

## Saving Private Healthcare Insurance

*The critical role of employer-sponsored health insurance and the importance of self-funding of employer health plans*

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Implementation of Healthcare Reform under the Affordable Care Act (ACA) is in full swing. Significant changes to our Healthcare system have already been implemented to both the tax financed systems of Medicare and Medicaid as well as the privately financed systems of Private Healthcare Insurance purchased individually and through employer sponsored plans. Many more

significant changes will take place as the ACA is fully implemented at the state and federal levels. These changes collectively represent the biggest changes to our U.S. Healthcare System since passage of the Social Security Amendments of 1965 which created the Medicare and Medicaid programs. There is no doubt that the ACA will bring big changes to our healthcare system, the most important question is: what will the results be once the ACA is fully implemented? On this question, there is little agreement.

For many, the ACA does not go far enough in pushing the country toward a so-called “single payer system” that would eliminate the Private Healthcare Insurance System. Many others believe the best system is a “free market private system” and the ACA is seen as a huge threat and even designed to make the private system fail and thus lead inevitably to a “single payer system.” The one thing that almost everyone with knowledge of our current U.S. Healthcare System does agree on is that the current

system, both government and private, is not sustainable due to the ever-increasing cost of the system. The single biggest budget challenge for federal and state governments and for most individuals and employers is the cost of health care.

Regardless of our personal opinions or political positions on the ACA, the fact is that the ACA is now the law and it is being implemented. None of us know what the results will be. On the current cost trajectory, none of our health care programs are sustainable; not Medicare, not Medicaid and not the individual or employer sponsored insurance systems. Given that none of our current systems are sustainable as they are working today, and the results of full implementation of the ACA won't be known for some time, and there is no consensus in Congress to make any significant changes to ACA, I submit that our best course of action is to do all we can to make both the government programs and the private insurance programs sustainable. This will require a transformation of the

economic models that reward competitive cost and high quality. There are important roles for both government and private enterprise if we are to transform our system into one that is both equitable in providing access to all who need care as well as sustainable from a cost perspective.

**Where the U.S. Population Obtains Health Insurance Coverage**

For individuals aged 65 or older, 93% are covered by Medicare and 5% are covered by Veterans Benefits, Medicaid or still covered by an Employer Plan as primary coverage. Only 2% of those over age 65 are without health insurance. As of 2010 the Nonelderly Population with Selected Sources of Health Insurance Coverage is as follows: <sup>1</sup>

Employment-based coverage	58.7%
Individually Purchased coverage	7.1%
Medicaid	16.9%
Medicare	3.0%
Tricare/CHAMPVA	3.3%
No Health Insurance	18.5%
Total Insured and Not Insured <sup>2</sup>	105.9%

As seen from this information, the percentage of the nonelderly population with Private Health Insurance totals 65.8%. Of those privately insured, nearly 90% have coverage through an employer-sponsored plan. Hence the importance of Employer-Sponsored Health Insurance as the primary

source of coverage for those not covered by a government program.

**Self-Insured Trends**

Self-Insured Health Plans are a significant part of employment-based coverage. Here are recent trends of self-insured plans:<sup>3</sup>

- The percentage of workers in private-sector self-insured plans has been increasing. In 2011, 58.5% of workers with health coverage were in self-insured plans, up from 40.9% in 1998. The percentage of workers in self-insured plans in firms with fewer than 50 employees has been close to 12% in most years examined.
- The prevalence of self-insured plans varies by state, with Massachusetts having the third-highest prevalence of self-insurance in the small group market (behind Hawaii and Alaska).
- Overall, 58.5 percent of workers were in self-insured plans in 2011, but the percentage ranged by state, from a low of 30.5% to a high of 73.8%.
- Massachusetts, the only state to have enacted health reform similar to ACA, has seen an increase in the percentage of workers in self-insured plans among all firm-size cohorts, except among workers in firms with fewer than 50 employees.

Self-insurance covers nearly 60% of workers with employer sponsored health coverage and is growing as a solution of choice. Also as noted, employer sponsored coverage is the

predominant form of private health insurance.

**Why Save Private Healthcare Insurance?**

Thus far there are no projections that ACA or any other solutions now in place will make the Medicare and Medicaid programs economically sustainable. Further significant changes to these programs will need to be made to create sustainability. Given this, moving the privately insured nonelderly population into government programs that are not sustainable does not create a sustainable healthcare system. Thus the importance of saving private healthcare and transforming the system into one that is sustainable.

Given that nearly 90% of private health insurance is employer sponsored and that almost 60% of those with employer sponsored insurance are self-insured, it is critical to preserve employer sponsorship and the ability for employers to self-insure their health plans to maintain this very important source of private health insurance. However, the preservation of employer sponsorship and their ability to self-fund is not a given. There are continuing and increasing threats to employers ability to self-fund health insurance coming from federal and state legislation already enacted and being proposed. Much of this activity is coming from state insurance commissioners and legislators. In a follow-up article next month, I will outline some of the legislative and legal action that is threatening self-funding and also highlight ways in which employers might support activities that will help preserve self-funding

as a cornerstone of the employer sponsored health insurance system.

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<sup>1</sup> Paul Fronstin, “Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2011 Current Population survey,” EBRI Issue Brief, no.362, September 2011.

<sup>2</sup> Totals add to more than 100% as some individuals have more than one form of health coverage.

<sup>3</sup> Paul Fronstin, “Self-Insured Health Plans: State Variation and Recent Trends by Firm Size,” EBRI Notes, Vol. 33, no. 11, November 2012.

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