

Partial Self-Funding Health Care Basics

What is Partial Self-Funding?

Partial self-funding is a fairly new concept in the small group market that is gaining momentum as healthcare costs continue to escalate for small business employers. It is an approach to healthcare involving greater employee education on how they seek services, involvement in the process and recognition of actual healthcare costs. For an employer it means substantial savings over a traditional approach and adds dollars to the bottom line – often time without sacrificing benefits for their employees.

How Does Partial Self-Funding Work?

An employer purchases a high deductible health plan to cover employees for high out of pocket expenses, catastrophic/major illnesses while providing coverage for preventative care and pharmacy benefits after a deductible is met. The deductible ranges anywhere from \$1,500 to \$5,000 annually per person.

The cost of purchasing a high deductible plan will generate, in most cases, a 30-50% savings versus a traditional fully-insured plan. This savings is used to pay for a portion of claim costs based on a schedule of benefits determined by the employer. This schedule of benefits is tailored by the employer and broker to best fit an employee's needs and to provide comprehensive coverage for services prior to the deductible being met.

Claims for each employee are tracked and paid by establishing one of the following; Health Reimbursement Account (HRA); Health Savings Account (HSA) or Medical Expense Reimbursement Plan (MERP).

Any of the three require a third party to administer the accounts for each employee and to pay claims based on how the employer has designed the partial self-funded plan.

How Does This Save The Employer Money?

We know from historical data that 15% of employees are high risk healthcare users; 30% are medium risk users and 55% are very low healthcare users. Based on the amount of claims an employer would on behalf of employees using these numbers there is still significant savings versus paying a high premium on a monthly basis to a health insurance carrier.

What is Each Party's Role?

Employer: It is the employer's job to support the plan and to have funds available to pay claims as they are incurred.

Broker: It is the broker's job to educate employees on how the plan works, provide assistance to employees in the processing of claims. Work as a liaison between all parties in making sure the enrollment process is smooth and to report to the employer actuarial data on the effectiveness of the plan.

Plan Administrator: To pay claims based on the employer's schedule of benefits and track each employee's usage of the benefits. Provide all legal plan documentation, quarterly and annual claims reports and enrollment support to the employer, broker and employees.

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An Example Cost Savings Scenario: ABC Employer: 32 Enrolled Employees
(32 Enrolled Employees: 10 Employee Only; 22 Employees with Dependents)

Employer Partial Self-Funded Plan: 10% Office Visit, 10% IP Hospitalization, \$15/\$35/\$50 Rx, \$2,200 Indiv. OOP

Employer Monthly Medical Premium / Traditional Approach \$16,342
(HMO Plan, \$20 Office Visit, \$500 IP Copay, \$10/\$35/\$50 Rx, \$2,000 Indiv. OOP)

Employer Monthly Medical Premium / High Deductible Health Plan \$8,153
(PPO Plan, \$2,000 Ded., 30% Coinsurance, Integrated Rx \$15/\$35/\$50, \$4,000 Indiv. OOP)

Monthly Savings \$8,189

Partial Self-Funded Costs

Fixed Costs: Administration Fees (32 x \$18.50) \$592

Expected Claims Costs:

Employer Max. Claim Cost Per Unit = \$1,800 (90% of \$2,000 Deductible)

Total Exposure Units = 54

(8) 15% of Employees will reach Max. Claim Cost \$1,200

(16) 30% of Employees will reach 60% of the Max. Claim Cost \$1,152

(30) 55% of Employees will reach 15% of the Max. Claim Cost \$540

Total Partial Self-Funded Plan Costs (Admin Fees + Expected Claims Cost) \$3,484

Monthly Premium for Traditional HMO Plan \$16,342

Monthly Premium for HDHP PPO Plan - \$8,153

Monthly Partial Self-Funded Costs - \$3,484

Total Monthly Expected Savings \$4,705

Total Annual Expected Savings \$56,460