Self-Funded Plan Designs

An Affordable Alternative for Smaller Employers

Self-funding is not a new concept. Once perceived to be most suited for larger employers, self-funding is now gaining traction in the smaller employer market – particularly those employers with fewer than 100 lives. In fact, employers with as few as five employees are finding self-funded plan designs with stop-loss insurance a cost-saving alternative to fully insured plans. That trend will continue to grow as changes from the Patient Protection and Affordable Care Act (PPACA) take hold in 2014, and new insurance fees, costly benefit requirements and age rating restrictions potentially drive up the cost of fully insured coverage.

PPACA Impact on Fully Insured Plans

Higher Premiums on Fully Insured Plans

The Health Insurance Industry Fee, also known as the Health Insurance Tax, will be imposed on fully insured plans starting in 2014. An analysis by Oliver Wyman[1] estimates this fee "will increase premiums in the insured market by 1.9 percent to 2.3 percent in 2014" for people purchasing health insurance on their own and through their employers. This fee will add a financial burden on families and small businesses at a time when they can least afford it.

Essential Health Benefits

Non-grandfathered individual and small group health plans are required to provide a broad range of benefits known as essential health benefits, which, in many cases, are more comprehensive and more expensive than what individuals and small businesses have today. As a result, millions of people may be required to "buy up" and purchase insurance that is more costly than what they have currently.

Age Rating

PPACA limits how much insurance premiums can vary based on a person's age, which will cause premiums to increase for younger individuals (ages 18-49). However, older individuals typically utilize healthcare more than younger ones do. This may increase the likelihood that younger, healthier people will choose to pay the penalty and wait to purchase insurance until it's needed, which will drive up the costs for everyone else.

Self-Funding – an Affordable Option

Self-funding is a smart strategy offering a cost-effective way to fund an employee health plan. It can provide an opportunity for a small- to mid-sized employer to achieve immediate savings, compared to fully insured plans. The employer funds the claims up to a pre-determined amount – and if claims are lower than expected at the end of the contract period, the employer receives a refund. With stop-loss insurance, employers are protected if claims become larger than projected, either for any one individual exceeding a certain dollar amount (specific stop loss) or when the total claims of the group exceed a set level (aggregate stop loss).

[1] Annual Tax on Insurers Allocated by State, Oliver Wyman, November 2012

Talk to your Starmark Distribution Partner to learn more about self-funded plans with stop-loss insurance through Starmark.

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