Self-Funding and The Insurance Broker

Presented by Chris Handley

October 2018

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TODAY'S PRESENTER

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Chris Handley is the Regional Sales Director at Savoy for the Pennsylvania and Delaware markets. In his current role, Chris works with select brokers to grow their business while leveraging the comprehensive resources that Savoy has developed to best manage the challenges facing employer groups of all sizes. Additionally, starting August 1st of 2018, Chris assumed the role of Continuing Education Director of the Savoy CE School. Savoy is a regional general agency with over 30 true GA contracts, offering comprehensive employer services consulting, in the New York, Connecticut, New Jersey, Pennsylvania, and Delaware markets.

Before coming to Savoy, Chris was a successful sales leader with UnitedHealthcare representing group medical and ancillary products. During his 10 year tenure with UnitedHealthcare, Chris was consistently one of their top producing representatives, and successfully completed UnitedHealthcare's nationally recognized "Emerging Leader Program". His performance was acknowledged with several awards including the "Most Valuable Player Award" from the Pennsylvania Health Plan.

Chris graduated with high honors while attaining his Masters Degree from Penn State University. Chris currently serves as the Vice President for the Greater Philadelphia Association of Health Underwriters which is one of the largest chapters in the country.

AGENDA

- Why Self Funding for Smaller Size Groups?
- Basics of Self Funding
- Basics of Alternate or Level Funding
- Advantages & Disadvantages of Self Funding
- Self Funded Case Studies

Small Groups

Why Self Funded for Small Groups?

- ACA legislation
  - Increased costs for fully insured plans (Health Insurance Industry Fee 2-4% additional)
  - Less flexibility in fully insured plan designs
  - Small group rating up to 100
- Technology Advances
  - Improved monitoring utilization tools & predictive modeling
  - On-line medical questions/health risk assessments
  - Multi-product on-line enrollment systems
- Innovative Carrier Products
  - Level-funding plans
  - Retrospective plans
  - Integration with gap/supplemental plans

Small group/ Individual pricing

Age
(3:1 rating ratio-uniform age rating curve)

- Single age band for children ages 0 through 20
- One year age band for adults ages 21 to 63
- Single age band for adults 64 and older

Family (tiers)

- Rates for each family member added to determine family premium
- Only count three oldest covered children under age 21

Tobacco (1.5:1 rating ratio)

- Defined as using tobacco on average of 4+ times per week (past 6 mos.)
- "Tobacco" includes all tobacco products except religious ceremonial use
- Small group plans must offer a wellness program for reduction of factor

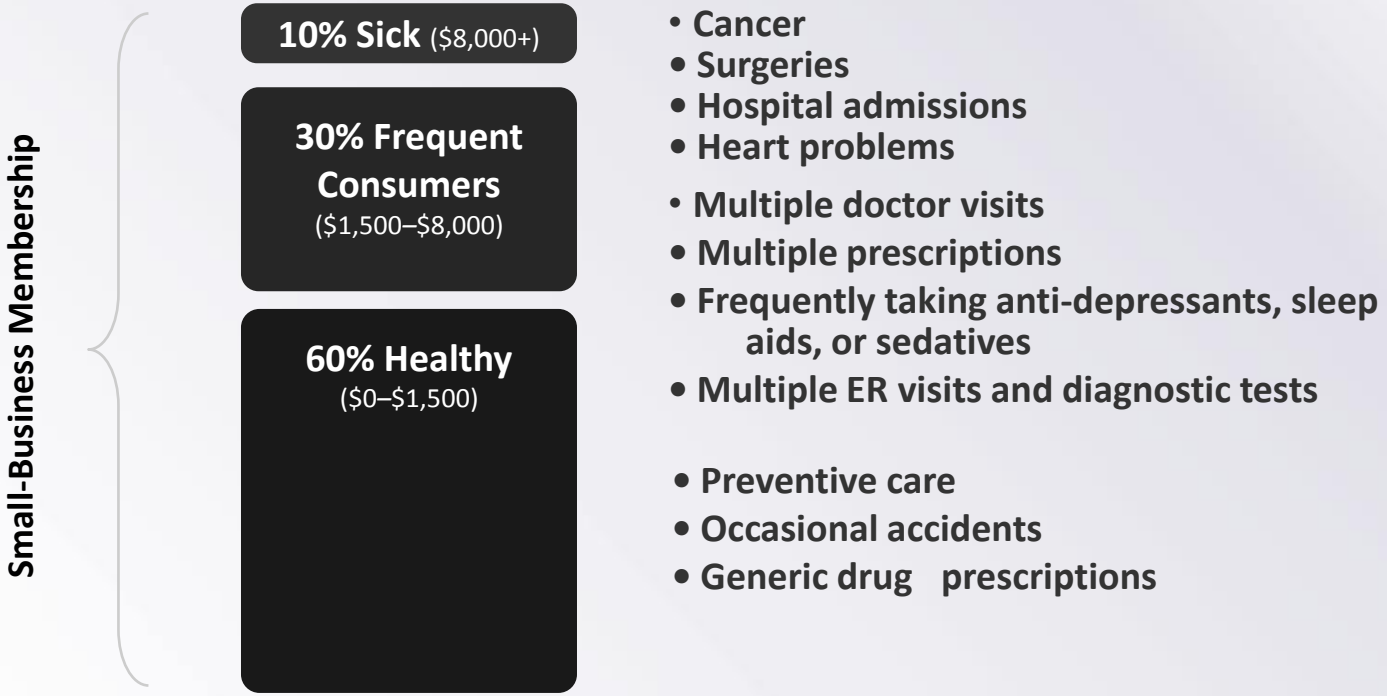
Geography

- States can establish rating areas up to the number of MSAs plus one
- Reform mandates employers up to 100
- State option to maintain 50 employees in 2014 and 2015 (all opted except Hawaii)

Self-Funding Is No Longer Just for Big Guys...

- Reprinted from **HEALTH PLAN WEEK**, the industry's leading source of objective business, financial and regulatory news of the health insurance industry.

Most Small-business employees are healthy



*Based on a national sample of UnitedHealthcare small-business claims data from March 1, 2010–February 28, 2011.

CARRIERS PREFER FULLY INSURED MEMBERS

A fully insured member is worth

five times the operating profit

of a self-insured member

Source: Sanford C Bernstein Research

Self Funded Groups

- Market Summary by Firm Size

Percentage of Covered Workers in Partially or Completely Self-Funded Plans, by Firm Size, 1999–2015

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
3–199 Workers	13%	15%	17%	13%	10%	10%	13%	13%	12%	12%	15%	16%	13%	15%	16%	15%	17%
200–999 Workers	51	53	52	48	50	50	53	53	53	47	48	58*	50	52	58	55	56
1,000–4,999 Workers	62	69	66	67	71	78	78	77	76	76	80	80	79	78	79	83	82
5,000 or More Workers	62	72	70	72	79	80	82	89	86	89	88	93	96	93	94	91	94
ALL FIRMS	**44%**	**49%**	**49%**	**49%**	**52%**	**54%**	**54%**	**55%**	**55%**	**55%**	**57%**	**59%**	**60%**	**60%**	**61%**	**61%**	**63%**

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999–2015.

* Estimate is statistically different from estimate for the previous year shown (p<.05).

NOTE: Due to a change in the survey questionnaire, funding status was not asked of firms with conventional plans in 2006. Therefore, conventional plan funding status is not included in the averages in this exhibit for 2006. For definitions of Self-Funded and Fully Insured plans, see the introduction to Section 10.

←**19%**
overall increase over last 10 years

Self Funded groups by industry

INDUSTRY	
Agriculture/Mining/Construction	48%*
Manufacturing	65
Transportation/Communications/Utilities	83*
Wholesale	50*
Retail	67
Finance	75*
Service	53*
State/Local Government	65
Health Care	72*
ALL FIRMS	**63%**

Opportunities cross almost all industries!

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2015.

* Estimate is statistically different from estimate for all other firms not in the indicated size, region, or industry category (p<.05).

NOTE: For definitions of Self-Funded and Fully Insured plans, see the introduction to Section 10.

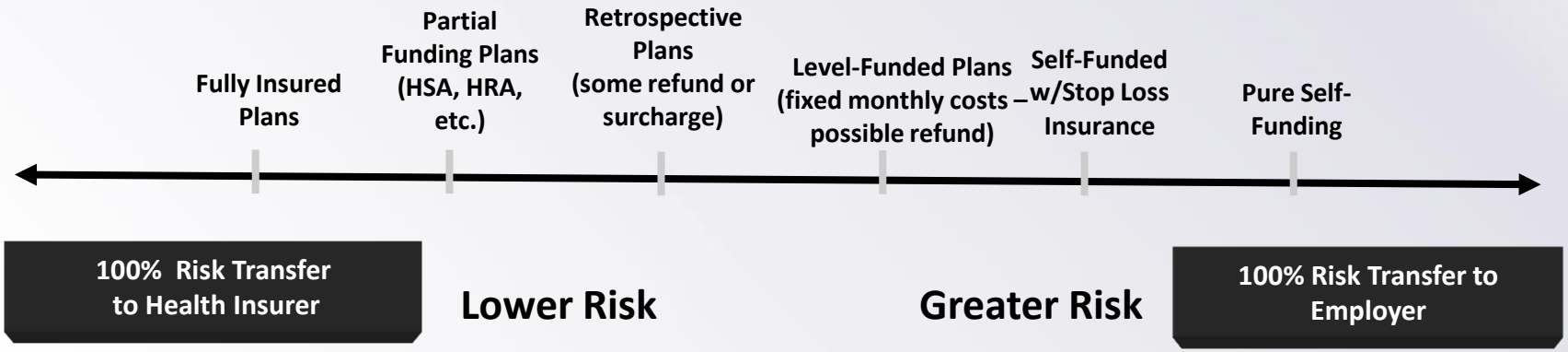
Self Funding Basics

What is self funding?

A **Financing Mechanism** structured to
"Pay As You Go"
for all Covered
Medical & Rx claims.

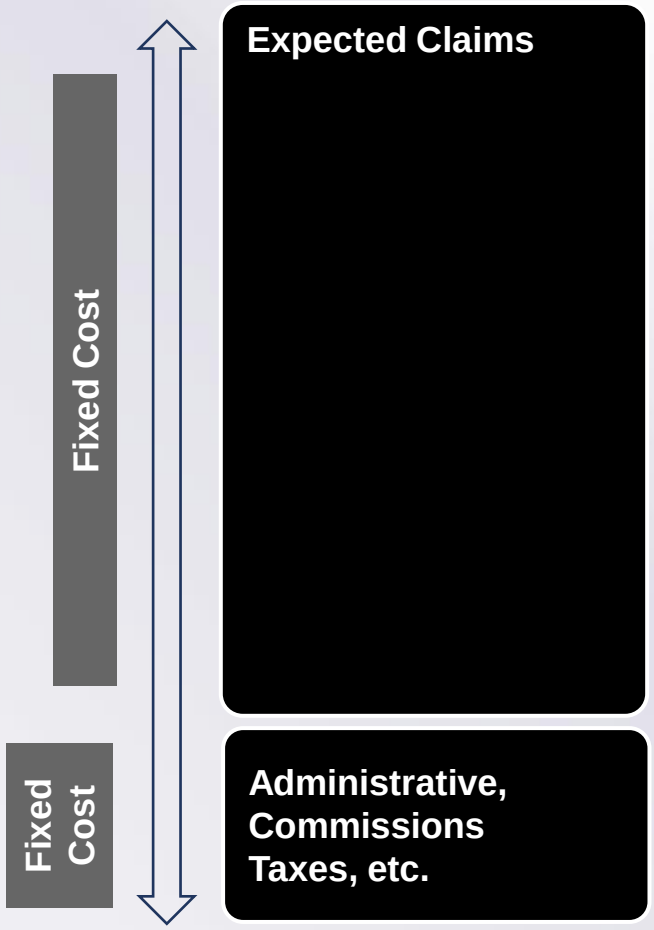
Financing risk levels

Who Has the Annual Risk?



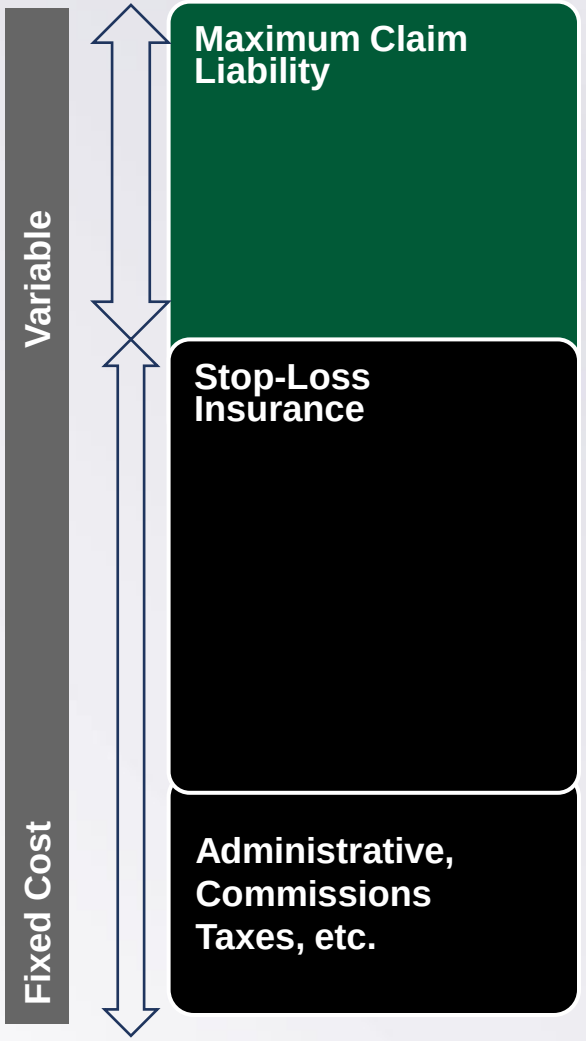
Traditional Fully-Insured Plans

All Costs are Fixed



Self-Funded Plans

Both Variable and Fixed Costs



What Is Stop Loss Insurance?

Protection to Limit Exposure:

SPECIFIC - Caps Individual Catastrophic claims

AGGREGATE - Annual Cap if costs exceed projections

SPECIFIC STOP LOSS INSURANCE

- Specific Stop Loss coverage is each covered **individual**. The per person **deductible** is determined before the start of the contract (typically range from $15k to $100k).

- If there is ongoing high cost claimant, the carrier may allow higher **"laser"** deductible in exchange for a lower premium.

- Typically there is a **premium charge** for each single employee and family unit (usually two tiers).

- There are typically **three** primary variations to the Specific Stop Loss contract.

SPECIFIC STOP LOSS INSURANCE VARIATIONS

Typical Fully Insured Contract: 12/24 (Incurred and Paid)

Jan	Feb.	Mar.	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Jan	Feb.	Mar.	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

Typical Self Insured Contract: 12/15 (run-out) Contract

Terminal Liability

Jan	Feb.	Mar.	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar

Least Expensive Contract: 12/12

Jan	Feb.	Mar.	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

15/12 (run-in) Contract – pays for carryover

Oct	Nov	Dec	Jan	Feb.	Mar.	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

AGGREGATE STOP LOSS

•The group is expected to be able to **fund Expected Claims** plus an additional amount, called **Margin or Corridor** (typically **25%** of annual expected claims).

•These two elements are combined to form the **Annual Aggregate Deductible**, often referred to as the **Attachment Point**.

•Many plans have a **Monthly Aggregate Accommodation**. The monthly deductible is calculated by multiplying each month's number of covered single subscribers and covered family subscribers by the appropriate monthly deductible factors. The sum of the monthly deductible amounts is the Annual Aggregate Deductible. This helps with cash flow exposure for smaller employers.

Example:

- **Group of 100 with expected claims of $500,000**
- **Funding Maximum with 25% corridor: $625,000 (attachment point)**
- **Monthly Aggregate Accommodation (1/12th): $52,083 (maximum monthly exposure – reconcile in subsequent months)**

ASO - ADMINISTRATIVE SERVICES ONLY

Monthly Fees from TPA (third party administrator)

Typically includes:

Claims & Customer Service charge

Utilization/Disease Management

Broker/Consultant Fee (usually PEPM)

** Competitive Network reimbursements difficult to measure, re-pricing by tax ID's/CPT's. Disruption analysis measures network adequacy.

Advantages/Disadvantages

SELF-FUNDING
ADVANTAGES

- Elimination of most premium tax **(typically 4-6% including HIT)**
- Lower cost of operation (Carrier profit and risk charge eliminated)
- Effective claim processing
- Cost and utilization controls
- Cash flow benefit
- Rx Rebates
- Control of plan design & commissions
- State Mandated benefits avoided
- Enhanced reporting
- Multi-year administrative fees

SELF-FUNDING
DISADVANTAGES

LAND MINES

LEVEL FUNDING

Level funded & retrospective

- FULLY INTEGRATED, some self funded health plans for companies as low as 5+ employees (if state allows).
- Deliver complete TRANSPARENCY OF COSTS
- CUSTOMIZABLE PLAN designs
- Population HEALTH MANAGEMENT and integrated STOP LOSS PROTECTION

Level funded & retrospective

Several Ways to do Medical Underwriting

- Individual Medical Applications
  - Paper Forms
  - Online Application
  - Telephonic Interview
- Claims Review (rarely available for small groups)
- Rx Utilization – member level census searched against national Rx databases
- Group Questionnaire

Every method is more involved than fully insured groups, but they provide more accuracy.

END OF YEAR RECONCILIATION

LOW CLAIMS

Maximum Funding	
Stop-loss insurance premium	$14,000
Administrative and other	$11,000
Claims	$27,000
Total budgeted (max liability)	$52,000
Actual	
Stop-loss insurance premium	$14,000
Administrative and other	$11,000
Claims (paid and IBNR)	$9,000
Total actual	$34,000
Claims paid by stop-loss insurance	$0
Total surplus	$18,000
Employer reconciliation refund *Refund check sent after reconciliation*	$12,000
Deferred fee	$6,000

Refund not available for groups not in force at time of reconciliation

ENHANCED REPORTING

Medical/Drug Excess Loss Summary

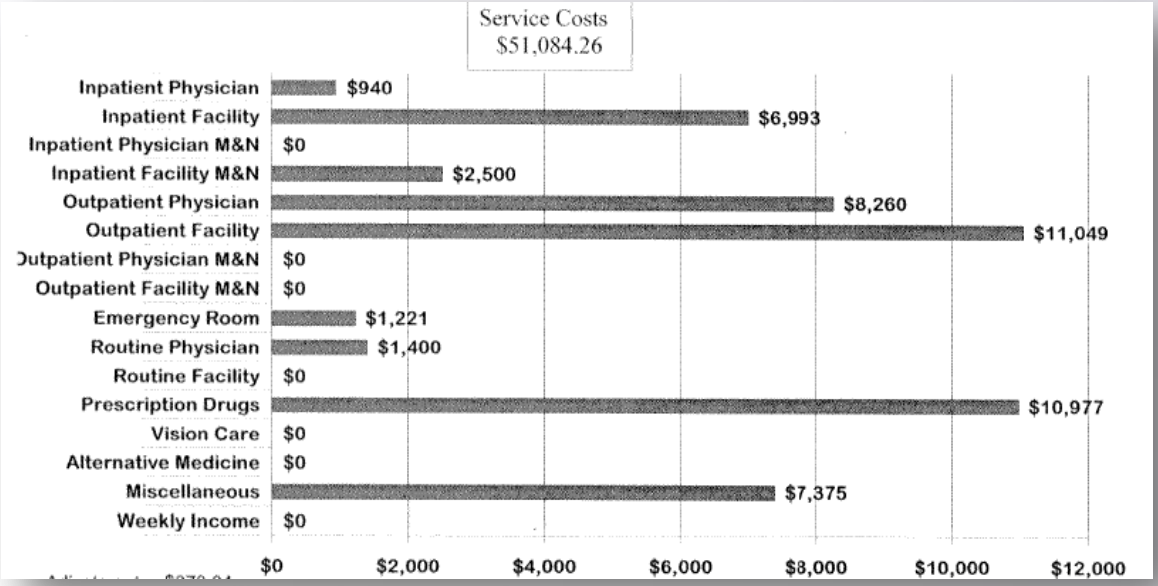
Reporting: Executive Summary (example continued)

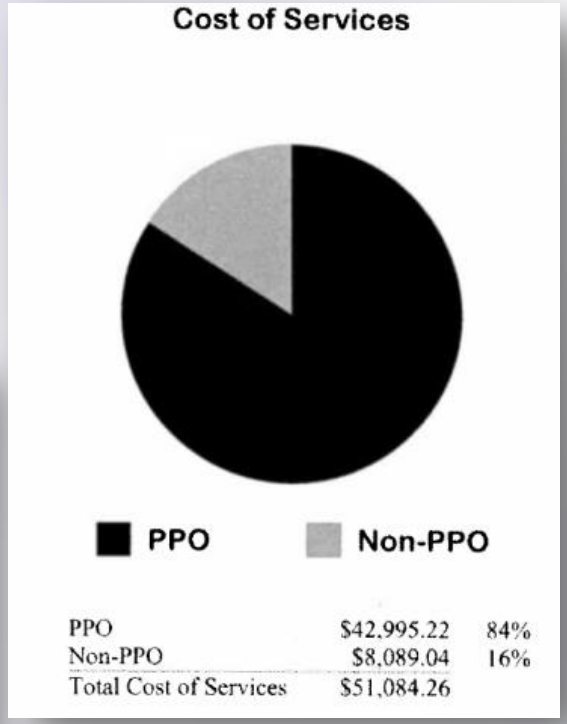
Month Paid	Medical/Drug Claims	Specific Excess Loss Reimb	Agg Excess Loss Reimb	Actual Liability	Expected Liability	Maximum Liability
03/13	546.26			546.26	10,923.38	13,654.23
04/13	4,807.89			4,807.89	10,185.74	12,732.17
05/13	8,953.22			8,953.22	10,897.25	13,621.56
06/13	7,584.21			7,584.21	11,217.19	14,021.49
07/13	11,921.58			11,921.58	11,097.90	13,872.38
08/13						
09/13						
10/13						
11/13						
12/13						
1/14						
2/14						
Total		$33,713.16	$33,713.16	$33,713.16	$54,321.46	$67,901.83

REPORTING: UTILIZATION

EXAMPLE

- Utilization
- In-network vs. out-of-network claims
- Stop-loss claims





PCORI Fees

- **Health plan sponsors and issuers are required to pay fees to fund programs established by the Patient Protection and Affordable Care Act (PPACA)**
- **For plan or policy years ending on or after Oct. 1, 2014, the fee is increased based on increases in the projected per capita amount of National Health Expenditures.**
- **The PICORI Fee is a tax assessed against the plan sponsor, so the fee cannot be paid with plan assets.**
- **Employers will need to pay these fees with self-insured plans - - meaning these fees are not part of the overall premium like they are in fully-insured plans**

Source: **PCORI & Reinsurance Fees—Keeping Them Straight**
Groom Law Group

Case Studies

REAL CASE STUDIES

- Profile of Company (Level-Funded)
- Profile of Company (Traditional Success)
- Profile of Company (Traditional Problem)

LEVEL FUNDED
EXAMPLE

Printing Company - SIC 2752

22 enrolling employees with 38 enrolling members

Zip Code – 19103 (Philadelphia)

Average Age is 28 and 71% are male

Situation

68 percent increase to move from pre-ACA to ACA fully insured

Level Funding illustrative rates 35% less than ACA fully insured

Solution

Individual Underwriting = 5% rate-up

Group saves approximately 30%

Detailed reporting

Composite Rates

Wellness initiative with monetary incentive

2/3 of claim surplus returned to ER

EVALUATING FULLY INSURED RENEWALS
EXAMPLE

- **Demographics**
  - 180 life group demo factor 1.05 down to .90
  - Increased in size - now at 220 lives
- **Development of Claims PMPM (per member per month)**
  - Blended PMPM $270 (45% credible)
  - Pooling Level at $75,000 per person
- **Analyzing Experience & Utilization**
  - No high cost claimants (over $50k)
  - Norm Comparisons – all average or below average

EVALUATING FULLY INSURED RENEWALS

EXAMPLE

- **Demographics**
  - 175 life group demo factor 1.15 up from .98
  - Decrease in size – now at 115 lives
- **Development of Claims PMPM (per member per month)**
  - Blended PMPM $470 (35% credible)
  - Pooling Level at $50,000 per person
- **Analyzing Experience & Utilization**
  - No high cost claimants (over $50k)
  - Norm Comparisons – low PCP and Rx utilization

EMPLOYER SOLUTIONS/RECOMMENDATIONS

- Maintain Compliance
  - ERISA audits
  - ACA reviews
  - Involve Broker and Accountant
  - Use Technology (HRIS, etc.)
- Compare Carriers/Products Often
  - Group vs Individual
  - In Exchange vs Outside Exchange
  - Off-Cycle Changes
  - Quarterly Reviews
- Evaluate New/Alternate Products
  - Self Funding
  - Private Exchanges
  - Alternate Funding
  - Voluntary Benefits

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