

# How to Save Half on Health Insurance by Using a Self-Funded Health Plan

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*"Nobody likes insurance companies, especially health insurance companies."*

— P.J. O'Rourke

**It's no surprise to you that health insurance and benefits are among the biggest expenses on your income statement.** After the cost of purchasing inventory, and making payroll, health insurance is usually the third largest expense a beer distributor will incur.

According to the Kaiser Foundation, KFF.org, the average premium for an employer-sponsored family health plan has increased 58% in the last 10 years to over \$18,000. And it just keeps going up - the historical trend line is 6% to 12% annual increases.

## **Time to panic.**

Most folks would agree that the financial aspects of the health system in the US are fundamentally flawed. **Lack of transparency in pricing makes it nearly impossible for a consumer to know what they are paying for.** Traditional hospitals and clinics remain entrenched in the standard ways of doing business with little incentive to change.

Doctors and administrative staff make a lot of money, and any change to the system to operate differently, in a more transparent or competitive manner, is a threat to their livelihood. **Beer distributors, like all other employers who provide health insurance, are the victims of this bloated system.**

So, other than complaining about it, what can we do to lower health costs?

**Here's an idea: look into a self-funded health plan. Our company has been self-funded for well over a decade and it has saved millions of dollars.**

No joke. Compared to a traditional, fully-funded health plan like Anthem Blue Cross or United Health Care, our company's self-funded plan has continually saved us between 30% to 70% on health care costs every year.

In doing the research for this article, I was surprised to learn that **63% of workers are covered by a self-funded health plan**. Everybody's doing it, and maybe you should to.

**The first step is to contact a broker, and learn about the details of a self-funded plan.** What are the risks and rewards? How do you set up a self-funded plan? Are the benefits better or worse than what I'm offering now?

There's lots to learn, but it's all worth it if you can save half on your health insurance expense.

Below I'll share what I know so that you'll have a basic understanding of how self-funded plans work. I'll also include resources and links to more details, so you won't have to take just my word for it. Self-funded health plans can save you a bundle.

### **Self-insured vs. Fully-insured plans**

There are a myriad of health plan options out there, but they generally fall into two broad choices for providing health insurance to employees: a self-insured or a fully-insured commercial plan like Anthem Blue Cross or Harvard Pilgrim.

**In a self-insured plan, the employer acts as the insurance company and assumes the financial risk for the health plan costs.** Each health claim is paid from dollar one, and re-insurance is used to protect against very large claims that exceed a certain dollar amount. The costs of the plan can vary greatly depending on how much your employees utilize the health care.

With a fully-insured plan, the employer pays a fixed premium to the insurance carrier - the amount of the premium doesn't change during the policy period whether there's one claim or one hundred claims. From a budgeting standpoint, this provides some comfort as you know what your health costs are going to be month to month. However, at

renewal time those costs always go up. As noted above, **the average cost of a fully-insured family plan has increased 58%** in the last decade.

## **Risks and Rewards**

*"The biggest risk is not taking any risk..." - Mark Zuckerberg*

**The prospect of assuming the financial risk for your employee's health costs sounds scary**, and it can be. You hear stories all the time about catastrophic medical issues and the extremely high costs to pay for treatment.

With a fully-insured plan, you don't foot the bill for any individual claim, you simply pay a fixed premium. If there's one claim or a hundred, the premium stays the same. That is a comforting feeling, however it's a false comfort. You're guaranteed to pay a set amount, but you're virtually guaranteed to pay too much. Now, that's risky.

**To reduce the cost risk, a self-funded plan uses re-insurance to protect against large claims that exceed a certain dollar amount.** This way, the plan's cost exposure is capped at a certain level. These caps are known as specific and aggregate deductibles.

A specific deductible is the maximum your plan will pay for any one person during the policy year. An aggregate deductible is the max the plan will pay for the sum of all claims.

**I know, this is about where your eyes start to glaze over, but just remember that this idea could save you half on your health insurance expense.** Look at that health expense line item on your income statement, cut it in half and tell me that isn't a huge savings. Now, that's a big reward.

## **Basic Components of a Self-funded Plan**

A broker can help you design a plan, explain the risks and rewards in greater detail, and determine if a self-insured option is right for your business. That said, here is the template that we use in our self-insured plan.

1. Specific and aggregate deductibles cap our out of pocket claims costs
2. Fixed premium amount for re-insurance
3. Fixed fees for third-party administrator costs

**Plan Deductibles - Out of pocket costs.** Each year we look at our deductibles and determine if it makes sense to increase these numbers or leave them be. Just like the deductible on your car insurance, you can get a lower premium if you raise the number - you assume a bit more risk in exchange for a lower premium. We do the same with our specific and aggregating deductibles. Our broker does the analysis, explains our options, and makes a recommendation.

**Re-insurance.** Think of re-insurance as insurance for the insurance company. In a self-funded plan, you are the insurance company. Re-insurance gives you the protection against large claims. A separate policy is purchased, and a fixed premium is paid. Again, your broker will do the analysis and solicit competitive bids.

**Third party administrator (TPA).** These are the people that take care of the nuts and bolts of your plan. They review claims, process paperwork, and pay the bills (with your money). Together, you create a health plan document, the operating manual for your plan, and your TPA makes sure the rules are followed.

Your TPA also provides a wealth of information to you regarding health care utilization and ways to save money. We'll cover this in a future issue, but for now just know that you will have the ability to control some of your health plan costs that were previously out of your control.

## RESOURCES

To learn more about the details of self-insured plans, check out the [Self-Insurance Institute of America website](#). Here you'll find more information about group plans, stop-loss re-insurance and plan design.

The [Self Insurance Educational Foundation](#) is another great resource to learn about the pros and cons risks and rewards of self-insurance.

You can also reach out to the firm that we use, [IPG Employee Benefits](#). They have the expertise to get you started, and help you save big dough.

## **Wrap Up**

Under either option, self-insured or fully-insured, health care costs are unpredictable.

With a fully-insured plan, you have a fixed premium and know exactly what you'll pay. However, you also know that the premium will increase next year, and the next and the next. You'll have the comfort of being able to budget the annual cost, but you'll never know from one year to the next how much more the cost will be.

With a self-insured plan you will have fixed costs for your re-insurance premium and third party administrator fees, but the claim costs will be variable. Some months, you may have very few claims, others you can get whacked pretty hard. The re-insurance will take away most of the risk of a catastrophic claim, but you'll still need to ride the ups and downs of medical claim activity.

We've just scratched the surface here, but know this: this idea is powerful enough to create huge savings for your organization. It might just be powerful enough to save the entire health care system.

Call your broker, take action, and save half on your health care expenses today.

Yours in finance,

Kary Shumway, CPA

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