

Self-Fund Your Dental Plan

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With all of the focus that is put into managing and controlling health care cost today, it amazes me how many organizations fail to take advantage of one of the most effective and least disruptive cost saving strategies available to employers with 150 or more covered employees; self-funding your dental plan. There is a reason why one of the largest dental insurers in the country, Met Life, will not self-fund dental plans with fewer than 500 employees. It is called PROFIT! Believe me, all of the other dental players would prefer to have you insure your plan as well (they would prefer to keep the money rather than have you reap the financial reward). Met just happens to take the hardest stance on the topic.

We know that the notion of self-funding still makes some of you nervous (for those of you that are clients, we know who you are and we will continue to try and bring you around on this). Keep in mind, when self-funding dental the plans exposure is limited on any one plan member, plan maximums are typically between \$1,000 and \$2,000 per year. Dental claims are what we refer to as high frequency, low severity (meaning many claims / lower dollars per claim), which means that they are far less volatile and much more predictable from year to year. This is the perfect formula for self-funding. In contrast, products like group life and long term disability are products that are unpredictable (very few, if any, claims in a given year / claims that can be very costly relative to the premium paid). These are products that should be insured (let the insurer assume the risk and spread it across their entire book of business).

Self-funding dental provides an employer with the following advantages: You pay for only what you use, an administrative fee paid to the TPA (third party administrator), and the actual claims that are paid in any given month. That is it! Prior to the plan year, we recommend that a financial forecast be done to set your budget for the year. This is a projection that is very similar to what an underwriter at an insurance company does.

Where do you save when you self-fund your dental? In the following areas:

Trend: Dental claims do not trend at anywhere near the rate that the actuaries from any given insurance company project (keep in mind these are very bright people that are paid a lot of money to make sure that insurance companies are profitable). Therefore, insured rates are typically overstated.

Claims Margin: Money that insurance companies set aside for “claims fluctuation” (read profit). For example, Delta Dental does not use paid claims in your renewal projection (look at their calculation). They use incurred claims that are always somewhere between 3 and 6 percent higher than your actual paid claims. They then apply, trend, a risk charge and retention to the overstated figures. This factor alone will result in insured rates that are overstated by 5 to 8 percent on insured plans with Delta Dental, when compared to self-funded Delta Dental plans.

Risk Charges: You do not pay them when you self-fund! This component of an insured rate can be anywhere from 3 to 6 percent of the premium.

Reserves: Money that an insurer sets aside for incurred but unpaid claim liability. This is an area where insurance companies profit. They overstate the reserves that they build into the premiums that you pay and then they earn investment income on the reserves. When you self-fund you pay only for what you use.

Case Study: In late 2014, we converted one of our new client accounts dental plan from fully insured to self-funding. The decision was made to change carriers because the incumbent would not self-fund the plan. The savings at the end of the first full year, using mature claims, was 24% below what the (no change) insured renewal premium would have been. I would not suggest that this is the norm, but savings of 10% are.

If you are interested in learning more about how Sullivan Benefits can help you determine if self-funding your dental plan would make financial sense for your firm, feel free contact me or any member of the [Sullivan Benefits](#) team with questions.