by Mark Reynolds, RHU

Self Funding in 2013 with the Affordable Care Act

Everyone has heard of Einstein's theory on insanity in which you do the same thing over and over, etc, etc. Well, here is a new definition of insanity to consider. I could argue that agreeing to write an article about self-funding group health plans in an era of unpopular health care reform to be published in a prominent industry magazine just a few weeks before a presidential election could be the new definition of insanity. Granted, it may not grow to be as popular as Albert's definition, but one would probably agree that it is pretty much crazy.

Be that as it may, it is important that we all consider what the results of the election may bring to health plans, the decisions that employers face in 2013, and the impact we all can make by embracing an alternative to the limits and restrictions of fully insured plans. Health plans of all types are under siege by the public and by politicians, but that's why brokers must view this point in time as an opportunity to make a difference for employers and their employees.

This is Not the First Time We've Seen Health Care Reform

Reforming the way health care is financed and delivered started back in the 1940s and resurfaced again, in a big way, in the 1960s with the passage of the Medicare Act. Each decade has brought some effort and legislation to reform or simply change some aspect of health care: the HMO Act and ERISA in the 1970s, COBRA in the 1980s, AB 1672 and HIPPA in the 1990s, Medicare Part D, and HSAs in the 2000s, leading to the attempted takeover or the so-called overhaul of health care in 2010 by the Affordable Care Act (ACA). One thing many of these efforts have in common is that, even if the intent was good, health care cost eventually began to increase at unsustainable rates; the public reacted; and the market responded. Often, the market's response to control cost was to implement self-funded plans. The market always responded and it will again whether it be full on ERISA-based self-funded plans with reinsurance or the popular HRAs and MERPs with fully insured HDHPs. So what should we plan for and how should we plan for it?

The Next 15 Months Will Bring Unprecedented Opportunity

First, let's frame the situation. At least two facts are certain: employers have seen their plan costs increase dramatically over the past seven years and employers are searching for relief. Over the past several years, many brokers supplied that relief by helping employers strip down their plans with leaner benefits, higher copays, and coinsurance as well as much higher out-of-pocket costs. Some brokers implemented HSAs to help, but when the employer stopped funding the HSA, these plans became just high deductible health plans.

The second certainty is that, come mid-2013, employers will face a fundamental decision about the core benefits they provide for their employees. As employers start to realize the inevitability of ACA in 2014, they will ask themselves, "Do I continue to provide benefits or give them up and pay the penalty?"

One choice the employer may make is to continue offering benefits. This maintains the employer's culture of providing benefits for that extended family known as employees. Traditionally, employers started offering benefits to attract and keep good employees but, over time, company benefit plans have become a part of a company's culture. Employees count on them and they plan around them. It is easy for employees because they don't have to search out a broker, a carrier, a plan, or PPO. Most employees have grown to appreciate the culture of benefits that their employer provides. This comfort level has led many to an entitlement mentality; the fact remains that employer provided benefits were and are easier for employees.

The other decision the employer may make is to stop providing benefits. This leaves employees on their own, which may lead to no coverage simply because it may be the first time the employees have had to make this decision on their own. If employees are forced to start selecting and paying for health insurance on their own, it will be confusing and many will not make the effort. Plus, even with the subsidies promised for qualified employees, the cost will push employees away from coverage because most now pay very little or nothing to get their benefits. Many will not want to pay for it and may think they don't need to buy it. Of course, this second decision could lead many brokers to see their years of work building their agency and their hard-earned income vanish within months. It may sound Draconian or far-fetched now, but the decision employers will face is real.

Employers will either decide to keep their plans or discontinue their plans based on the solutions that brokers provide. That means their decision will be based on the quality of the information that a broker provides. The key is how brokers will position themselves so that the employer chooses wisely and maintains that employer-based, family-oriented tradition of providing a solid health plan that employees appreciate.

The Broker's Role

You have read, many times, that the ACA will require brokers to perform more as consultants than ever before. This may sound somewhat trite, but it is true. Consider, for a moment, the information that employers will need in order to face the decision I outlined earlier. Employers will have questions about following: the Exchange, penalties for employers and employees, how part-time staff are addressed, the associated cost, essential benefits, etc, etc.

But most important of all, employers will want to know if there is any possible way to maintain their own high quality benefit packages, lower their costs, and avoid disrupting their business. These questions address a core concern for the employer: How does the employer retain its experienced staff if it no longer provides benefits?

Some morning, sit with a pad and pen and think up the questions and resulting scenarios that employer will face in 2013. When you finish, you will come to the conclusion that employers will need a good insurance consultant more than ever. Then ask yourself, "Am I a good consultant and how do I compete against others in my region?"

Embracing Self Funding Will Set You Apart

Anyone can be a broker with spreadsheet proposals. I don't mean to sound critical, but you know that most brokers get their proposals from just a few sources, so the proposals do nothing to help differentiate a broker from competitors. One fully insured plan is and will probably continue to be built and priced just like every other fully insured plan in the market. Carriers have been very creative over the past 10 years and they will continue to do their best to meet the market's needs. But, restrictions and guidelines within ACA will limit much of what a carrier can do. So how can you be different?

As the subtitle suggests, embrace self-funding. By this, I mean that brokers can't just say they support self-funding; they must focus their business practice on HRAs, MERPs, and traditional self-funded plans. Today, without the employers' knowledge, many brokers prequalify their groups, determining that self-funding would not work. This leaves the broker-of-record exposed to competing brokers who will present self-funding

to every employer, even those with as few as two employees.

Equally important is that brokers should find an experienced carrier or TPA partner that can provide the foundation for the plans the broker will market. A qualified TPA or carrier partner will provide that extra boost that a broker needs to be different; to get the employer's attention; and most importantly, to help the employer maintain the benefit package it needs to preserve the employer's advantage in its market space.

There Is Time and There Is Opportunity

Regardless of the election results this November, brokers can count on a couple of things.

One is that employers will still want to provide health benefits for employees because not providing them could disrupt the business and because it will remain a good tool to recruit and retain key staff. The second thing to count on is that employers will continue to be unhappy with their benefit plans from both a price and benefit perspective. Who would be happy with a $750 deductible, a scaled-down network, a value-savings-whatever plan with $250 to $500 brand Rx deductibles, out-of-pocket costs that bankrupt the average employee, and premiums that are beyond the average employee's ability to pay?

So, regardless of election outcome, brokers can prosper by embracing self-funding as a solution and mastering the presentation that's required to educate employers about this option. Employers will be seeking solutions to their own business needs. They face immense uncertainty within their own industries, with new levels of regulations and government intervention. Because of the unknowns that employers face, they often feel that making no decision is better than making a bad decision. Brokers who focus on self-funded plans will be able to educate employers about new solutions to help the employer maintain the integrity of its core business benefits.

Brokers who prepare for this opportunity must seek the partners they will need to meet the needs of clients and prospects. A little preparation now can catapult brokers into a new generation for their agency and they will see their business grow and thrive while many others sit and wonder. Brokers who adapt to a self-funded, solution-based marketing approach that actively markets for business can prosper while providing real solutions for employers.

Mark Reynolds is a member of the Team at BEN-E-LECT. BEN-E-LECT's trademarked Employer Driven Health Plan model provides MERPs, HRAs, and Self-funded plans to thousands of employers throughout California and the Southwest United States. BEN-E-LECT's ERISA or E-Based health plans help employers, with 2,500 employees, lower and control the cost of their group health plans. BEN-E-LECT's corporate office is located in Visalia, Calif. Mark can be reached directly at 559-250-2000 or markr@benelect.com.