



## Self-Funding

With the rising cost of healthcare, employers are more determined than ever to find innovative approaches to manage health insurance benefit costs. One of the options gaining popularity is self-funding, also known as self-insuring.

### Definition:

A *Self-Funded*, or *Self-Insured* plan, is one in which an employer pays for claims out-of-pocket as employees incur them instead of paying a predetermined premium to an insurance carrier for a *Fully Insured* plan.

In a Self-Funded plan, an employer assumes some of the financial risk of providing health care benefits to its employees. Most organizations who choose to self-fund also set up an account called a *reserve* to pay these claims, using both employer and employee contributions.

In order to help manage claims dollars and cover unexpected, catastrophic claims, employers who self-fund generally insure the risk at a certain level with *Stop Loss Insurance* (also called Reinsurance). This protects the financial integrity of the plan and therefore, the employer's costs.

### Advantages of Self-Funding:

#### Plan-Design Freedom

The Self-Funded plan can be customized, adjusted or changed. The employer receives utilization reports so trends can be detected that may affect future adjustments. Additionally, savings from wellness plans and other health-promoting strategies are fully realized with a Self-Funded plan.

#### Better Cash-Flow and Cash Management

The reserve account earns interest. When monthly

claims are low, unused funds stay in the reserve account and continue to gain interest. Since the employer does not have to pre-pay for coverage, funds are freed up and improved cash flow is the result. Maximum claims and insurance costs for the next year are known in advance.

#### Lower Administrative Cost

Self-Funded insurance plans administered through a *Third-Party Administrator* (TPA) are substantially less expensive than the costs charged by an insurance carrier.

#### Tax Advantages

Usually, there are no premium taxes on a Self-Funded plan.

#### Is Self-Funding Right for You?

Self-Funded plans are a great option for many companies seeking to manage healthcare costs, but they may not be the best option for you if:

- Your group has a history of above-average claims.
- You are looking for a short-term solution.
- You are a small employer with unstable cash flow.

*Note: Small organizations may want to consider joining a Self-Funded consortium with other small employers.*

#### Talk to NIS for Insight and Answers

There is both risk and reward in Self-Funded insurance plans. The best way to decide is to request a professional assessment. National Insurance Services is ready to help you evaluate your group's needs, review your claims history, and determine whether you can benefit from a Self-Funded insurance plan. Contact us any time for a complementary consultation.