ROUNDSTONE

Essential Guide to Self-Funding for HR Executives

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Essential Guide to Self-Funding for HR Executives

Self-insurance, also known as self-funded health insurance, offers significant benefits to small to midsize companies over traditional fixed-cost health plans. With self-insurance, your organization takes back control. You have the opportunity to provide quality benefits to employees, helping attract and retain top talent in your organization. And you have the ability to create a long-term strategy to control costs for a top-line expense and not be subject to unsustainable increases at every renewal.

These guidelines will help HR managers and anyone responsible for benefits in an organization to better understand how self-insurance works. They provide best practices and tips for implementing and managing your self-funded health plan for maximum success.

What Is Self-Insurance?

With self-funded health benefit plans, an employer is directly responsible to health care providers for member health claims, rather than paying a fixed premium to a health insurance company to cover those claims.

You may have concerns about the administrative burden of self-funding, but before you picture yourself or your company writing checks, know that you will engage a Third Party Administrator (TPA) to establish, administer, and manage the plan. The TPA will pay the claims on your behalf — just like the back office of a big insurance carrier does. The TPA manages claim remittances for you.

With self-insurance, employers set funds aside to pay for healthcare claims and purchase stop-loss insurance to cover catastrophic claims. The employer manages all aspects of the benefits plan with help from their TPA, benefits advisor, and best-in-class solution providers.

Contrast self-insured with a traditional fully insured option. Fully insured is a 100% fixed-cost premium. It forces you to choose one insurance provider, pay high fixed premiums each year at the rates the insurer sets, and only access providers the insurer chooses to include in the plan. With a fully insured option, the insurance company keeps your premiums, even if you don't use all the plan's benefits.

When you choose a self-funded model for your company's health benefits, you gain flexibility, transparency, and savings. Self-funding offers freedom of choice in every aspect of your health insurance coverage. You choose the TPA who manages and administers your claims, the Pharmacy Benefits Manager (PBM) who processes and pays prescription drug claims, and the provider network that includes the doctors and others who are contracted to provide the medical care to your members.

Freedom of choice gets your employees the right care for their healthcare at the right price for your bottom line. Self-insurance also allows employers to realize the savings of unused premium.

What Are the Benefits of Self-Insurance with a Group Captive?

True self-funded plans work well for large corporations because they have the scale to make it work. It's harder for small companies to take on that risk and volatility.

Until now. You can self-insure — but not by yourself — in a group captive model. That's a fancy way of saying you would be in a pool with hundreds of other employers. Your premiums are shared within this group, minimizing the cost of self-funding. 100% of the unused premiums is returned to you at the end of the year. Yes, you read that right — if the premium isn't used, it is returned to you. Self-insurance with a group captive gives you the power, strategy, and scale of a big company.

Benefits of a group captive plan for your organization include:

- Flexible funding options — the ability to pay claims as you go, fund to max, or fund to projected costs, depending on your cash flow and budgeting preferences
- Ability to implement cost containment solutions to impact 85% of expenses, which are variable costs
- Risk-sharing in the captive pool, which reduces premium increases and cost volatility
- Freedom to design a customized plan that meets your members' unique needs
- Transparent access to claims data to better understand and optimize plan usage

The best part is you only pay for what you use. You keep what you don't spend in your own claims account, and any unspent premium in the pool is also returned to you pro rata. As your organization matures and implements cost savings strategies, you can continually improve your plan design and chase better quality of care while keeping costs low.

Roundstone distributed $10.5 million in unused premiums to its members in 2022, highlighting the benefits of a group captive plan for smaller companies, even in uncertain times.

How Does Self-Insurance Work?

It's not magic — in insurance, it's simply the spreading of risk across many entities and applying the law of large numbers. A group captive model allows you to take, share, and shift risk. You decide how much. Your premium covers stop loss reinsurance for high-cost claims, and part of the premium goes into a shared pool for claims below the reinsurance.

Group captive insurance lets you pool together with other like-sized businesses to minimize risk while retaining complete control of your plan design. It works by combining the premiums of all members in your group to get you high-level coverage at an affordable price and flexible structure.

The Role of a Benefits Advisor

Choosing affordable health insurance is a complicated challenge for employers all across the country. A great benefits advisor helps employers make the best decisions with regard to their coverage and also advises owners on the best funding options available in the market. Their expertise enables them to identify and implement cost containment strategies that keep healthcare costs low while providing high-quality care that's customized to the way employees use it.

Designing a self-funded benefits plan requires a good relationship with a benefits advisor who is truly an advocate for your best interests. With traditional insurance, you may expect to see your advisor or broker once a year at renewal when they go over a small set of benefit options for you to choose from. Without control, there is not much else for the benefit advisor to spend time with you on.

Some brokers get incentives (between 3% and 6%) from insurers to keep your business with them, making their input more about them and less about what's best for your company. You want to make sure that your benefits advisor is on your side and getting rewarded for helping you objectively evaluate the best choice for your organization over the long term, not just a 12-month horizon. What else do you purchase for 12 months at a time that is a long-term strategy?

Your benefits advisor will work closely with your executive team and other decision makers to analyze the benefits and considerations of implementing a self-funded plan.

They will also help you understand the costs of your healthcare plan, including:

- Current costs, expressed as PEPY (per employee per year) along with benchmarks for similar industries
- Future cost factors such as plan demographics, premiums, employee contributions, deductibles, and medical care inflation
- Cost containment strategies and recommended solution providers
- Effective cost containment programs

How Often Should You Expect to Meet With Your Advisor?

A great advisor will also be available when you need them. With fully insured insurance carriers, you hear from your benefits advisor once a year — at renewal time. A great benefits advisor will stay in touch with your company all year round to make sure that your healthcare strategy continues to meet your needs and help you react to changing circumstances.

Your advisor should start the renewal process three to four months before plan change decisions are due to carriers.

What Kinds of Questions Can Your Advisor Answer?

Don't be afraid to ask your benefits advisor questions.

Your amazing team of employees deserves exceptional care at the best possible price. If they aren't getting that, there's a better alternative available. You just need to know what to ask.

If you're unsure what to ask your advisor or looking for a new person to handle your healthcare plan, use the following questions as a guide:

- How are you and your firm compensated? There are so many streams of revenue being paid to advisors. The best advice here is to demand transparency and full disclosure. Ensure that the value being delivered is in balance with the compensation received. It's a standard and important question that your advisor should be comfortable answering.
- What cost containment strategies can you recommend for our organization?
- What are the fixed costs?
- How much flexibility do we have in plan design? What points of variability can have the greatest impact?
- How can our organization minimize employee out-of-pocket costs?
- What digital tools, data and analytics, or other value-added services do you offer?
- How often should we plan on meeting?
- What customer with a like business can we call for a reference?
- Tell me about a client you moved from a fully insured model. What worked? What did you learn?
- What do you look for in a self-insured model? Why?
- What will our team look like? What are their roles? What are their experiences?
- What does the onboarding experience look like?
- What can the organization expect at renewal time?
- How do you support open enrollment?
- What are the termination options?
- What kind of changes are permitted during the year?

What Should Your Advisor Do for You?

A great benefits advisor should act as an advocate for your company regarding its benefits package. They should communicate openly and often with the HR and executive teams about the plan, what to expect at enrollment, and strategies you can use to lower costs. Your advisor should also help you write a customized Summary Plan Description (SPD) and suggest PBMs and TPAs who would fit well with your organization.

In addition, a benefits advisor should help you with:

- Risk management
- Reaching long-term goals and cutting costs
- Legal compliance
- Answering employee questions regarding plan elements like out-of-pocket costs, coverage, and life events
- Understanding and navigating the healthcare system
- Negotiating with vendors and providers for the plan
- Creating and distributing marketing materials to engage employees with your plan
- Understanding and mining claims data to find cost savings opportunities

The Role of Your TPA

Your TPA is a key part of your team. By partnering with a trusted TPA, you can enjoy the benefits and cost savings of self-insurance and offload the bulk of the administrative work to them instead. Choose them wisely. Your TPA will be responsible for drafting plan documents, paying claims, and for the most part, maintaining your benefit plan's compliance. Work with your benefits advisor to help you choose the right TPA, but do your own due diligence. You will want a TPA with experience handling companies the same size as yours and to choose one that's affiliated with a network you prefer.

You should thoroughly understand how the health plan works and communicate to the TPA what you want to include. If you're just starting out, it's a good idea to mirror your current plan and make changes slowly as you get feedback through claims data and employee surveys.

Above all, as with any employee benefit, HR managers should be organized, understand plan documents, and be able to explain the plan to employees and answer their questions.

Ensuring a Smooth TPA Relationship

TPA disputes rarely occur if you and your benefits advisor choose a reliable company from the start of your plan. Focusing on a TPA's ability to onboard new clients, pay claims timely and accurately, and have a focus on customer service will ensure a smooth relationship.

ERISA Considerations

Self-funded plans are regulated by ERISA (Employee Retirement Income Security Act of 1974). ERISA was designed to protect consumers and is mainly regulated by the U.S. Department of Labor (DOL). This protects the plan, the employer, and the beneficiaries, such as employees.

Most fully insured plans are subject to state insurance rules, which could limit freedom for plan design. ERISA has a provision that preempts state insurance laws. This is what allows ERISA plans to create uniform benefit packages nationwide for employers with employees or work locations in multiple states. While you don't need to understand these regulations fully, it's important for self-funded employers to work with a benefits advisor and TPA who understand the multiple ways these laws and regulations interact and affect self-funded plans.

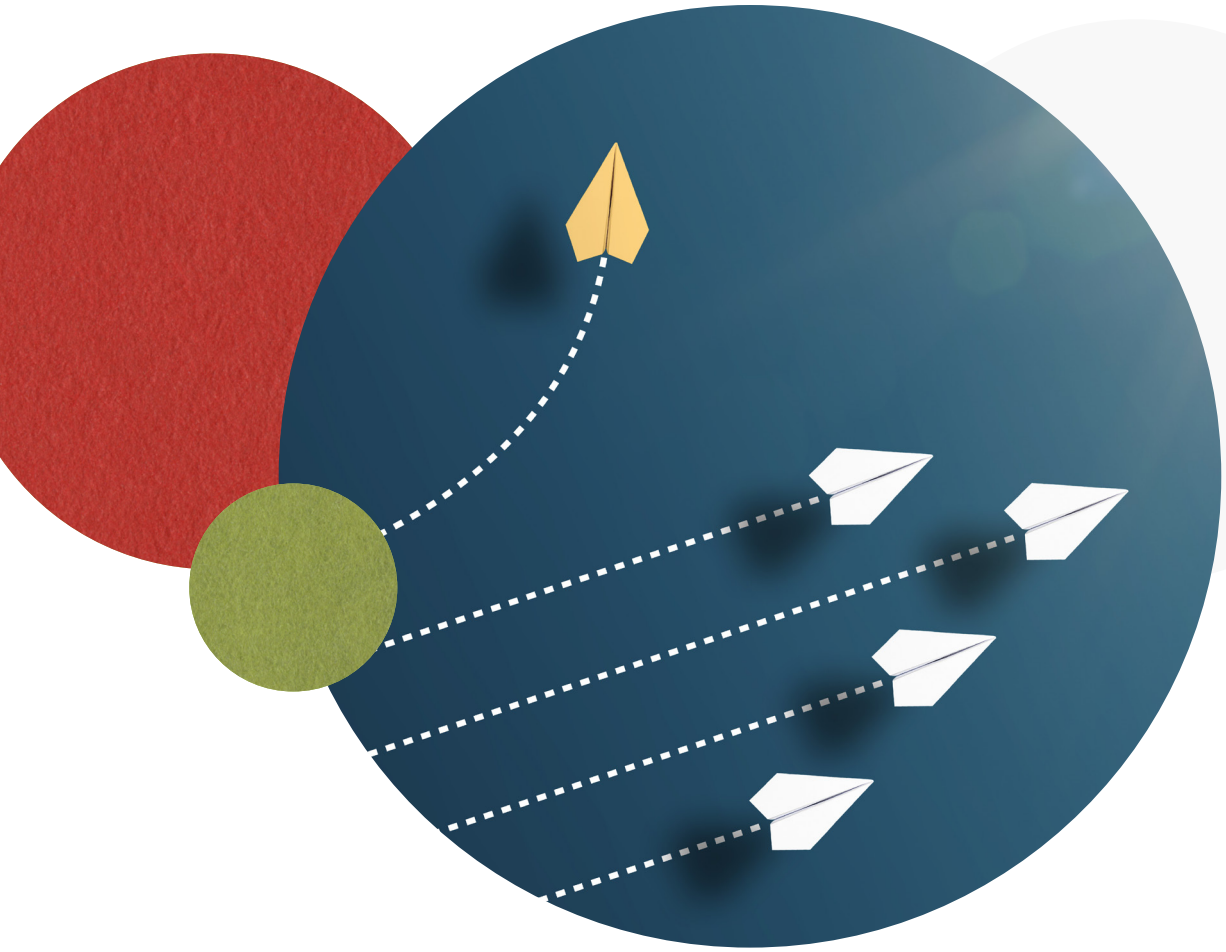
The Importance of Flexible Plan Design

When you self-fund your benefits with Roundstone, you have the flexibility to offer benefits that best suit your employee population. This means you can cut costs your way instead of paying a fixed price set by a large insurance carrier.

Reporting and Analytics: What Your Data Can Tell You

With traditional insurance, you don't have access to transparent claims data — it's a black box. This means you can't see where your company's money is going, understand how your employees are doing, or make changes to your plan.

When you have a self-funded solution like Roundstone's, you have access to claims data and analytics. It's your information, so you should have access to it, too.



We provide each group with its own "CSI Dashboard," which contains your company's claims data and allows you to measure it against industry benchmarks. It provides a visual display of your group's medical claims that allows for real-time review of healthcare spend. It is HIPAA compliant and anonymous in terms of individual employee claims.

Your team and your advisor can use claims data insights from your customized CSI Dashboard to help you discover ways to save on healthcare expenses. Best of all, your company can make changes to your plan year-round, not only during annual re-enrollment, allowing you to save on expenses immediately. The result is that you, your CSI Team, and your benefits advisor can analyze the results to get deeper insight into where costs can be reduced and/or coverage can be improved.

In addition, every quarter, you'll receive a personalized Area to Impact (ATI) report and ATI Companion Guide that give you insight into areas like urgent care use, prescription costs, and mental health services. These insights are not limited to individual spending metrics — ATIs will also enable employers to compare their healthcare costs to industry-wide benchmark and healthcare trends so they can better gauge performance.

Prescription Coverage

In 2021, the U.S. spent $574 billion on prescription medications. Specialty medications alone can cost the organization $50,000 or more each year. The flexibility that comes with self-funding allows you to take the following steps to address prescription drugs:

- Working with a transparent PBM that passes rebates directly to you instead of keeping them
- Analyzing claims data to identify and address high-cost medications used by your members
- Working with your PBM to get special deals on commonly used specialty drugs
- Avoiding paying for specialty drug coverage if your employees don't need it
- Offering robust clinical management through your PBM to make sure high-cost drugs are necessary
- Contracting with organizations that find alternate sourcing for expensive brand-name and specialty drugs
- Utilizing the savings of 340B pricing programs

Incentivizing Wellbeing

Incentivizing employees to engage with a company well-being program is a great way to get the most out of your health insurance plan. Positive employee buy-in will result in a healthier workforce and reduce your company's healthcare spend.

A well-thought-out and foundational wellness program can positively impact your bottom line, your ability to fulfill your long-term strategy, and your employee experience.

Self-funding allows you to implement wellness incentives that are relevant to your employee population. For example, you can offer premium discounts for members who participate in certain wellness activities, like health coaching or biometric screenings.

You can also incentivize primary care or telehealth usage for mental and physical well-being with low co-pays or zero deductibles. This moves employees away from high-cost care like urgent care or emergency departments when not absolutely necessary.

Healthier Employees, a Healthier Bottom Line

Cost savings solutions can help you save thousands each year on healthcare expenses. Because they are tailored to your company, you can provide higher-quality coverage for a lower price to increase member satisfaction and retain your workforce.

Part of building a plan that works for you is listening to what your employees have to say about their benefits. You can get their feedback through annual polls using tools like SurveyMonkey or Google Forms to find out what they do and don't like or what additional benefits would meet their needs.

You can also get direct usage reports from solution providers like Employee Assistance Programs (EAP), for example, to see if the services you offer are being utilized. With feedback and data, you can implement new program benefits or incentives and better promote or remove those that aren't being used.

Bottom line: Make health and well-being a core value for your company, and bring it to life through your benefits program.

Finding and Managing Cost Containment Partners and Vendor Relationships

The flexibility offered by self-funding allows you to also partner with vendors that can help you save money while offering enhanced benefits to your employees and their dependents.

The market is full of vendors ready to supplement employer healthcare plans, offering services ranging from diabetes-focused health coaching to virtual behavioral health services. While finding good cost containment vendors may seem daunting, you won't have to approach it on your own. You'll have the support of your benefits advisor to help you find vendors that work for your plan. When you work with Roundstone, you'll also have the support of the CSI Team, who routinely evaluates and recommends the best cost containment vendors. Roundstone also offers dedicated relationship managers who will be there to assist and make the implementation process turnkey.

Know Your Data

Before entering into a partnership with a healthcare vendor, it is important to understand your plan's pain points. You need to know about existing issues so you can look for vendors that offer a specific solution to your problem and are relevant to your employees. While fully insured plans don't give you access to demographic information and claims data, with a self-funded plan, you can work with your advisor to access your claims data and better identify your employee population's risk factors.

For example, if your company employs warehouse workers, you might look for vendors that offer digital physical therapy that can help you avoid costly surgeries down the line. If you work for a trucking company, you may look at vendors that address chronic diseases (like diabetes) that may be worsened by a sedentary lifestyle.

Evaluate Your Options

Once you know your pain points, work with your benefits advisor to evaluate relevant vendors. In addition to the TPA and PBM, which we have already covered, popular vendors include:

- Specialty drug saving programs
- Healthcare management companies (for chronic conditions like diabetes or kidney disease)
- Telemedicine companies
- Apps that connect you to behavioral health specialists
- Physical therapy apps
- Employer wellness management companies

When evaluating options, it's helpful to ask the following questions:

- Is there a justifiable return on investment??
- Will my employees and their dependents actually use the service?
- Does the service have low or no fixed costs?

Then, come up with two to three solution providers for each issue to compare and contrast. Ask a trusted industry partner like your TPA or benefits advisor for referrals.

From there, evaluate vendors on key points like the following:

- **Transparency**. Look for clearly written, transparent service agreements. You should trust your gut and read reviews to gauge whether they seem to be open and honest about their service and what it offers.
- **Flexibility**. Companies should be willing to work with other industry partners to help you reduce your spend. You should share aligned interests.
- **Pricing**. Although pricing is subjective to your company's budget, remember that more costly services aren't necessarily undesirable. Look for cost-effectiveness.
- **Customer service**. Vendors should have responsive, helpful customer service and service-level guarantees. You should be able to contact the company about concerns and be treated fairly.

Making Your Shortlist of Point Solutions

To find the right solution providers, work with your PBM, TPA, and benefits advisor with your organizational health goals informing your selection(s). Referrals are the best way to find programs that have worked for other employers. You can also look at resources like Shortlister.com to discover vendors, or try searching Google with the phrase "point solution" followed by the pain point to get potential vendors.

For example, typing in "point solution diabetes" will return diabetes vendor companies.

Here is a sample of providers that Roundstone recommends to its group captive members.

- HealthCheck360 for the management of employer wellness programs and additional tools like chronic disease management
- First Stop Health for accessible telemedicine
- Sword Health for digital physical therapy
- Diathrive for diabetes supplies and health coaching

During your first year on a self-funded plan, you may not make many changes to your vendor partners. However, over time, you will gain more insight into your member needs and be able to piece together a more customized plan.

To maintain vendor relationships over time, it's helpful to recognize limitations and stay on top of vendors to make sure you're getting your money's worth.

As with your broker and TPA, ask what systems and information are available. Ask for utilization reports from vendors if you don't receive them automatically to see whether members are using the services and whether you're achieving an ROI on the cost. Find out what their service model looks like.

These reports can also help you see which services you need to market to employees to ensure they know they're available and how they work.

Employee Engagement Strategy — Why It's Important

Having self-funded benefits available to employees is only half the battle. Getting them to engage with the benefits takes good plan design and communication from you and your team. For example, starting each employee off with a thorough explanation of benefits and how they work helps make them aware of what's available.

As your company builds a plan, consider the following elements:

- **Cost containment strategies**. Implementing the right cost containment strategies, such as Centers of Excellence or concierge care systems, saves money for the plan and its members. These strategies also offer better care for employees, making them more likely to visit a provider when an issue arises.
- **Built-in incentives**. By building incentives into the plan, such as low co-pays for telehealth and higher deductibles for high-cost services like urgent care, you can help employees engage with low-cost forms of treatment.
- **Add-on services**. Employees are likely to engage with modern, convenient add-on services that act differently than traditional medicine. For example, you can explore new vendors for lab testing and diagnostics or out-of-the-box services, like Walmart Pharmacy or Amazon Care, to help members access vaccines or personalized healthcare teams.

Fostering engagement with plan members is vital to the success of any health plan. Plan utilization and expense reduction can help you tailor your benefits year over year and save money in the long term.

The Onboarding Experience

When you onboard your new health benefits plan, your benefits advisor and your TPA will work with you to guide you through the process every step of the way.

They will go over a simple checklist to review plan documents, pharmacy questions (with your PBM), member ID cards, online portal, and other details. They will check in periodically to see how things are going, and then your account manager will take over, providing year-round support. Make sure you have proactive insight into their service model for onboarding, post onboarding, and escalations.

Employees will be more likely to engage with the benefits plan if they understand it. As you prepare for open enrollment, boost engagement by making sure employees understand what their benefits package includes and what they can change or opt out of.

Marketing your health plan is critical to its success. To get the word out to employees, start sending emails, putting up signs, and posting updates on your intranet about two months before open enrollment starts. Hold an all-hands, virtual, or recorded meeting to introduce the new health benefits.

It doesn't matter so much that employees know that their plan is funded by their employer — it's more important that they are educated to be smart consumers of healthcare.

The Member Experience

As an HR manager, you'll be responsible for enrolling new members to your company's health benefits plan. One aspect to remember is that the term "members" applies to all the people on the organization's benefits plan, not just your employees.

For example, you have 55 eligible employees and only 30 opt into the benefits program. Those 30 members might also put their spouses or children on the plan. This means your plan will have 30-plus members who can access benefits.

To onboard new members, work with your TPA and PBM, who can send official plan documents with benefit and coverage details. You can also develop a handout to give to new members at orientation.

Be sure to include the following items in your onboarding handout:

- An explanation of benefits and coverage
- Monthly premium costs
- Co-pay and deductible information
- How to find an in-network provider
- ACH/banking information for automatic withdrawals or deposits to FSAs or HSAs
- Eligibility rules
- Deadlines for opting into benefits plans
- Protected Health Information (PHI) necessary for members
- Contact information for accessing benefits online

Impact on Recruiting

Attracting and retaining top talent in the midst of the Great Resignation is vital to the growth of your organization. Offering the right benefits helps in the recruitment of highly qualified candidates and can help keep top performers at your company.

Benefits are one of the most important factors people consider when deciding to take a new position or leave their current employment, so you need to stay competitive. Offering low premiums and co-insurance costs through a group captive plan helps keep insurance costs affordable for plan members and helps you compete with other companies.

To help with recruitment and retention, you can also implement benefits that specifically address emotional and physical needs. The uptick in behavioral health needs over the last few years means candidates are looking for companies that offer access to well-being programs and behavioral health services. These services help address substance use, anxiety, depression, and other mental health conditions.

You might also take a proactive approach to physical health by offering coverage for and encouraging employees to get pre-cancer and biometric screening, general physicals, and pap smears. For example, you can gamify their visits, allowing members to earn points they can trade in for swag each time they use one of these services.

To recruit new candidates, you can build a website that clearly lays out the company's benefits in an easy-to-read format. For example, Roundstone's own website uses an icon-based web page with a highlight reel and direct, informative descriptions of its benefits program for potential candidates.

You should have an at-a-glance benefits overview sheet to give to new hires to help them understand their benefits. The sheet should contain important information like plan coverage, deductibles, how to find an in-network provider, and extras like well-being programs or childcare benefits.

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Let's Get Started

To learn more about providing your company with the benefits of self-insurance with Roundstone's group captive, request a proposal and benchmark review today. You'll see if you are a good fit and how easy it is to start.

We have the experience and expertise to get you started with a plan designed to meet you where you are and with the flexibility to evolve over time to fulfill your long-term strategy.

We're ready to work with your team to create an affordable, high-quality health benefits plan. A custom plan built on proven practices — backed up with data. A compelling and sustainable plan that your employees will love and that HR and your business leaders can count on for the future.

Contact Us

Request a personalized proposal for your company today.

Request a proposal