



# Evolution of Self-Funding

## How innovations are improving self-funded health insurance

Approximately 60 percent of the U.S. commercial population is self-funded today, and as health care premiums continue to rise under fully insured plans, self-funding looks to become even more attractive. However, many employers don't realize how much self-funded health insurance has evolved with strategies and plans designed to help control costs.

"Self-funding does not look the same as it did just a few years ago," says Mark Haegele, director of sales and account management at HealthLink.

### What's driving the increase in self-funded health insurance?

Health insurance premiums are increasing at an unsustainable rate. Employees pay 89 percent more for family health care premiums, compared to a decade ago. In 2013, premiums only rose 4 percent, but that's more than twice the rate of wages.

Self-funded premiums typically aren't as costly. A recent Department of Labor report found that in 2011 fully insured premiums increased by \$808, while self-funded premiums only increased by \$248.

In response, 60 percent of companies self-insured their health benefit programs in 2011, up from 49 percent in 2000, according to a Kaiser/HRET survey. This increase can be partially attributed to more self-insured employers with fewer than 1,000 people in their health plan programs. In just two years, small and midsize employers that self-insure nearly doubled, according to PricewaterhouseCoopers data from 2010.

### How has self-funded insurance changed?

Fifteen to 20 years ago, employers were afraid to trust self-funding, even though they knew it brought certain advantages, such as avoiding premium taxes, risk charges and state mandates. A self-funded environment gives employers more plan flexibility, depending on the disease prevalence or demographics of their population, as well as more access to data and lower fixed costs. But a piecemeal approach to health insurance that went against the insurance market culture was a foreign concept.

Today, there is less fear and higher adoption rates. At the same time, historical best practices still exist — avoiding taxes, risk charges and state mandates with lower fixed costs — as well as additional cost savings where self-funded plans avoid rules and regulations of the Patient Protection and Affordable Care Act.

## What do self-funded plans look like today?

There is a market culture shift in the self-funded environment with more flexible plan designs. Member data is now transformed into actionable intelligence. Plans target specific high-dollar categories, such as high-dollar claimants, high-cost imaging, cancer and dialysis treatment, and pharmacy. With more transparency, employers can influence purchasing decisions by aligning incentives.

High-dollar categories like pharmacy are an area where vendor selection is key. Self-funded plans today have more administrator and vendor integration to better control these costs. A majority of employers spend around 16 percent of their total health care budget on pharmacy.

In addition, self-funded plans can be designed with custom networks, based on the cost of care. Through data analytics, plan sponsors can identify preferred facilities, procedures and/or services, and then use the plan design to cover a higher percentage of a preferred procedure or service.

Another strategy is using domestic centers of excellence. With this type of contract, providers offer preferred pricing due to exclusivity and volume. Employers can achieve savings on the unit cost. There's also a performance component to eliminate waste — the provider gets a bonus for avoiding surgeries.

With pay-for-performance, a budget is set with expected costs, and the health care providers and employer agree on how to measure performance, looking at readmission rates, member pharmacy compliance, minimum levels of care, etc. Then, providers receive a percentage of the savings realized, as an incentive.

Self-funded plans are even utilizing alternative delivery models, such as telemedicine, on-site or near-site clinics and concierge health services.

Self-funded insurance may not be what you thought, so take the time to see if today's plans would work for your business

