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Is Self-Insurance the Right Choice for Your Practice's Short–Term Disability Program?

by Jim Mooradian

As employers and consultants look for ways to save money, all costs are under scrutiny, and the first place they look is their medical plan, given high premium costs. That's fine, but it also makes sense to analyze the costs of a self–insured, short–term disability (STD) program. Within the last decade, it has become popular to self–insure this benefit rather than purchase insurance through a carrier, but most professionals have not analyzed these costs in many years. However, after medical benefits, short–term disability costs can be one of the bigger items on the table. Here's how to decide whether a self–insured STD program makes sense for you and your company or practice, and weigh the benefits of opting for a fully insured program or taking a hybrid approach.

Many firms self–insure their STD programs because they feel that their claims have not been substantial enough to warrant paying premiums for a fully insured program. However, before you can safely conclude that you should self–insure your STD plan, consider these three factors:

1. Actual amount of STD claims paid. Have you tracked your claims? Most firms are completely unaware of what they have actually paid out in STD claim dollars, but this data is essential for any analysis. Calculate the number of claims, the weekly benefit and the duration to see what your true costs are.
2. Proof of loss. Most employers require a doctor's note to initiate a short–term disability claim. But an insurance company requires supporting data, because a simple note cannot reliably paint a specific picture of when someone first became unable to perform his or her job, or when they are able to return. The duration of an STD claim is a complicated business and most

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employers who self–insure have no way to accurately manage this claim component. Most employers are not set up to administer these STD programs, opening themselves up to the possibility of unsubstantiated claims. Because of HIPAA, employer access to certain information is restricted, resulting in self–insured claims having longer–and more expensive–durations than those managed by a claim professional.

3. Sick time. If your firm offers employees a bank of sick days to draw upon, some employees can accrue large amounts of sick time which they may use to pay for a claim. This system creates several problems:

- Sometimes an employee does not have enough sick days to extend through the elimination period of the group long–term disability plan.
- Employees who were never sick have cashed in their unused days as compensation upon retirement or separation, which is not the STD program's intent.
- If employees use vacation days as sick days, this is hard to track and leaves the employer vulnerable to the possibility of some misuse.

Benefits of the Fully Insured Plan

The objective of an STD program, whether self–insured or provided through a carrier, is to ensure that disabled employees receive benefits if unable to work. A fully insured program will generally satisfy this objective more efficiently and cost effectively than a self–insured program in at least five ways. A fully insured program:

1. Ensures that a disabled person is always paid on a timely basis due to the plan design, and also brings professional expertise to determining benefit duration.
2. Stabilizes costs, because the monthly premium is a fixed cost. And, if your company has positive claims experience, you can rely on stable premiums.
3. Allows your company to outsource all facets of the claim process, increasing your HR department's productivity.
4. Eliminates the liability of large payouts upon employee separation for unused sick days.
5. Creates a much easier paid time off internal policy, which takes the employer out of the guessing game of why an employee is out.

Here's an example of how looking at the numbers prompted one company to switch from self–insured to fully insured. The company had 92 full–time employees covered under a self–insured STD program. Over a three–year period, their claims had averaged $28,761 per year. Several claims had extended beyond the duration originally anticipated, which had led to some contentious issues between the claimant and the employer.

Taking the company's census to the marketplace, we received premium quotes of around $1,800 per month or $21,500 annualized with multiple–year rate guarantees. The company's move to a fully insured plan saved them substantial money immediately, and also allowed the employee responsible for HR to unload the time–consuming duty of claims administration.

A Hybrid Approach

If neither self–insured nor fully insured is the right choice, you have a third option: a hybrid approach that can offer the best of both worlds. For example, your company may want to provide disabled employees with a length of time at 100 percent salary replacement. Because most carriers won't go beyond a 66 percent income replacement formula, your company can still choose to pay the balance to get an employee to 100 percent income.

The benefit? Your company is shifting some of the claims volatility onto the carrier while still receiving the benefit of professional claim management to control durations, protect privacy and keep your HR professionals out of claims administration.

Before you can determine whether your company should opt for self–insurance, go fully insured through a carrier, or choose the hybrid approach, consider these key factors:

- The claims dollars you have paid out versus the cost of the premiums to insure this liability.
- The functions you want your HR department to be performing–do you really want your HR staff managing claims?
- The risk of a bad claims year–can your organization afford a year in which your claims may double?
- The liability of making an incorrect decision–if you had a contentious claim, is your organization capable of defending its claim process?

If you're looking to control costs, use these guidelines to scrutinize the often–overlooked but key expense of your company's short–term disability program. Ask your broker or benefits consultant to help conduct the analysis, and you'll discover the money–saving option that's right for your company.

Jim Mooradian, founder of Jim Mooradian and Associates, Inc., has been a New England financial broker for the last 25 years. He formed his firm in 1998, continuing and expanding his work in the supplemental disability arena. Jim Mooradian and Associates, Inc. is a Boston, MA–based full service insurance brokerage firm that specializes in supplemental insurance programs, including voluntary benefits and supplemental disability programs. He can be reached at 617.423.0062 or via Jmooradian.com.