



**House Committee on Small Business  
Subcommittee on Health and Technology Hearing**

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**Self-Insurance and Health Benefits:  
An Affordable Option for Small Business?**

**Testimony Delivered By**

**Thomas Faria  
President and CEO  
Sheffield Pharmaceuticals  
[www.sheffield-pharmaceuticals.com](http://www.sheffield-pharmaceuticals.com)**

## **INTRODUCTION AND EXECUTIVE SUMMARY**

Good morning Chairman Collins, Ranking Member Hahn and members of committee. My name is Thomas Faria and I am President and CEO of Sheffield Pharmaceuticals. I would like to thank you for this opportunity to speak with you today with regards to my experience on utilizing self insurance options to provide affordable health insurance to the employees of my company. I believe that self insurance can be a powerful option to help the right small businesses understand and control the continuously growing burden of health care costs.

My Testimony this morning will address four general areas that should be of interest to the committee.

- A brief background on Sheffield Pharmaceuticals
- Sheffield's experiences that led it to decide to self insure
- Sheffield's experience with self insuring
- My opinion on and examples of the benefits of self insurance for small businesses

## **COMPANY BACKGROUND**

Sheffield Pharmaceuticals is a family owned, mid-sized manufacturer of over the counter toothpastes, creams and ointments located in New London, Connecticut. Sheffield has a proud history of manufacturing in New England with the company originally being founded in 1850 by its namesake Dr. Washington Wentworth Sheffield, the man who is also credited with being one of the first inventors of toothpaste. For over 160 years Sheffield has strived to provide quality, affordable, domestic made health and beauty products to the American consumer. Today, Sheffield manufactures and sells over 22 different types of tubed drug products to every major retail and discount store chain in the country. Over the past decade Sheffield has grown to a company with roughly \$30 Million in revenue and an employer of 162 workers. Sheffield provides health insurance to 75 of these employees and their families.

### **SHEFFIELD'S DECISION TO SELF INSURE**

Like all big and small businesses, every year at the beginning of spring, Sheffield would evaluate its health care costs and send its health insurance plan out to bid to try to gather competitive quotes. While, every year a modest increase was expected, starting in 2005 the increases began to average over 10% per year. At times we would look to lessen the blow of this increase by either increasing the employees' share of premiums or by cutting back on some of the benefits. This worked somewhat effectively until 2008. In that year, a small amount of employees in the company experienced significant health issues which drove our utilization up. In response, our existing health insurance provider increased our rates 25%. This was followed up in 2009 when our provider told us that due to our high utilization our rates would increase 39% while other providers quoted higher. The company began at that point earnestly looking at Self Insurance as a viable option. We weighed the potential positive benefits of being able to gain greater awareness and mastery of our total health care costs versus the potential negatives of not having a fixed cost to budget along with the potential for a catastrophic occurrence to severely impact our costs. We knew that, due to the relatively good health of our employees, the odds of having another high utilization year were very low. When we asked our insurance broker if he expected the insurance provider to reduce premiums following a better utilization year and he answered no, the decision to move to self insurance became an easy one for the company.

### **SHEFFIELD'S EXPERIENCE WITH SELF INSURANCE**

While switching to self insurance provided a new set of challenges and has at times been a bit nerve racking in high utilization years, our decision to self insure has been a good one. Based on estimates of the yearly average increases that the traditional health care plans charged in Connecticut for plans of our size, we believe that self insuring saved the company over \$400,000 over the span of four years (see exhibit A). This dollar figure amounts to roughly a 19% savings over the expected costs of insuring

traditionally during this period. Our success with self insurance has allowed the company to realize savings which have allowed it to still provide “Gold” caliber insurance coverage to its employees that covers 75% of the total health care costs, all while holding the overall costs to the employees in check.

### **BENEFITS OF SELF INSURANCE TO SMALL BUSINESSES**

There are many benefits that self insurance can have for businesses that have the right conditions and mindsets to utilize it. First, as shown above, self insurance can have the ability to save individual business plans considerable costs. This however comes at the expense of having health insurance costs fixed for a period time. Secondly, it allows access to cost data that can show not only where a company spends its health care dollars but also allows for comparison against national norms. When a company knows these costs it becomes more responsible for them. Thirdly, this cost transparency can allow a business to develop its individual plan to educate and incentivize its consumer activities to most efficiently use health services, reducing both the business’s, consumers’ and overall health system’s costs. Finally, self insurance encourages companies to invest now in education, incentives for healthy living and preventative care to help promote long term healthy behavior changes in its workforce. This leads to better lives for their workers and hopefully can help stem off major and expensive health issues in the future.

A perfect example of the benefits of the transparency that self insurance provides small business occurred when after a year of utilizing self insurance we examined our data on health costs. The data showed that our employees had a higher utilization of the Emergency Room than what should have been expected. Further analysis showed that some employees were utilizing the ER for non emergency care items that normally should be handled by a physician, who typically charges a quarter of what hospitals do. By doing this, not only were these employees unknowingly increasing the costs to themselves and the plan but also they were negatively impacting their future health by not creating a regular relationship with a primary physician. By adjusting our plan to incentivize employees to find and

utilize physicians instead of the emergency room, Sheffield was able to use its health data in a way that reduced overall employee and plan costs while also benefiting the current and future health of its employees.

As an example of how self insurance motivates companies to invest more into the health of its employees, once Sheffield had committed long term to being self insured, we established several programs aimed at educating and incentivizing healthy habits amongst our employees. Along with paying for yearly physicals, Sheffield also rewarded employees who received yearly physicals with reduced premiums. This allowed employees and their physicians an opportunity to develop a health history and address potential major health issues before they occur. In addition to the physicals, Sheffield has developed rewards programs for employees that work towards maintaining healthy biometric levels, including cholesterol, blood pressure, body mass index and smoking activity. By addressing these important health factors now we believe our employees' future health can be dramatically improved. I do not believe that if Sheffield was in a traditional insurance plan we would have invested in these activities as the present day costs would have not translated into long term savings in a traditional plan.

## **CONCLUSION**

In conclusion, I would like to thank the committee for the opportunity to speak with you on a topic that I believe can and should be an important part of helping solve America's health insurance woes.

Sincerely,

Thomas Faria  
President and CEO  
Sheffield Pharmaceuticals

### Exhibit A

Comparison of Actual Self Insured Costs vs. Estimated Fully Insured Costs

