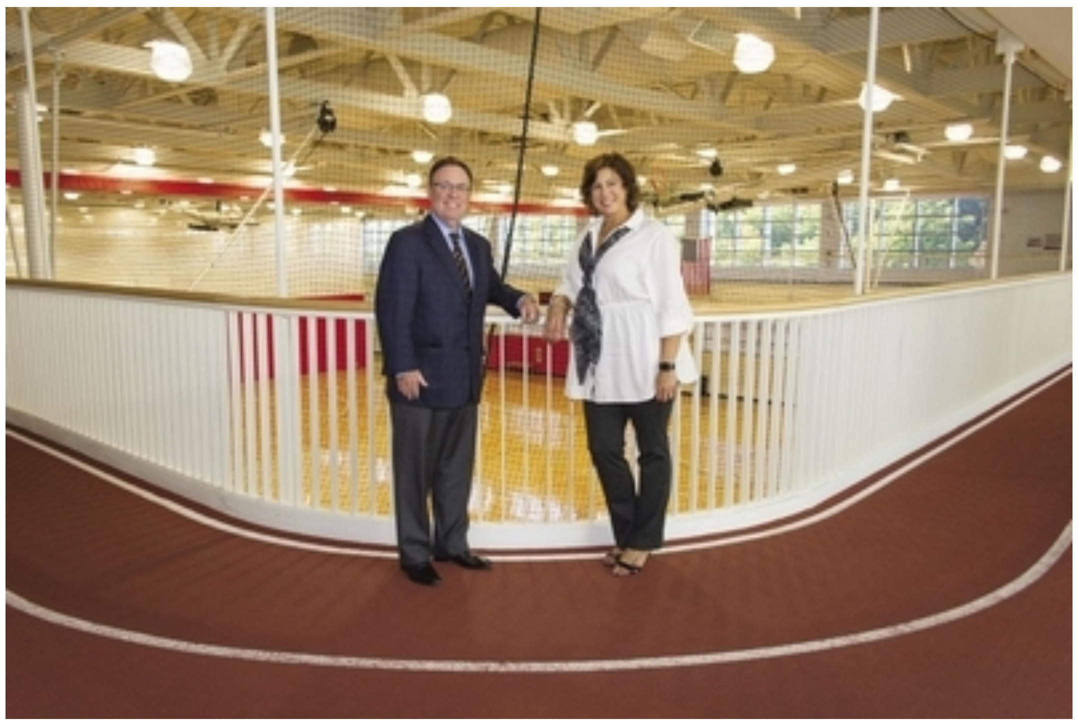
OCTOBER 12, 2015

College collaboration leads to self-insurance savings



COURTESY PHOTO

WPI Executive Vice President and CFO Jeff Solomon and EdHealth CEO and President Tracy Hassett stand above a basketball court on WPI's campus. Among the many benefits of going self-insured for health insurance is being able to encourage healthy lifestyles among employees and target health needs.

SAM BONACCI

One year ago, when Worcester Polytechnic Institute dove into the high-risk, high-reward world of self-insurance, it hoped the gamble would pay off enough to keep tuition in check.

Luckily, WPI had friends.

WPI joined a new collaborative of colleges and universities – called Educators Health LLC, or EdHealth – that has allowed small- to mid-sized schools to pool their self-insurance efforts and keep potential outlandish costs in check. The result over that first year was less risk and more savings.

Ditching full-coverage from insurance companies is typically a luxury reserved for large companies. Firms like Hopkinton computer giant EMC can customize their coverage while retaining money unspent on claims that would normally be profits for insurance companies. With a large pool of employees, they can spread the risk of rare, multi-million-dollar claims.

WPI, with its 1,053 employees, was better off than most small employers entering self-insurance, but by joining the EdHealth collaborative with a pool of 8,900 employees of 11 schools, including Boston College, it had significantly more negotiating power. The organization was launched in 2013 with the singular purpose of helping schools self-insure.

The greatest portion of WPI's expenses are salaries and benefits, and the school is trying to keep that line item in check in order to keep tuition costs as low as possible, said Jeff Solomon, WPI's executive vice president and chief financial officer.

"(Self-insuring) would take some pressure off the revenue side," Solomon said. "We can keep tuition lower if we can manage our costs."

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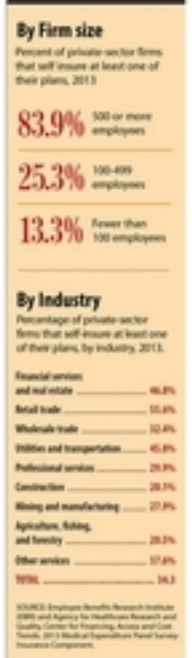

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While declining to provide specifics, Solomon said he was very pleased with the savings self-insuring provided WPI in its first year.

Going it alone, together

The difficulty in setting up self-insurance as well as administrating it has long been the province of only the largest institutions. As many as 58.5 percent of all workers with health coverage receive it from organizations that are self-insuring – according to the most recent 2011 data from the Employee Benefits Research Institute – but those are mostly employees of companies with 1,000 or more people.

Only 12 percent of employees of companies with 50 or fewer workers receive their health coverage through self-insurance plans.

EdHealth gives access to schools which previously would have been too small to self-insure, said Tracy Hassett, the president and CEO of EdHealth. The sheer number of employees allows for the negotiation of better rates all around.

Pooling buying power is nothing new, said Solomon. WPI uses similar techniques to purchase workers' compensation insurance and overall university commercial insurance.

In joining EdHealth in 2014, the organization relinquished its fully-insured status and took on the responsibility of covering its employees' claims. While this is seamless for employees, it required behind-the-scenes work with actuaries to calculate cost and coordination with an insurance company that takes on the daily administration of claims and allows the organization access to their coverage network. Harvard Pilgrim Health Care – EdHealth's third-party administrator – processes claims and bills the schools. It also serves as an important barrier between the employer and individual employee data.

"For the employees it was seamless. They still get their Harvard Pilgrim card and get to see their doctor," said Hassett, WPI's former vice president of human resources. "That was critical to us because we didn't want any of our employees to see a change in coverage or change their doctors."

Healthy employees

For WPI, that risk has been successful in lowering insurance costs. Key to this, said Solomon, was the institution taking a more proactive approach to employee health.

This is essential in any self-insuring situation, as healthy employees file fewer health claims, said Delia Vetter, the senior director of health care innovation for EMC. Having employees' general claim information enables EMC and other self-insurers to cater their employee wellness programs to cut down on the most expensive claims.

"We know exactly what types of programs are needed," Vetter said. "It's really through consumer engagement and (healthy living) programs that we contained costs."

This doesn't mean that self-insurance is the right decision for all, said Vanessa Costa, a Worcester employee benefits manager and principal at Advantage Benefits Group Inc. The move from a fully-insured plan with a defined premium to a strategy requiring more specific data increases employer risk.

An unanticipated $3 million claim could devastate a small company, and all companies need to decide how much risk it can handle, Vetter said.

Stop-loss insurance can guard against this, covering either individual claims over a set amount or an overall amount of claims for the entire company. However, this and higher administrative costs can add up, requiring each company to work with actuaries to evaluate not only the risk but whether there is actual potential for savings.

With companies of a certain size, these costs can be absorbed. Additionally, once there is long-term data and a company is more comfortable with self-insurance, stop-loss insurance can be dropped by the business, which is what EMC did.

Small business applications

While the collaborative model has opened up self-insuring to schools of various sizes, Solomon questioned whether the collaborative model would work among for-profit companies.

"In higher education, people love to get together and identify a problem and figure out how to solve it. I don't know that in the corporate world it is quite the same," he said.

An easier first step for the private industry may be focusing more on employee wellness, Costa said. While fully-insured companies will not see the financial benefit immediately, eventually their rates will come down with a healthier employee population.

"The only way to control cost is to get our workforce healthier," Costa said. "Regardless of the size of the company, I think promoting wellness can only help us all in the long run."

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