Self-funded Health Plans: A New Challenge for Hospitals

Hospitals should be on the lookout for a new trend in the continuing battle over healthcare costs: employers with self-funded health plans who simply refuse to pay the hospital’s charges. These self-funded plans typically do not have a provider contract with the hospital to set the price of goods and services—and employers are leveraging third-party administrators (TPAs) to tell the hospitals what the employer will pay.

The rise of the self-funded employer plans

Traditionally, employers offer health care coverage through a commercial insurance company, which collects insurance premiums and pays members’ bills for covered services. Because of their size and bargaining power, insurance companies can secure more favorable rates for the goods and services hospitals provide to their members.

Some midsized employers, however, are opting to establish self-funded plans in lieu of contracting with commercial insurers. Rather than paying premiums to an insurance company, employers set aside funds to pay employees' medical bills themselves.

The role of third-party administrators

Issues arise when it comes time to determine the price for hospital goods and services. Lacking a contractual agreement, hospitals routinely charge patients enrolled in these self-funded plans according to the prices listed on the hospital’s chargemaster—the hospital-specific, comprehensive price directory of goods, services and procedures that can be billed by the facility. Because chargemaster rates are higher than most negotiated contract rates, employers with self-funded plans often hire third-party administrators (TPAs) to analyze hospital bills and assign re-priced costs—much lower than the chargemaster rates—to each service and supply. The employer then pays the hospital at the re-priced cost determined by the TPA, calling it “reasonable” payment for the hospital’s services.

These payments typically cover only a fraction of the patient’s total hospital bill. Hospitals then find themselves in the position of billing the employer, the patient, or both, to recoup the balance of the patient invoice. When the patient refuses to—or cannot—pay the balance, the delinquent bills are turned over to collections agencies. Notably, many TPAs also assist balance-billed employers or employees with collections activity and/or the resulting lawsuits.
These lawsuits can be costly for hospitals in terms of reputational damage and legal expenses.

**How hospitals can protect themselves**

Hospitals can—and should—take steps from the beginning of the clinical encounter to manage billing and collection for patients with self-funded health plans. These include:

1. Make sure hospital admission paperwork is clear regarding the patient’s financial responsibility and that admission personnel are well versed in advising patients of their responsibility.
2. Ask patients if they have a self-funded health insurance plan—and be able to explain what that means. Keep a list of area employers with self-funded plans.
3. When possible, give patients who may be balance-billed a preliminary, non-binding cost estimate.
4. Allow affected patients the opportunity to view the chargemaster if requested.

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