Thinking Out of the Box

How employers can use alternative health plan options to gain control, lower costs

Many employers feel they have no control over the health care events of their employee population, seeing themselves as victims rather than informed consumers. However, it's important to understand there are alternative solutions outside of the "insurance" box options when choosing a health plan for employees.

"As an employer, whether you have 10 employees or 500 employees, there is a whole host of new products and concepts that may make some sense for you — that you really need to explore," says Mark Haegele, director, sales and account management, at HealthLink.

These options, including small group self-funding, captives, exchanges and co-ops, are growing as the health care industry rapidly changes, based on improved data analysis and the drive to keep overall health care costs down.

What options are available for smaller employers who want to self-fund?

There are a host of new programs under a self-funded environment for employers with 10 or more employees. The 15-life employers may never have thought these options were available, but that's not the case anymore. Self-funded employers can avoid premium taxes and state-issued mandates, while getting away from insurance company risk and profit. The employer has additional freedom to structure its health plan and can receive more claim information to better manage the health of the employee population, and therefore lower costs. Self-funding continues to be of interest to employers.

How do captives work to some employers' advantage?

Small employers, with help from third-party claims administrators or benefit consultants, join forces to set up their own captives or use a cell in an established captive to cover risk above a self-insured retention. It's usually made up of similar-sized employers, not necessarily similar in industry-type. For example, a 50-life employer would take the risk up to $50,000 for each member in the health plan. The captive, getting contributions from all employers, takes the risk from $50,000 to $250,000. The re-insurance carrier would risk all costs over $250,000.

By boosting retentions and pooling risks with other employers — who typically agree to put in wellness, disease management and other programs to lower claims costs — employers hope to keep increases in health insurance costs more in check. Also, all contributions to the captive, such as the $50,000 to $250,000 in the example, are tax-free. Finally, by pooling risks, participating employers can hold on to profits — if premiums exceed claims and other costs — rather than surrendering profits to a commercial insurer, as with a fully insured program. Many employers are looking at captives and starting to understand the advantages.

How are employers exploring the use of health care exchanges, both public and private?

Exchanges are new organizations set up to create a more organized and competitive market for buying health insurance. They offer a choice of health plans, certify participating plans and provide information to help consumers better understand options. Private exchanges are beginning to pop up, and in 2014 government-run exchanges will come on line.

Like a cafeteria plan, the consumer has a menu of insurance alternatives, such as five different insurance companies and six different plans, for one rate. While this creates the ultimate choice, exchanges may not be cheaper. Exchanges take away an insurance company’s ability to decline, drawing bad risk like those with major health problems. Many national insurance carriers say when public exchanges start, commercial population premiums will increase by 40 percent.

Private exchanges may be able use their advantages over public ones to lower costs. Even though they cannot decline, they have more control over who is coming in and can make it less attractive for bad risk through higher prices or benefits. Also, public exchanges must take subsidized members — uninsured with income under a certain threshold — who are likely more of a bad-risk population.

Employers are determining whether to continue to offer a health plan or just pay the penalty and send employees to purchase health care off the exchanges. It’s not as simple as it seems — although an employer may pay $8,000 per employee per year to offer a health plan and the penalty is only $2,000 per employee, typically employees demand higher wages when not receiving benefits. Retaining and attracting key employees could be why employers offer benefits in the first place. There are also tax implications with the decision to terminate, including extra taxes. One model found that Company X with 10,030 employees, where 3,000 highly paid employees purchase health care no matter the cost, paid $26 million more to terminate its health plan rather than raise the employee premium.

What role do co-ops play with alternative health plan solutions?

Health insurance purchasing cooperatives allow small businesses and municipalities to band together to negotiate for improved health insurance coverage for employees. The California Health Care Foundation found that under the right circumstances pools can meet cost and coverage goals and expand insurance choices, but it depends on the cohesiveness of a pool's members and the market in which it operates.

Whatever health plan alternative you find fits your company best, employers do have options outside of the big box. You can get away from typical insurance companies.