – in addition to on-going advantages in terms of competitive discounts and administrative efficiencies.