# Self-Funding Details Employers Need to Understand

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I meet with many businesses each year and find common self-funding misconceptions in the marketplace. Additionally, employers tend to overlook self-funding details. First, and most importantly, I tell them, self funding doesn't have to be scary.

**Laying the Groundwork**

I advise them on how medical insurance is bought and sold. For example, the industry has taught us to make these decisions one year at a time. Carrier proposals are compared on a spreadsheet, which doesn't tell the entire story on the many important considerations and additional services available to employees.

Among the significant self-funding details: the renewal rate.

The rate plays a huge role in decision-making. We are, after all, talking about the second- or third-largest budget line item for most businesses. Decisions are made, and off we go to open enrollment. Then, most of the time, the case is closed until next year.

**Questions, Questions and More Questions**

Meanwhile, the waiting game commences, during which there are the inevitable questions. The employer wonders if they'll be surprised with a shock renewal. And what are the market conditions? This questioning is a good opportunity to operate as a true consultant. I ask questions that the employer may not have considered, such as:

- If your renewal is high, due to unfavorable claims experience, are you receiving enough data to determine the cost drivers?
- What solutions or options are you activating to mitigate those cost drivers?
- Did the manual rate help or hurt the calculation?
- What cost-drivers and other trends are apparent in the data?
- Is the increase fair or justified?
- Will there be enough time to implement changes if needed?

**Adjusting the Self-Funding Mindset**

Another common concern an employer has is that their population is not large enough and self funding is only a fit for jumbo-sized businesses. Sure, the law of large numbers and predictability of claims increases with a larger population, but there are viable options in the market to help mid-size employers self-fund without assuming unnecessary risk.

I also hear people refer to self funding as a destination, not a journey. I can't count the number of times I've heard "if we could just get to a self-funded plan." This is not the right thought process. Self funding is a finance vehicle. It enables employers to partner with their benefits consultant to implement solutions to manage their program in a sustainable way. It requires an ongoing strategy and each plan should be analyzed for its unique set of influencers to determine the right approach.

**The Benefits of Self Funding**

Now that we've addressed some common misconceptions with the employer, it's time to talk about the potential benefits. This is the fun part! The self-funded employer can:

- Realize claims savings. This is a big one! In a fully insured arrangement, you never "win" in the good years with a return of unused premium.
- Enjoy greater transparency. Ever wonder why you are paying what you are paying? With self funding, you can account for every dollar.
- Increase cash flow. In a fully insured plan, you pre-pay for coverage each month. With self funding, you pay for what you use.
- Have access to data. Information is power. This is a means to address cost drivers, steer participant behavior, and improve outcomes. Data is available real time to watch patterns as they occur, before it's too late to act.
- Have better control. With the ability to customize benefits and vendors, and bring best-in-class resources for your specific population needs, the plan moves from one size, fits all to true customization.
- Experience easier compliance. Self-funded plans are not subject to state mandates, which are ever evolving.
- Enjoy network choices. PPO, HMO, RBP, hybrid, direct contracts, direct primary care, and the list goes on and on.

**The Importance of Timing**

As with any major decision, I urge the employer to consider timing. We are in a unique environment whereby the coronavirus pandemic has altered normal utilization patterns. I suggest that if the employer hasn't incorporated a self-funded feasibility analysis into their strategy this year, they may be missing the boat. No employer can do the same thing year after year and expect a different outcome.

Here's the bottom line I present to a business who's sitting on the funding fence: If you want to be proactive and avoid all the questions going into renewal, it's time to evaluate self funding. ■

For more information, please call **1.877.426.7779**