Insure Thyself: A Look at Alternatives

Districts are turning to self-insurance as a way to cut costs while meeting the needs of their employees.

By Richard Weeks, RSBA

Annual double-digit increases in health insurance premiums may be the reality for school districts and private-sector employers for the foreseeable future. Several factors account for this unwelcome possibility:

- Baby boomers expect the same level of health benefits extended to their cohorts in the 1990s and 2000s.
- The Patient Protection and Affordable Care Act of 2010 provides for insuring adult children until age 26 through family health plans, which partially explains the increased 2011 costs.
- Insurers are girding for the impact of the universal health coverage costs when the law is fully implemented in 2014.
- Most of the health care industry is heavily regulated, suggesting that Americans and the industry only partially benefit from a free-market economy.
- Health care political rhetoric is at a fever pitch with other employment issues, such as collective bargaining, being drawn into the fracas.

One cost-saving alternative for districts is to self-insure employees and assume the risks. Under such a program, the district collects premiums from its employees and pays for each out-of-pocket claim from its own operating budget instead of paying a fixed premium to an insurance carrier. Self-insurance can be a way to save money by avoiding the administrative overhead and company profit that are factored into the price of a private-sector plan.

What are the benefits of self-insuring (also called self-funding)? According to the Self-Insurance Institute of America (www.siia.org):

- The employer can customize the plan to meet the specific health care needs of its workforce, as opposed to purchasing a "one-size-fits-all" insurance policy.
- The employer maintains control over the health plan reserves, enabling maximization of interest income that would otherwise be generated by an insurance carrier through the investment of premium dollars.
- The employer does not have to prepay for coverage, thereby providing for improved cash flow.
- The employer is not subject to state health insurance premium taxes, which are generally 2%–3% of the premium's dollar value.

Often, several school districts in a region will join together to create a self-insurance health pool. The pool contracts with one provider to manage the money and handle the claims.

Getting Started

If your district decides to self-insure, your planning group may involve municipal human resources personnel unless you are in an independent school district.

The first step is to hire the best health insurance and benefits consultant possible to research and start up the program. Your consultant will evaluate your district's or municipality's records regarding the number and amount of medical claims each year, as well as insurance statistics for other districts and municipalities of similar size and type. The consultant will recommend plans and premium costs.

The ease of administration of the program is important. In all probability, having your district assume the additional human resources responsibilities of administering the plan would not be cost-effective. Therefore, the district should subcontract with a third-party administrator to handle the claims and other administrative tasks. Third-party administrators, which are sometimes health insurance companies, have 24-hour, toll-free customer service call centers and Internet sites with representatives who can respond to your employees' inquiries in real time.

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Next, establish an insurance trust fund within your financial operations for depositing employee cost-share payments (premiums), paying third-party administrator and consultant invoices, and providing for contingencies on claims incurred but not reported.

Many school business officials prefer to hold reserves in the trust that are equivalent to approximately 25% of annual claims; several states have statutes that require specific levels of reserves. Often, the trust is managed by a school business official or treasurer and is overseen by several trustees or appointees of the school board or mayor.

An effective consultant will review your plans to ensure that they do not exclude or limit coverage for particular disabilities, in violation of the Americans with Disabilities Act, and that they meet the obligations associated with the Consolidated Omnibus Budget Reconciliation Act and the Health Insurance Portability and Accountability Act.

Plan Offerings and Minimized Costs

Today's health insurance options are lean and mean. Nearly gone are the days of fee-for-service or indemnity plans in which employers shifted the burden of insurance management to physicians and hospitals, frequently offering major medical coverage at little or no cost to employees.

All types of plans can be included in the self-insured category—preferred provider organization, HMO, point of service, conventional indemnity. The plan you offer employees can be similar to what was offered in the past or very different. HMOs seem to be the most popular self-insured programs. HMOs offer a wide range of medical services but limit the choices of practitioners and facilities. Another popular yet more expensive health plan is the preferred provider organization. That type of plan offers employees a wider range of services, typically with no gatekeeper, and allows them to go outside a network of providers with certain stipulations.

Your consultant will recommend—and some states require—that you purchase "stop-loss" insurance. Stop-loss insurance provides your district with an "umbrella" of protection against large catastrophic claims. With this coverage, up to a certain dollar amount of claims per employee is paid through the self-insurance program; claims above that specified threshold are paid by the stop-loss insurer. The coverage helps keep the insurance trust fund solvent and lowers the risk to taxpayers.

Part of Flexible Benefits

The total remuneration package for most school district employees includes base salary and flexible benefits, including health care. Talk with your employees about flexible health benefits that would not be cost drivers to your budget. They could include allowing employees to purchase life, dental, and disability insurance at low group rates. Consider increasing employees' allowable absences from work for illness, maternity, vacation, personal business, and bereavement.

Collective-bargaining negotiations could provide an effective forum for becoming more aware of your employees' needs.

A Look Ahead

Employee health insurance will be a contentious issue for years to come. Employers in the private sector benefit by being able to deduct whatever they pay employees for insurance from their annual business taxes—a practice ignored by those involved in the escalating assault on public workers' health benefits.

The continuing exodus of teachers and administrators to second careers or retirement means that school districts must offer competitive wages and flexible benefits to the newer staff. Effective school business officials who work with personnel to provide the hooks that snare the most educated and experienced personnel may be those working in the highest-performing school districts. Self-insurance for health care could be a desirable hook that also eases the pain in your district's pocketbook.

A good resource for learning more about the mechanics behind these programs is the Self-Insurance Institute of America, Inc. at www.siia.org.

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