

Prefunding of Group Health Insurance Claims - A Better Alternative to Cutting Benefits

By Brian Lynch



According to a study by Kaiser Family Foundation, the average cost of employer-sponsored health insurance has more than doubled since 2000. This spike in health care costs has forced employers to look at a wide spectrum of options for containing employee benefit expense. Most of these options center on passing more cost or risk to employees, leading an unhappy workforce to wonder how to cover additional out-of-pocket expense.

There is, however, a new plan design option available in the state that will help remedy this issue. Companies are discovering plans that will allow them to pre-fund a portion of their claims as a fully refundable part of their monthly premium, providing a way to control costs and maintain coverage. Fully self-funded health plans have existed for years, but have only been viable for 1000+ employee businesses. A partially self-funded plan, however, can afford smaller organizations many of the advantages of a fully self-funded plan with less risk and responsibility.

These self-funded plans are very different from traditional Massachusetts plans in that they are medically underwritten. Because Massachusetts is a guaranteed issue state, groups of any size enjoy the freedom of knowing that they will pay the same rate for a package as another in the same situation. With plans in which claims are pre-funded, a basis for the claim pool amount must be established and therefore a short medical questionnaire is completed by each employee and submitted for a quote. While only the most major critical illnesses are unable to attain coverage, the pre-funded portion can vary based on medical history, making it an important consideration in analyzing this type of plan versus traditional coverage. Each quote will have two sections: a fully

refundable piece that is your pre-paid claim pool and a fixed piece that pays for any claims beyond your claim pool and deductible. The advantage of this is that the fixed portion protects just as any traditional plan would so if you go beyond your pre-funded portion you will not be responsible for this surplus amount any more than on any other plan. So there is the potential upside of thousands a year in savings if your pre-funding maximum is not reached without the risk of any additional out of pocket if it is exceeded.

The typical savings in year one for companies who implemented a self-funded plan is \$1,000-\$1,500 per insured employee. The current trend sees most business owners using year one savings to fund employee benefits for the following year, establishing a cycle of savings that compounds while maintaining robust coverage. That fact, coupled with the idea that plan design can closely mirror your previous plan leaves little to no down side in switching. You see savings without having to sacrifice benefits that are important to employees.

Partial self-funding is a proven strategy for putting premium dollars back in your pocket. The momentum behind the concept will continue to build as health care costs soar. As with any current health insurance package, there are bound to be changes to the pre-funding concept in coming years due to recently implemented health care regulations. However, the majority of these changes do not go into effect until 2014 and some experts believe they may lead to a higher cost basis for employee benefits initially, meaning that it is more important than ever for businesses to examine their options and attempt to save on expenses in the present. Any organization striving to be fiscally responsible and maintain strong employee relations should invest a little time with a local broker to learn how a partially self-funded plan can be a better option than simply absorbing the additional costs each year.

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