OPINION

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Partial self-insurance can rein in dealers' health care costs

Keith Lemer

Keith Lemer is CEO of WellNet Healthcare.

Many have been inundated by suggestions for precautions to take around COVID-19 to protect the health and welfare of you, your employees and your families. But this is about something else — the ability to provide guidance on how to ensure the health of your business within one of the costliest line items, group health insurance, while dealing with business consequences of the spreading effects of the coronavirus.

In 2020, expenditures in employer-sponsored health plans will exceed $20,000 per employee family. That's like giving every family in your organization a new car every year.

That forces huge outlays by employers, since good health coverage is crucial for employee recruitment and retention. Turnover can be financially devastating to auto dealerships when Internet comparison shopping and tough manufacturer pricing have already pushed margins down to a razor-thin 2.3 percent.

Moreover, dealers face knockout renewal rates even as employees and their families are being socked with additional deductibles, copays and exclusions. Employees grumble while dealers watch profitability erode to dangerous levels.

But there is a sensible way to hold the line on health care expense: partial self-insurance. A similar version is called level funding. By opting to pay for most employee health expenses directly — dropping expensive fully insured plans — many auto dealers are now providing better benefits with lower member deductibles, at greatly reduced cost.

Traditional insurers have a perverse incentive not to push for lower costs. They may haggle over individual claims, but their profitability depends on premium inflow. So, when contracted medical and prescription claim costs rise, renewal premiums tied to prior-year claims increase in lockstep.

Doctors and hospitals are in on this game. An article in *The Wall Street Journal* showed how providers keep their deals with insurers secret — both to obscure actual reimbursements and to steer patients away from less-expensive or higher-quality alternative suppliers.

With preferred provider organizations — the network of providers the insurance company assembles and contracts with — insurers negotiate a different price for every service with every provider. The exact same service will be priced differently in different contracts.

This provides an incredible opportunity for employers savvy enough to use it to their advantage. Dealers who pay directly can build health plans that reward employees for using lower-cost and higher-value providers.

By using plans set up and managed by administrators not tied to insurance companies, dealers are free to incentivize employees (by reducing or removing all their copays and deductibles) when they voluntarily and proactively choose to use high-quality, lower-cost providers.

For example, a partially self-insured employer could waive the deductible for an employee who chooses to have knee surgery at a provider that not only offers the surgery at half the cost but demonstrates a low rate of post-surgical complications.

It's a good deal for both the patient and the employer. The employee pays less out of pocket, and the employer lowers claim costs and attracts better talent during the hiring process since the benefits are better.

Managers often back away from self-insurance because of the perceived risk. "What if my employees have higher than normal claims — claims which could bankrupt the dealership?" That's where the "partial" kicks in. There are readily available and reasonably priced stop-loss policies that protect you if medical and prescription claims exceed certain thresholds.

By incorporating stop-loss, dealers can design strategies that control overexposure to claim costs and improve medical outcomes for their members while also reducing or removing member copays and deductibles. You can whittle down that big line item on your profit-and-loss statement and escape the cycle of through-the-roof renewal rates.

For Ourisman Automotive, partial self-funding yielded striking results. It trimmed its health bill by more than $1 million, improving profitability by more than $250,000 in each of the last several years. The company could never have gotten such an uptick in profitability with its old fully insured health plan without a substantial increase in sales. Partial self-insurance allowed Ourisman to offer better care options while also keeping associates' share of health costs flat.

Health insurance brokers such as Veronica Verona, vice president of All Atlantic Benefits, who works with more than 100 automotive dealer clients, have steered their clients in this direction to curb health care spending and provide better outcomes for employees.

Chris Ourisman, president of Ourisman, has noted, "Rising health insurance costs are a serious drag on every auto dealer's bottom line. Partial self-insurance outside of the traditional health insurance company has allowed us to take control of our health costs — and can do the same for our peers."

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John Nantau brings more than 35 years of experience in software technology sales and sales management to Reptuation.com. His successful career includes leadership roles in technology companies such as Compuware, Pansophic, Sybase, Netscape and i2. Most recently, he served as regional vice president at Salesforce.com, where he was tasked with creating a team focused on the automotive vertical. His efforts resulted in closing several landmark contracts with General Motors, Ford Motor, FCA, Nissan, VW and Daimler-Mercedes Benz.

John attended Central Michigan University where he graduated with a double major in MIS and Marketing.

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Automotive News
EDITORIAL
313-446-0463
Email autonews@crain.com
Website autonews.com
1155 Gratiot Ave.
Detroit, MI 48207-2997

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