Experts Note Uptick In Interest In Self-Funded Insurance Plans

By Cyril Tuohy

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More small employers are evaluating self-funding or converting fully insured plans into self-funded programs as a way to take more control over health insurance costs. This was the message from insurance and benefits experts who spoke at a recent summit meeting.

Paul Fronstin, director of the Health Research and Education Programs at the Employee Benefit Research Institute, said that while big companies have always been interested in self-funding, “as a result of health care reform, we may see smaller employers, for the first time, if self-insurance is right for them.”

Fronstin was one among several health care policy experts who spoke at the Sun Life Wake Up Summit in New York earlier this month.

The summit was sponsored by the U.S. business group of Sun Life Financial and included noted health care experts Jonathan Gruber, a professor of economics at the Massachusetts Institute of Technology, and Michael Cannon, director of health policy studies at the Cato Institute.

The policy experts offered opposing viewed on the state of health reform, which is under review by the U.S. Supreme Court.

Booker Moore, president and CEO of L.R. Webber Associates, an employee benefits advisory firm, said in a news release that there was a trend in which employers were converting fully insured plans into self-funded programs “as they seek to gain access to more detailed claims data to address long-term cost-control issues."

When companies self-fund their insurance programs, a portion of their profits are set aside in a trust fund to pay medical claims.

Large companies have self-funded medical expenses for years. They can do so because they spread the risk of a catastrophic claim across a much wider employee population. In addition, they have access to claims data and analytics, or hire big brokers to help them.

A properly managed self-funded arrangement is often cheaper than a traditionally insured plan. Self-funded companies buy stop-loss insurance to protect themselves from a catastrophic medical claim with the potential to put the company out of business.

Small businesses don’t have the same resources and either decline to offer health insurance, which makes it hard to attract technical and managerial talent, or have paid very high premiums to health insurers.

“Smaller employers that can absorb less risk have to look at how one large medical claim could wipe them out,” Fronstin said. “That’s why having the right stop-loss insurance to protect against that is critical.”

Robert C. Pozen, a senior fellow in economic studies with The Brookings Institution who was not part of the summit discussion, estimates that between 8 percent to 16 percent of companies with between one and 100 full-time employees resort to self-funding.