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LOCAL 5 HAWAII

Self-Funded Health Insurance

Counties are saving millions with self-funded, why aren't you?

"*We expect to stabilize our rates and keep the money we save, rather than giving it to health insurance companies as profit.*"

- Peter Valesi, Administrator, Freehold Township, NJ

From 2003 and 2013, family health insurance premiums skyrocketed 73% nationwide. Over the same period, workers' portion of premium costs rose 93%. The Congressional Budget Office estimates annual health insurance spending per enrollee will grow an average of 5.6% per year from 2016 through 2025; at that rate, health care costs will double in a mere thirteen years.

In a 2011 report to Stanislaus County, California analysts found that fully-insured health plans inherently lack price transparency and limit an employer's ability to analyze cost versus value. Like many employers throughout the country, Stanislaus County was looking for a way to stop costs from spiraling out of control. Its consultants decided that a self-funded health plan was a viable way to improve the county's health insurance program.

Stanislaus County is not the first employer to discover that self-funded is the best option for them. Nationwide, 61% of covered employees are covered by a self-funded health plans and 81% of large firms already take advantage of self-funded health plans.

Who Uses Self-funded?

81%

of all large firms

The following case studies show how self-insurance can help employers avoid paying excessive premiums that serve to bolster insurers' bottom lines.

Kaiser Permanente, with an inherently opaque and highly profitable HMO business model, deserves careful scrutiny. Kaiser is a tax-exempt non-profit organization which has collected over $12 billion in net income in the past five years alone. Kaiser had $32.8 billion in "unrestricted cash and investments" reserves in 2014.

Visit www.SelfInsuranceCaseStudy.org to learn more about how Stanislaus County and other municipalities managed their rising healthcare costs with self-funded health plans.

What is Self-funded health insurance?

In an HMO plan, employers and/or employees typically pay monthly premiums to an insurance company at rates set annually. The HMO pays the cost of health care services provided to all plan participants, and keeps any excess as net income. The HMO takes on the risk that the cost of care will exceed the premiums it collects; however, it can balance this out by raising rates in subsequent years.

In a self-funded program, employers pay the costs of claims for their participants as they come up. Surpluses in premium revenues can be retained as savings by the employer, while deficits can be addressed in future rate adjustments. With self-funded, the employer can mitigate risks by using stop-loss insurance. Employers often contract with third-party administrators to administer the plans and negotiate contract rates for in-network medical service providers.

Benefits of self-funded

The potential benefits of self-funded include: federal law preemption, elimination of state premium taxes, improved cash flow, employer specific experience, premium surpluses and control.

- **Retained Surpluses:** Premium surpluses can be retained rather than transferred as profits to insurance companies.
- **Federal law preemption:** Certain state laws regulating insured plans do not apply to qualified self-funded plans.
- **Elimination of state premium taxes**: According to the Self Insurance Institute of America, self-funded employers will not be subject to state taxes on premiums received by insurers, a cost that would otherwise be passed onto employers by the insurer.
- **Improved cash flow:** A fee-for-service self-funded plan can delay payment of recurring health plan costs until the services have been rendered.
- **Employer-specific experience:** A self-funded employer can only be liable for the members in its plan; it does not have to be exposed to the risk of other companies' employees. Employers can control costs by building experience-based knowledge about the care needs of their group of employees.
- **Control:** The employer has more control in many areas including retaining reserve fund interest income, choosing the most suitable networks or providers for its employees, understanding historical cost data and acting on the data to achieve future financial goals.
- **Stop Loss Insurance:** Employers without adequate cash flow or reserves can add a stop loss insurance component to their self-funded plans to help protect against outlier high-cost claims.
- **Premium Refunds:** an employer can opt to periodically refund portions of an employee's premium contribution if the financial performance of the program allows it.

Case Studies of Self-Insurance Health Programs

Stanislaus County, California

Stanislaus struggled with annual double-digit healthcare cost increases until it found a self-funded insurance framework that reduced its costs. Lack of price transparency in a fully-insured system with insurers (including HMO Kaiser Permanente) was the problem for Stanislaus - moving to a fee-for-service self-insured program was the solution. Reports show the County saved an estimated $5.5 million in its first year (2012) compared to staying in a fully-insured program. Kaiser Permanente is no longer offered as a medical plan option by Stanislaus as of 2015. It is uncertain whether the County decided it was not financially efficient to offer Kaiser, if Kaiser decided to stop providing service to Stanislaus or if there was some other reason Kaiser was dropped as an option.

The County highlighted the impact of having accurate claims data, stating, "*2012 demonstrates the negative fiscal impact the County may experience as a result of not having the transparency in claims data necessary to project claim expenses with higher degree of certainty.*" The County compared its experience marred by insufficient data against that of its consultants who, "*...did have all of the information necessary to project plan expenses in the Stanislaus County Partners in Health plan, and the plan's financial performance demonstrates the underwriting for that program exceeded expected outcomes.*"

The bottom line is that Stanislaus County realized "*significant savings in 2012 and 2013 compared to total costs of remaining in fully-insured program*".

Hennepin County, Minnesota

Hennepin County experienced a surplus of $36 million over three years in its self-insurance fund after transitioning to self-funded in 2011. Instead of losing surplus premiums to insurance companies, the county retained $36 million dollars in actual surpluses. Hennepin County has 7,656 full time employees. Using these general figures, the county retained surpluses of over $1,500 per employee per year over three years.

Year	Actual Expenditure	Actual Revenue	Net Actual Surplus
2011	$81,605,207	$95,006,424	$13,401217
2012	$82,563,122	$93,354,760	$10,791,638
2013	$82,943,588	$95,235,910	$12,292,322
2014	Unavailable	Unavailable	-

The following quotes from Hennepin County tell the story of the county's beginning, middle and end of its so-far successful experience with self-funded.

2012

"The self-funded health insurance program was rolled out on January 1, 2011. Under this program, the county will save on administrative costs, achieve greater long-term cost control and plan flexibility, and obtain access to enrollee utilization experience – an instrumental component in developing wellness programs."

2013

"The county's move to a self-funded health insurance program continues to allow for better cost management."

2015

"In moving the organization to a health self-insurance model and promoting fitness and wellness to our employees, the county and our employees have saved million of dollars on employee health insurance premiums."

Oliver's Market

Oliver's Market is a regional gourmet grocery store chain in Santa Rosa, CA. In 2012, Oliver's Market moved its employees' plans from fully-insured to self-funded. In the first year of its self-funded program it reduced health care costs by 15%. In the second year it saved an additional 5%.

Before moving to self-funded, Oliver's was paying $800 per employee per month and facing premium rate increases up to $940 for 2012. Through self-funded, Oliver's reduced its monthly costs to $680 per employee in the first year. That is an estimated cost savings of $260 per employee per month from what insurance companies were expected to charge Oliver's. In the second year of its self-funded program, Oliver's managed to lower its premium rate even further to $650 per employee.

Authors' Estimate of Oliver's Market Premium Costs per Employee per Month

Year	Estimated Self-Funded Insurance Cost	Estimated Fully-Insured Insurance Cost	Estimated Cost Savings with Self-Funded
2011	NA	$800	NA
2012	$680	$940	$260
2013	$650	$977*	$327
2014	$650	$1,006**	$356

* Assumes a 4% increase in 2013 annual premiums for employer sponsored family health coverage, the average annual increase for all employer plans surveyed by Kaiser Family Foundation.

** Assumes a 3% increase in 2014 annual premiums for employer sponsored family health coverage, the average annual increase for all employer plans surveyed by Kaiser Family Foundation.

A Kaiser HMO plan was one of the health plans offered by Oliver's before it moved to self-funded, along with a Blue Cross PPO. Through its old program, the company saw annual average increases in health-care costs of 15% for ten years and even experienced an 18% increase in one year.

Negotiations with insurers failed to secure viable savings. According to Oliver's C.E.O., if the company couldn't control its health care costs, it likely would have stopped all health insurance coverage for all employees by 2019. Under its old fully-insured program, Oliver's was limited to giving only a fraction of its 760 full and part time employees health coverage. After the switch to a self-funded plan, it was able to expand coverage to an additional 130 employees.

Oliver's offered a Kaiser HMO plan before it switched to self-funded. Oliver's self-funded program currently offers three plans: one with Santa Rosa Community Health Centers, one with Blue Cross doctors, and an out-of-network option.

Orange County

Orange County has operated a self-funded health plan since 1977. The county also offers fully insured Kaiser HMO and Cigna HMO plans. For the last three fiscal years, Orange County has experienced millions in surplus balances in its self-insurance fund.

Orange County Self-Insured PPO Health Plan Internal Service Fund

Fiscal year	Actual Revenue	Actual Requirements	Surplus Balance
2012-2013	$70,219,639	$62,926,522	$7,293,117
2011-2012	$68,778,161	$63,684,774	$5,093,387
2010-2011	$68,080,702	$62,045,058	$6,035,644

For the year ending May 2014, Orange County had about 3,800 active employees enrolled in its self-funded plans.

Freehold Township, New Jersey

Freehold Township, New Jersey employs about 260 municipal workers for a town with a population of 36,200. The municipality saw premiums for its employee health insurance plans rise 10-20% a year. In 2013, The Township paid over $5 million for employee group insurance while generating $40.5 million in total general revenues; 12% of its 2013 general revenues were spent on group insurance.

The Township moved to establish a trust fund for self-funded health plans in early 2014. Peter R. Valesi, the Township Administrator said of the transition to self-funded, "*We expect to stabilize our rates and keep the money we save, rather than giving it to health insurance companies as profit.*"

Other Factors to Consider

Risk Pool: Employers should ask whether insurance companies are levying greater rate hikes on them than on their other customers. Is your insurance company making you pay extra to make up for someone else's "good deal?" One thing to look at is whether rate increases for your plans have been larger than the average approved by state regulators for the company and type of plan you offer.

Demographics: Your employees' current and projected demographics are critical to understanding whether a self-funded plan makes sense. Consulting with a knowledgeable expert will help you understand the risk and rewards associated with your employees' demographics and whether a switch to self-funded is a viable option.

Context: The ability to save money through a self-funded plan depends in part on the regional healthcare market. Competition between healthcare companies, or lack thereof, will determine your ability to design a feasible health benefits plan. The demographics of your risk pool and those of your peers will also determine if self-funded is viable. It is important to find the right consultants who can objectively advise you on your options.

Finding the Right Partners: You will need to find consultants and third-party administrators who have insight, negotiating skills and experience. Not all consultants are equally qualified to successfully manage such a complicated endeavor. In addition to claims and database administration, having someone who can negotiate with providers and deliver results is important.

Affordable Care Act: The ACA has numerous implications for employer health plans. A key benefit for self-funded plans is that they will be exempt from health insurance taxes imposed on fully-insured plans. Adopting self-insurance will allow smaller companies with unique or healthy risk pools to avoid some of the new requirements for expanded benefits. Other pre-existing benefits of self-funded plans - such as exemptions to state benefit mandates and premium taxes - will continue.

Conclusion

Self-funded plans have saved municipalities millions of dollars in premiums that would otherwise have been paid to insurance companies as profit.

Kaiser Permanente was eventually dropped as an option by Stanislaus County after its transition to self-funded. Oliver's Market appears to have stopped offering Kaiser after transitioning to self-funded insurance as well. Kaiser's opaque business model deserves close scrutiny by employers and policymakers.

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