health insurance through self-insured plans, the Health and Human Services department says.

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As recently as 2009, only 13% of companies with fewer than 100 employees offered health insurance through self-insured plans, the Health and Human Services department says.

The longstanding perception was that the smaller the company, the smaller the risk pool across which to dilute any catastrophic or unforeseen claims. For CFOs at smaller firms, shifting risk from insurers to their own company was legitimately too scary.

Only three years later, however, attitudes about health coverage are in flux at smaller employers. More of them are considering a shift to self-insuring, and some are even taking the previously rare step.

Why? Factors include ever-increasing health-care premiums and differing health-coverage mandates from state to state. But perhaps an even bigger reason is general frustration with the fact that insurers generally don't provide small corporate clients with full claims data on plan participants when presenting pricing for a new plan year. That leaves a company with little negotiating leverage.

The insurers say the information on such a small participant base is not statistically credible. But they're really afraid that if a client has a good-looking medical loss ratio – the percentage of its premium revenues that the carrier spends on clinical services for that company's insureds – and gets presented with a high rate increase, that client is probably shopping for another carrier.

Still, at some companies, it may be literally worth a CFO's while to become more

Am I frustrated with the lack of data to substantiate my fully insured rate increases? Does my company have the cash flow to absorb costs that may be higher than anticipated?Is my employee population stable in size? (Important because ex-employees covered by COBRA spend 2.5 times more on health-care claims than active employees.)Is my company focused on safety and wellness?

If the answers to those initial questions are positive, construction of a self-funded plan can be considered more seriously. The three main cost components of a self-funded plan are stop-loss coverage, third-party administration, and actual claims costs.

The most critical component of a self-funded plan is building in a stop-loss coverage contract to protect a company from catastrophic claims costs that may be incurred when an employee has an accident or is diagnosed with a serious illness. A stop-loss contract establishes individual and/or aggregate caps on claims costs:

Individual stop loss (also called specific stop loss) limits an employer's liability to a set dollar figure per individual, per policy year.

Aggregate stop loss limits an employer's liability for overall claims. The employer's maximum liability is expressed in terms of a percentage of total expected claims, typically 125%. If paid claims exceed expected claims by more than 25%, the stop-loss coverage will reimburse the employer for the difference.

An additional key element of a properly constructed stop-loss policy is to ensure that your contract has adequate coverage in the event you decide to move back to a fully insured plan. For example, there may be claims that occurred during the 12-month contract period but are processed after the contract expires. The stop-loss policy should cover that exposure.

Self-Funding in ActionYou may not have claims data from your carrier, but if you

cost turned out to be 5% below the fully insured renewal, so the firm decided to take the plunge.

The self-funded plan ultimately came in not 5% below the fully insured policy renewal rate, but 10% below that rate. After the second year, costs continue to run well and are a convincing 19% below a comparable fully insured plan.

A significant corollary benefit for small employers that implement a self-funded plan is that because they gain access to all of their claims data, they are able to gauge much more accurately what future health-care costs may be.

At Pinnacle Financial Group, we don't really care whether our clients prefer to be fully insured or self-insured. We support and advise them either way. In fact, the vast majority of our clients are fully insured. But we find that self-insurance is an increasingly attractive option, even for small companies, that should not be ignored.

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