Making the right health plan choice for North Dakota public employees

Understanding Self-Funded vs. Fully-Insured state employee health plans

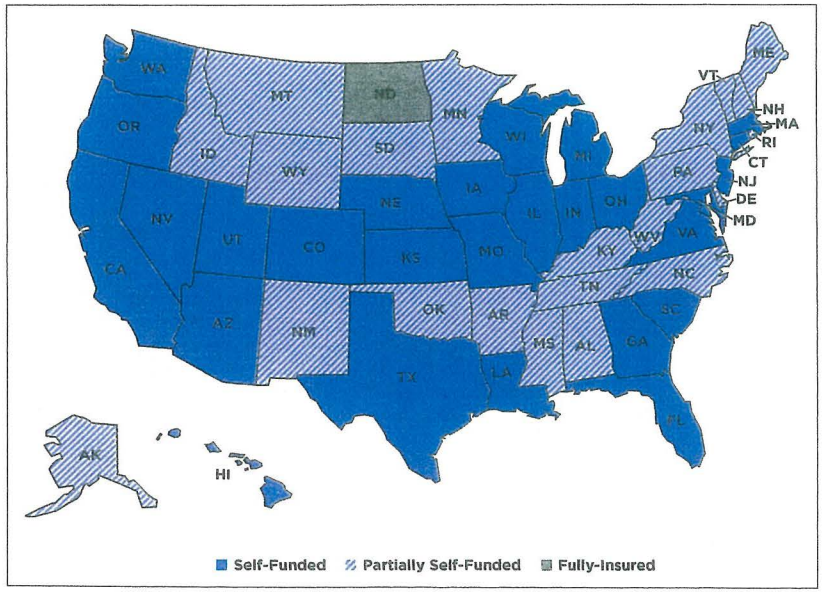
A self-funded health plan means that insurance is not purchased, but rather, the state insurance contributions are pooled into a state-owned reserve fund to pay claims and administrative expenses. Any money that isn't used to pay claims or administrative expenses stays in the fund. In a fully-insured plan the state will pay premiums based on projected claims, but won't experience the benefit if the claims come in lower than expected. North Dakota Public Employees Retirement System (NDPERS) had for many years participated in the program's financial results, in most cases by receiving excess gains and accumulating reserves, and in some cases sharing underwriting losses and funding these out of accumulated gains.

What is the value of self-funding?

All 50 states provide health insurance coverage for state employees, with 49 of 50 offering self-funded and/or partially self-funded plans. North Dakota is the only state in the nation that offers only a fully-insured plan, and doesn't offer a self-funding option.

Self-funding is a proven, cost-effective method for providing employee benefits and is the preferred choice of most large employers. Employers choose self-funding to control costs, save money and customize benefits. Plans can also keep their grandfathered status when transitioning to a self-funded plan, as long as they continue to meet grandfathered guidelines.

Figure 1: The 50-state map illustrates state employee health plans status as self, partial, or fully-insured.



Source – National Conference of State Legislators, State Employee Health Benefits (Sept. 2015)

Advantages of a Self-Funded plan

Here are some reasons state and private employee groups choose self-funding:

Tax savings
The Health Insurance Tax (HIT) will cost NDPERS more than $20 million this biennium. Other states became self-funded prior to the implementation of the HIT tax and have captured the savings.

No profit margin or risk charge
The profit margin and risk charge of an insurance carrier are eliminated through self-funding. Instead of paying a risk charge to the insurer in a self-funded arrangement, the sponsor will accumulate reserves by retaining program gains. These gains will provide cushion against occasional higher than expected claims not covered by stop-loss.

Health savings incentives
With fully-insured plans, wellness initiatives generally do not result in significantly lower health insurance costs. However, in a self-funding scenario, an overall improvement in employee health can lead to a reduction in claims, which feeds back into the plan's reserve funds. If those trends continue, there may be a reduction in the necessary contributions made by the state.

Risk management stop-loss programs
Managing the risk can be the greatest downside to a self-funded plan. Heightened risk occurs when claims are higher than anticipated or when a plan is underfunded. Managing these risks are especially important with self-funded plans.

Recommended risk management tools to support self-funded options include:

- adequate contributions into the pool
- securing stop-loss coverage
- building adequate reserves
- working with experienced consultants who specialize in self-funded groups

Self-funding can benefit public employee groups by helping them reduce health care costs and put those gains back into NDPERS reserves.

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