

Do it yourself:

The case for self-funding Rx programs

By Renny Thomas, Sr.

When buying a fully insured medical benefit program that includes an outpatient prescription drug component, employers are simply inheriting the carrier's existing product regarding eligibility, copays, covered drugs and other plan provisions and limitations, both good and bad. That means an employer could potentially end up with a blue four-door when they might have preferred a red convertible, so to speak.

Conversely, one of the primary advantages for an employer self-funding an employee health benefits program is that the employer can control the design, and by extension, the costs, of the plan. This is particularly true concerning prescription drug benefits.

Finding savings

When an employer elects to self-fund health benefits, many of the carrier's expenses can be eliminated, thus an employer will save money on premium tax, carriers' fees, profits and underwriting reserve margins.

Premium tax is approximately 2.5% of premium. Most carriers charge, which includes some profit, about 5% to 7% or more of premium, which is close to 10% in premium costs an employer can reduce by self-funding.

The next major point is that if an employer has already made the leap to self-fund, in all probability that company has purchased specific, and hopefully aggregate, stop-loss insurance.

To reduce premium costs for this coverage, by removing outpatient prescription drug expenses from the medical stop-loss policy and instead having such expenses covered by a separate aggregate stop-loss policy, an employer can expect to lessen medical stop-loss premiums, the deductible amount, or both.

Basically, it comes down to accenting the positive and eliminating the negative.

Consider that active employee groups typically have outpatient prescription costs in excess of \$100 per member per month, and retiree participants' typical claim costs are more than \$300 per member per month.

Therefore, if outpatient prescription claim costs are approximately 13% to 17% of overall medical costs, and these expenses are eliminated as a covered expense under a medical stop-loss policy, it's reasonable to presume an employer could expect savings of 10% to 15% or more on current and renewal medical stop-loss premiums.

Further, the premium for an aggregate stop-loss policy that covers prescription drug costs, with an attachment point equal to 125% of expected claims, should cost about 2% of expected claims.

So, if an employer is saving between 10% and 15% on medical stop-loss premiums, and then adds the cost of a less expensive prescription aggregate stop-loss policy to the budget, the employer is going to save some significant money.

Unfortunately, some benefits professionals don't stop to think about these claims and premium nuances and the cost or savings associated with them.

Actually, many believe that covering prescription drug claim costs under a separate stop-loss policy creates an added layer of cost when it's really a cost reduction.

Cementing the case for self-funding

Research shows there has been a surge in the number of large employers moving to self-insured medical plans, and many midsize and small employers are following suit.

Among the advantages of self-funding:

- Control over benefit design and costs, and need not be bound by carriers or state mandates.
- Improved employer's case flow, as money help by the insurer may be utilized by the employer in expanding the business.
- Savings from carriers' profit margin and risk charges. Many employers find that an insurer's administration charge is greater than fees from a third-party administrator.

- Reduced premiums from removing prescription drug expenses from the insured medical program and buying an aggregate stop-loss policy to limit the employer's financial liability.