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Expert Insights

The Answers You Need

How self-funding can help correct health care purchasing mistakes

Business owners may feel helpless when it comes to health care because they feel like it's beyond their control. However, self-funded health insurance can actually correct some of the biggest health care purchasing mistakes.

Mistake 1: Not knowing how much you pay for health care.

Many senior leaders don't know the itemized cost of health care services used by their employees, even though it's one of their biggest expenses.

With a fully insured health plan, employers pay a predetermined premium amount to cover medical services for their employees, whether they receive them or not. This leaves most employers without real knowledge of where premiums are being spent. With a self-funded arrangement, employers only pay for the medical services — or claims — that their employees actually receive. Employers who choose to self-fund their employee health plan receive an itemized bill for all the claims incurred by their employees, so they know exactly how much they're spending and where the money is being spent.

Mistake 2: Believing that health care spending is out of your hands or the cost of doing business.

The flexibility that comes with self-funded arrangements makes them ideal for effectively using cost management strategies to save money for the health plan and employees. Employers who self-fund have access to detailed claim and utilization data that they can use to determine where they are incurring the most costs. Employers can sit down with their broker, third party administrator (TPA) or network partner to examine if there is an issue or lack of benefits at the root of high costs.

After there is a solid understanding of where health care dollars are being spent, there is an opportunity to better predict these costs and implement cost containment programs to control health care spending like never before.

While fully insured health plans also feature cost containment strategies, these programs and services remain under the control of the insurance carrier. For some employers, this is ideal. They prefer to take a more hands-off approach by simply paying a monthly premium and letting the carrier take care of the rest.

A self-funded arrangement is more hands-on. Cost containment strategies can be customized specifically to meet the unique needs of the employee group. In the end, the decision of which programs and services to implement, and how to structure the health plan, is up to the employer, not the carrier.

Mistake 3: Being in breach of your fiduciary duty to protect a health plan's assets.

In a self-funded arrangement, transparency starts with the availability of clinical and financial data that employers can use to uncover utilization trends, high-risk members, inappropriate and/or costly treatments and plan waste. With a self-funded health plan, this data belongs to the employer. They have full access to it and the conclusions that come from it.

In addition, many network providers have developed transparency initiatives designed to help employers and their employees become more educated health care consumers. Tools that help employees look at the costs associated with different procedures and/or facilities, and tools to help employees decide which level of care is appropriate are examples of transparency tools that may be available through different network providers.

Mistake 4: Undervaluing human resources.

An HR department can be an invaluable resource when it comes to selecting and implementing an employee health plan. Often the HR department may have additional insights into the needs of the employee group, which can be useful when determining which benefits should be included in the health plan. The HR department should also be the go-to resource for educating employees and answering questions during open enrollment. Engaging the HR department during the decision-making process and having their buy-in can have a positive impact on the health plan.

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