How a Self-Funded Medical Plan Works

It's not news that medical costs and health insurance prices are continuing to rise well beyond the rate of inflation. These days, it's a top expense in most households. And for your employer, health insurance has become the second-highest expense next to payroll.

In the past, employers could afford to provide insurance with little or no deductible, and it would cover just about everything. You didn't even consider things like making sure your doctor was in-network, saving money for future health care in a Health Savings Account (HSA), scanning covered-services lists, or looking at your max out-of-pocket amount before choosing a plan. You also didn't have to worry that a catastrophic health problem could bankrupt you.

Times have changed. And employers are getting creative – crafting plans with hopes of stabilizing costs to straighten out that steep upward trajectory. Here's the good news: A tried-and-true but innovative option called self-funded insurance is helping public sector employers nationwide. It has helped them reduce their insurance costs without negatively impacting the quality of benefits they provide to you.

With self-funded insurance, your employer doesn't pay a health insurance company. Instead, your employer establishes a pool of money called a reserve and pays claims from that pool.

These reserve funds come from the savings they achieve by not working with a health insurance carrier and from the health premium payments you make. Most employers will also hire a Third-Party Administrator (TPA) to run the plan for them – to do all the paperwork, analyze claims, answer questions, etc.

It sounds like a lot of work! So why would your employer want to do all that?

Here's why: Self-funding allows your employer to bypass the unnecessary fees and expenses insurance companies normally charge – it's like cutting out the "middleman" – toppling over mountains of waste. Your employer, alongside very experienced people in the insurance industry, will estimate how much they may need in the reserve based on the history of your group. Then, your employer will pay run-of-the-mill, everyday claims from the reserve.

If there is a claim that is unexpected or unusually high, your employer will have the protection of a special insurance plan that will reimburse them for those higher-than-expected claims.

And while that may sound different from the more traditional plans of the past, in reality, not much changes for you, the participant.

- Your plan design is likely very much the same and you receive the quality benefits you've come to expect.
- You have complete HIPAA-protected privacy for all your healthcare records. (Your employer does not know your personal, private health information.)
- You have a network in which to choose physicians and providers.
- You call someone (usually the TPA) with questions about your plan.

The Big Picture

Employees have a lot of control over health care expenses. You can't control when you get sick, but you can control how wisely you spend your money on care for your illness. These savings will help your public organization upgrade the technology for your schools, put money back into your roads, police and fire protection, and maybe even help your community buy a new swing set or two for your local parks. Choosing a self-funded health insurance plan is a smart decision that helps your organization, both now and for years to come.

Over the next few weeks, keep an eye on your inbox for more informative emails that'll help you get the most out of your plan.

Coming up next, how to find the appropriate level of care and the best pricing.

The More You **KNOW**

The Less You **OWE**