PPACA GREEN-LIGHTS SELF-FUNDING

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When I started working at my father's insurance agency after graduating college, I had a long conversation with him about what our job was. An insurance agent's job, he said, is "to educate clients about the benefits of certain decisions but, more important, it is to make sure they understand the risks."

Some decisions are easy to make and change; others are not. He would always tell me, "George, there are three things in life that are easy to get into but really hard to get out of: marriage, a defined-benefit retirement plan and self-funded health insurance." Well, thanks to PPACA, we can scratch off self-funded health insurance from the list.

There has always been a risk to self-funding health insurance. Companies with good claims experience were attracted by the potential savings, not to mention the initial savings from the claim lag when self-funding first begins. Moreover, reinsurance carriers were all too happy to sell financially appealing specific and aggregate stop-loss policies.

The problem wasn't finding a reinsurance policy when a company was healthy; it was figuring how to manage the financial exposure when a few claims pushed the financial limits of the medical plan. Reinsurance carriers, rightfully so, can be merciless in these situations. Employers with a few bad claims have limited options and are often faced with the reinsurance carrier significantly raising premiums, increasing the aggregate stop-loss or increasing the specific deductible on individual employees.

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Employers are stuck with their self-funded plans and cannot change to a fully insured plan because health insurance carriers will take into account the group's claims experience during the premium underwriting process, forcing them to choose between high fully insured premiums or high self-funded aggregates. These and other reasons made self-funding risky and unattractive in the small-group market. Enter PPACA, which has eliminated this risk.

Beginning in 2016, when healthcare reform is extended to companies with up to 99 employees, there will be a surge of employers moving to self-funding because that risk no longer exists. Companies will be able to avoid the high premiums of PPACA and self-fund their medical plans. When claims and administrative fees exceed PPACA premiums, employers can simply swap their self-funded plan for a fully insured guaranteed-issue health plan. When their claims are resolved, they can return to self-funding, always knowing they can exploit PPACA when it makes financial sense. Self-funded employers also get the added benefit of avoiding state premium taxes as well as the new PPACA premium tax, which can go up each year.

PPACA is really an association plan, and every industry veteran knows what is going to happen next. Companies with unhealthy employees will select the fully insured association plan and healthier companies will self-fund. The end result is that fully insured premiums will begin a death spiral, which only ends when the association pulls the plug on the plan or modifies the underwriting and rating for groups.

As a native Washingtonian, I've watched firsthand as Congress continues to fund programs simply because of the negative political consequences of defunding. To remedy this predicament, it was always my belief as a broker to advise clients on the current law, not potential changes in legislation. PPACA has given the green light to self-funding, and there will be a significant shift in the coming years as the sticker shock of PPACA is extended to groups with 50 to 99 employees, resulting in an explosion of new self-funded TPAs. In typical Washington style, Congress will be slow to adjust, so the new self-funded TPAs will band together and lobby to protect their self-interests, further slowing any potential legislative resolutions. Ultimately, this means companies with healthy employees will have a number of years to reap the benefits of self-funding before effective legislation is passed. HIU