



Should You Self-Insure for Healthcare?

When a company purchases health insurance, it transfers risk to the insurance carrier. The carrier calculates the risk and gives the company a price.

But a company can also choose to keep the risk in-house by self-insuring. Small or midsize businesses usually look at self-insurance for one of two reasons.

The Price of Protection

A company could see a significant hike in its cost of insurance based on one large claim.

After shelling out money for such a claim, the insurer will proceed in such a way as to recover its “prior loss.” Further, its estimate of the future risk that insuring this company poses will increase. When the time arrives to negotiate another year’s contract, the carrier will require higher premiums, augmented by new “risk charges.”

Changing carriers won’t solve the problem, as other insurance vendors, naturally, can be expected to price their own coverage offers accordingly. Smaller companies are particularly vulnerable to these demands, since one claim can send the estimate of risk off the charts.

Faced with this kind of insurance market, a company might choose instead to take some of the insurance risk upon itself by self-insuring. By doing so, the self-insurer is no longer subject to the carrier’s price increases. The company can also reduce its administrative fees and avoid state premium taxes that average two or three percent of the premiums.

Avoiding the State-by-State Patchwork

A second reason for self-insuring is to avoid onerous state insurance regulations.

A fully insured employer is generally bound by state laws to meet mandated benefit requirements. Since these mandates vary from state to state — and a plan must be approved by a state insurance commissioner in every state where employees are covered — just coordinating the various plans can become a complex task.

But self-insured companies are not held to mandated benefit requirements. As a result, they enjoy far more flexibility in designing insurance plans.

Stop-Loss: Insurance Against Catastrophe

Most employers can't afford to take on unlimited risk. An employer that chooses to self-insure might assume the level of risk involved in coverage for day-to-day medical visits, wellness programs and claims arising from illnesses, minor surgeries and so on. These costs can be estimated with some accuracy, and can be managed with some degree of confidence.

But a truly large claim is another matter entirely. A million-dollar claim, unlikely as it may be, can present a grave financial loss to an employer that relies on its own funds for insurance. With stop-loss insurance, an employer can insure itself up to a certain point, and then purchase insurance for claims that go beyond that level.

(In fully insured programs, stop-loss is called pooling. Such a program might provide, for example, that the insurer won't take into consideration claims exceeding a certain amount when it sets premiums for the following year.)

Other Considerations

Some other considerations must be taken into account in assessing the wisdom of self-insurance.

1. Claims are claims. The actual cost of the claims is the same whether they're covered by a self-insured company or by an insurance carrier. The initial outlay

required to purchase insurance from a carrier may be low, but the carrier can be expected over time to recoup the costs of the claims it pays.

2. Health Insurance Portability and Accountability Act, or HIPAA. For fully insured companies, the Act's provisions apply to their insurance carriers. But a self-insured company faces HIPAA directly — with its attendant record-keeping, privacy and notification requirements — as well as liability for any breaches.
3. The actual level of healthcare risk a self-insurer faces can vary widely depending on circumstances. A long-haul trucking firm with a workforce that's largely young and male can expect fewer and less expensive claims than a garment maker employing many women of childbearing age. (This particular ratio will reverse itself as the two workforces age.)

It's also clear that companies whose operations require more intensive physical labor, like many manufacturing and distribution firms, can expect more and larger claims than restaurants or retail establishments. Some ailments production workers suffer — an aching knee or troublesome back — may be generally connected to their jobs, but not directly attributable to them, and thus are not covered by workman's compensation rules.

Consortiums

One other initiative may offer some relief to companies in need of insurance.

Federal legislation is currently pending, with strong support from the White House, that provides for the wider establishment of consortiums. Essentially, these are cooperative purchasing associations by which unrelated employers can join forces for the purpose of buying insurance wholesale.

In some circumstances, a decision to self-insure brings clear and immediate benefits. We can work jointly with your healthcare consultants to help you look at your circumstances to see if self-insurance is right for you.