

A DESCRIPTION OF SELF-INSURANCE

Self insurance is the act of retaining funds, calculating risks, and paying the resulting claims or losses from one groups own finances - the overall process of self insurance is cheaper than being fully insured by a commercial insurance company. Cost savings to the self insured entity are usually realized through the elimination of premium interest, pooling charges, and certain administrative costs that commercial insurers pass on to their fully insured customers.

Full or exclusive self insurance is rare, as a combination of self insurance and commercial insurance usually provides the best coverage for a large entity. This is what the term “self-funding” or “partial self-insurance” refers to. Usually the predictable losses of the risk (medical, dental or Workers’ Compensation claims, in this case) are self funded, forming a first or “working” layer of coverage, and a [stop-loss](#) or stop-gap policy is purchased from the commercial insurance market. The commercial insurance product (stop-loss) then pays for losses above the specified self insurance limit per loss, thereby stopping the cost of losses to the self-insured above the retained values. Effectively the losses paid for by the insured before the stop-loss policy pays becomes the deductible layer. Depending on the level at which risks are stopped, commercial insurance coverage becomes less and less expensive the further away the stop-loss policy moves from the working layer of paying claims each year.

Of course, the commercial insurance carrier and Third Party Administrator are still necessary for self insured entities for a few important reasons. These entities negotiate discounted rates with physicians and facilities that reduce claim costs. They also provide valuable administrative services like tracking enrollment, printing identification cards and distributing summary plan descriptions. Most importantly their ability to process and pay claims in an efficient and timely manner would be difficult for most large groups to duplicate without purchasing an existing administrative entity.

Self insurance and self funding of health, dental and Workers’ Compensation allows an entity to scrutinize the costs associated with the individual aspects of an insured risk. In the case of a health plan the self insured entity can analyze the cost of specific medical services, pharmacy discounts, administrative procedures, and benefits. The entity has a much stronger negotiating position when dealing with each of those areas individually rather than as a whole.

Additionally, when working with a consultant like KBM Management a self insured entity has the advantage of calculating financial risks through statistical and actuarial management. This independent analysis focuses solely on claims and benefits and challenges the biased approach a commercial insurance company is forced to follow in order to make a profit.