MY TURN MIKE FERGUSON

Self-funded health care may be answer for some businesses

It's unclear what the Senate will do next on health-care reform.

Senate Republicans revived their push Tuesday by voting by the slimmest of margins to open debate on several bills that would repeal at least portions of the Affordable Care Act, popularly known as "Obamacare." But within hours, the Better Care Reconciliation Act — the Senate GOP's flagship effort to repeal and replace the ACA — failed.

This uncertainty has made it impossible for insurers to predict what the market will look like next year. So they're being cautious — and raising rates substantially, to protect themselves from potential losses. According to a report by Oliver Wyman, a consulting firm, they're planning to hike premiums on next year's exchange plans by 28 to 40 percent.

That's bad news not just for the 10 million people who buy health insurance on the exchanges, but also for hundreds of thousands of small and medium-sized businesses that buy policies from traditional insurer companies for their workers. They'll no doubt face similar hikes.

There may be a better option for many of these employers. By "self-insuring," or choosing to pay their employees' medical claims directly, they can opt out of the uncertainty plaguing the health-insurance market — and, in most cases, provide even better benefits.

Premiums for traditional employer-sponsored health insurance have ticked up steadily. In one recent survey of more than 3,000 employers, one-quarter reported double-digit increases in the cost of insurance last year.

That trend shows no sign of abating. In 2018, premiums for New York firms with fewer than 100 full-time workers are set to rise by almost 12 percent, on average. In Virginia, employers with fewer than 50 workers face rate hikes of up to 13 percent. Connecticut firms of that size could face premium increases of 32 percent.

Small and medium-sized firms also have to prepare for the possibility that their insurance plan may not be around next year. In May, the Centers for Medicare and Medicaid Services announced plans to shutter the federal small-business insurance exchanges operating in 33 states.

Small businesses say that the cost of health insurance is their single biggest challenge, according to a recent poll from the National Federation of Independent Business.

Many firms feel that they have no choice but to shift more and more of their insurance costs onto workers through higher deductibles. Between 2011 and 2016, the average annual deductible for an individual employer-sponsored plan rose by 49 percent.

Some companies have stopped offering health benefits entirely. The share of firms with fewer than 200 employees that provide insurance fell from 68 percent in 2010 to just 55 percent last year.

Fortunately, employers need not choose between skyrocketing premiums and dropping coverage altogether. Self-insuring can allow them to provide the level of benefits necessary to attract and retain employees — at an affordable price.

Self-insurance has long been the preferred coverage model for large corporations. Last year, 94 percent of companies with 5,000 or more workers had self-funded health plans.

A growing number of firms with fewer than 200 workers have adopted the approach. In 2015, nearly one-third of mid-size companies offered at least one self-insured health plan — a 19 percent increase since 2013.

It's easy to understand why self-insurance is becoming popular. If a firm's employees stay healthy, the firm keeps the money it would have paid in premiums.

That gives the employer a strong incentive to invest in its workers' health. Self-insured organizations typically customize their benefits packages to meet their employees' unique needs. A self-funded company staffed by individuals nearing retirement, for instance, might offer generous prescription-drug benefits in lieu of prenatal coverage.

Because they control their health plans, they're also free to experiment with innovative services and benefit designs — like workplace clinics and telemedicine — that have been proven to curb costs and improve health.

Self-insurance does require employers to manage their health plans actively. There's no insurer to cover them if, say, multiple employees suffer medical catastrophes, like a cancer diagnosis or a premature birth. To safeguard against such catastrophic medical expenses, self-insured firms purchase "stop-loss" policies that reimburse them for claims above a certain limit.

The debate over health-care reform has thrown insurance markets into chaos. By self-insuring, employers can make sure they're not collateral damage.

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