MARSH & McLENNAN AGENCY

WORLD CLASS. LOCAL TOUCH.

AICUM
Benefits of Self-Funded Health Plans

October 6^{th}, 2017

Joan Cunnick
Senior Vice President | Employee Benefits
Joan.Cunnick@MarshMMA.com

Dave Montville
Managing Consultant | Employee Benefits
David.Montville@MarshMMA.com

www.MMA-NE.com

Benefits of Self-funding Health Plans
Agenda

I. Self Insurance – An Overview

II. Self Insurance – Financial Advantages

III. Self Insurance – Financial Analysis

IV. Self Insurance – Plan Administration

V. Self Insurance – Captive Option

Section I

Self Insurance – An Overview

The Basics of Self Insurance

- In a self funded arrangement, the employer typically pays a fee to a plan administrator, who performs functions such as claim processing and securing discounted services from health care providers. The employer takes on the risk of claim fluctuation, paying the actual claims incurred by enrolled employees and their dependents.
- The cost of a self funded plan has fixed components similar to an insurance premium:
  - Administration fees
  - Stop-loss premium
  - Claims
- The administrative fees, stop-loss premiums, and any other set fees charged per employee are referred to as fixed costs and are billed monthly based on plan enrollment just like an insurance premium.
- The employer sponsoring a self-funded plan also pays the claims costs incurred by the covered persons enrolled in the plan, and this cost varies from month to month based on health care use by the covered persons.
- Stop-loss insurance reimbursements are made if the claims costs exceed the catastrophic claims levels in the policy.

Total Cost = (Fixed Costs + Claims)- Stop Loss Reimbursements

Choosing a Funding Arrangement
Considerations

- Employer's financial position and risk philosophy
  - Ability to handle claim volatility
  - Can be controlled with purchase of stop-loss insurance

- Employer size
  - The larger the population, the more predictable the claims

- Administration – additional accounting functions including:
  - Funding of claims and reconciliation of paid claims
  - Monitoring large claims relative to specific stop-loss
  - Rx rebates
  - Reserve requirements
  - Possible Carve-outs of stop-loss, Rx, disease management

- Year-to-year claims experience
  - Groups with a history of claims that represent less than 75%-80% of fully-insured premiums may have more favorable conditions to self insure
  - Generally want consistent experience over a long period of time
    - What has been medical loss ratio for the most recent 12-24 months?

Key Medical Self Funding Terms and Definitions

- **Administrative Fee:**
  - Cost charged for claims adjudication, customer service, plan document maintenance, network access and disease management
- **Stop Loss Insurance:**
  - Intended to provide protection against large claims exceeding a pre-determined level which allows the employer to shift some of the risk of self-insurance to the insurance company
  - **Specific Coverage**: Covers claims above a certain threshold, referred to as the specific deductible incurred on a covered individual (Employer is responsible for claims up to the deductible)
    - Specific deductible level is typically determined based on the size of the organization and tolerance for risk, or insured pooling level if converting from fully insured
    - When a claim does occur, the organization is reimbursed by the insurance company for additional claims for the remainder of the policy period
  - **Aggregate Coverage**: Protects the entire group against claims that exceed the annual aggregate liability limit, also known as the attachment point or maximum claim threshold. Claims that exceed the specific deductible do not accumulate towards the aggregate coverage
    - Typically covers claims that exceed 125% of the expected level for a covered group

Stop Loss Insurance Contract Types

12/12 Incurred and Paid

- Least costly contract for plans transitioning from fully-insured; no run-out protection
- **First year:**
  - – eligible claims must be both incurred and paid within the 12 month benefit period
- **Renewal year:**
  - – contract converts to a **24/12** policy or a “**Paid**” policy

<u>First Year</u>

September---August

CLAIM INCURRED

CLAIM PAID

<u>Renewal Year</u>

September---August September--August

CLAIM INCURRED

CLAIM PAID

Stop Loss Insurance Contract Types

12/15 Run-Out Contract

- **First year:**
  - eligible claims incurred during the 12 month benefit period and paid during the benefit period or the following 3 months
- **Renewal Year:**
  - contract renews with a 12/15 policy
  - 12/18 contracts are also common
- May allow for a gap in coverage unless contract has a "bridge"

First Year

September---------------------------------------August--------------------December------------------------------------August

CLAIM INCURRED

CLAIM PAID | BRIDGE FEATURE IF GROUP RENEWS

Renewal Year

September--August-------------December

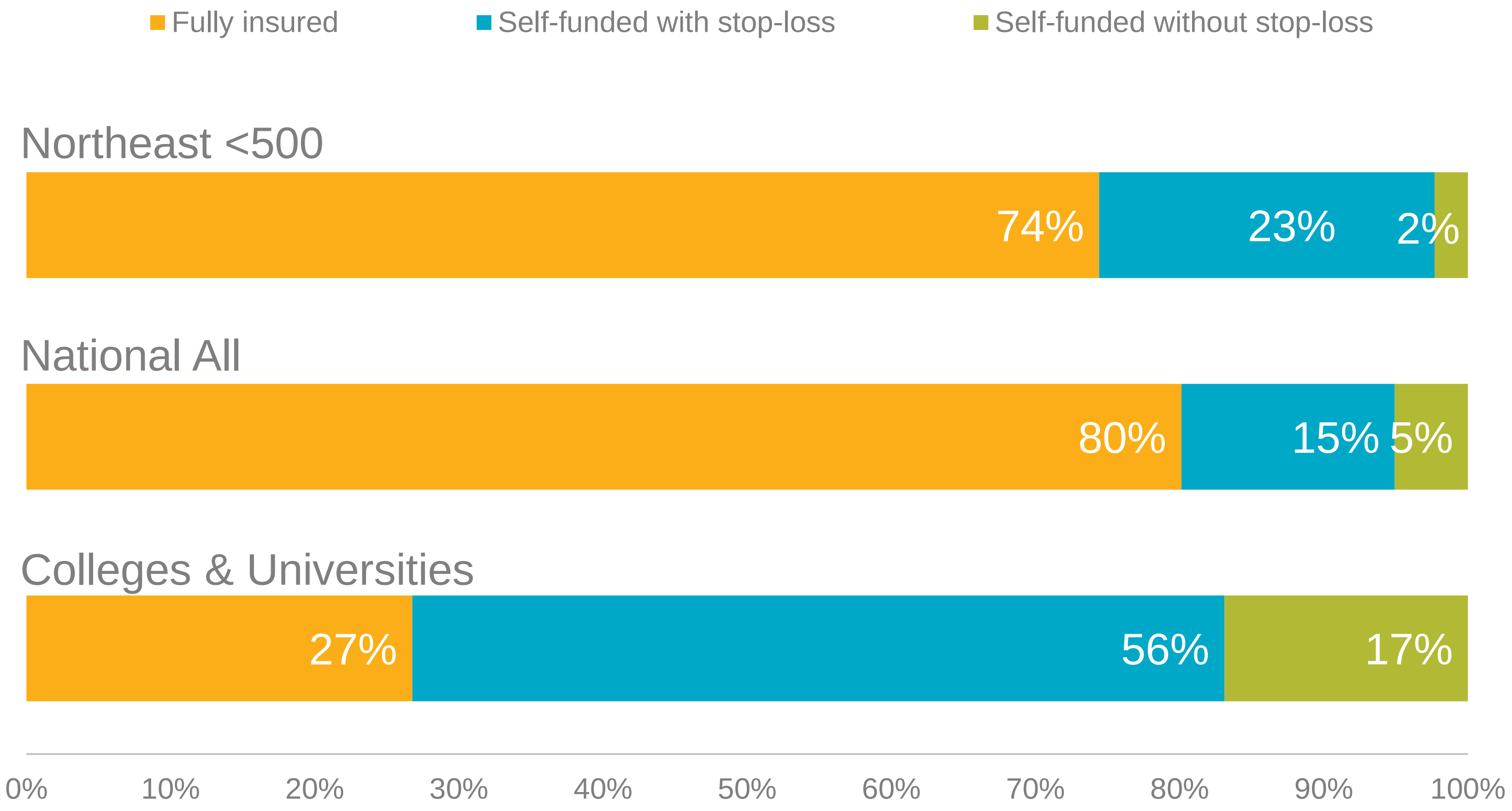
CLAIM INCURRED

CLAIM PAID

Self Insurance Considerations
Pros/Cons to Self Funding

	Fully Insured	Self-Funded
Pros	❑ Unexpected Claims Cost Risk - assumed by insurance carrier and employer cost capped at 100% of premium level ❑ Predictability – constant premium, budgetable premium ❑ Administration – one monthly bill provided by insurance carrier	❑ Cash Flow – pay claims as you go (beneficial in favorable cost years) ❑ Administration – ability to change TPA and retain benefits ❑ Reserve – retained by employer; when claims experience is lower than projected, the plan can build reserves to help cover future costs ❑ Plan Design – greater plan design flexibility; ERISA pre-empts state insurance regulations ❑ Stop Loss – pricing based on annual competitive market bidding; will include both the medical and pharmacy benefits ❑ Reporting – Detailed/comprehensive; available on a more frequent basis ❑ Rx Carve out possibility
Cons	❑ Higher Fixed Costs – due to risk charge, state and federal (health reform) premium tax, pooling charges ❑ Cash Flow – year-end surplus (actual plan cost < premium) retained by insurer as additional profit ❑ Reserve – held by insurance carrier ❑ Plan Design – plan design dictated by insurance carrier and state regulations ❑ Reporting – limited	❑ Unpredictable Claims Cost Risk – employer assumes risk; stop loss insurance provides catastrophic individual/aggregate cost protection helps minimize risk ❑ Cash flow volatility – could occur with monthly pay-as-go format ❑ Administration – greater level of plan administration required due to banking and administrative billing processes

Benchmarking
Funding method for most prevalent plan



Source: Mercer's National Survey of Employer Sponsored Health Plans - 2016

Section II

Self Insurance – Financial Advantages

General Cost Favorability Through Self Funding

- Avoid Premium Tax (0 - 2%)
- Avoid Health Insurance Industry Fees (2 – 4%)
- Avoid Fully Insured Risk Charges (2 – 5%)
- May choose not to cover state mandated benefits (0-3%)
- Total anticipated savings to employer: generally 4-6% of total plan costs in comparison to a Fully Insured Formula result, not accounting for the time value of money by not fronting reserves and, in many cases, claim deposits.
- Cost differences between Fully Insured Pooling Charges and Self Insured Stop Loss Charges play a role in the total cost differential. Normally Pooling Charges are lower, but variations usually exist based on the size of the covered population.

Self Funded Cost Favorability
Fully Insured Fees

- As a fully insured plan, insurance carriers build the below fees into premium rates
- By transitioning to a self-insured funding arrangement, an organization avoids most of these additional costs

Component	% of Premium Impact	Description
Risk Charge	3%	❑ Charge built into premium to cover profit and risk management
Premium Tax	2%	❑ Fully Insured plans are subject to pay state tax
TOTAL	**5%**	❑ **Total estimated cost attributable to fully insured plan**

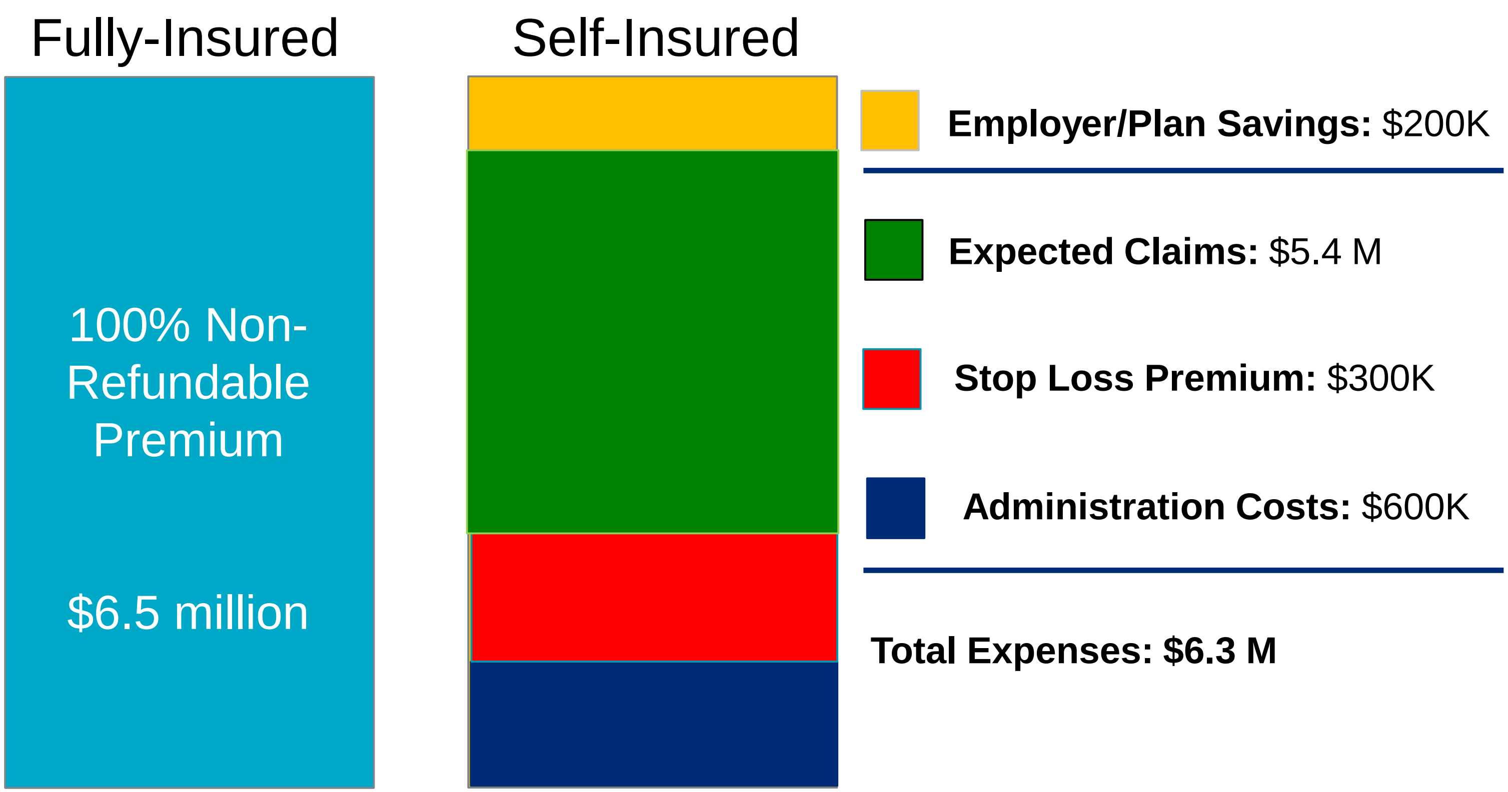
Self Funded Cost Favorability
Health Care Reform Fees & Assessments

- In a self-insured arrangement, employers will have the ability to influence plan design and costs, and avoid some Health Care Reform mandated fees
  - Patient Centered Outcomes Research and Reinsurance fees will apply, regardless of funding type
  - Health Insurance Industry fee, the largest fee of the three, applies to fully insured plans only and would be avoided in a self-funded environment

Health Care Reform Fee Component	Fully-Insured	Self-Insured
Patient Centered Outcomes Research Fee (PCORI)	Approximately $2.35 per covered member per year	Approximately $2.35 per covered member per year
Health Insurance Industry Fee	Generally 2% to 3.5% of premium; varies by carrier and product offering	$0
Transitional Reinsurance Assessment	$0 (terminated after 2016)	$0 (terminated after 2016)
Self-Insured Savings		**Approximately 2% to 3.5% of premium**

Fully-Insured vs. Self-Insured
Illustrative Example

- While the level monthly premium of a fully-insured model may be appealing due to its predictability, savings accrue to the insurance company when claims perform better than expected
- Insurance carriers typically use 85%-90% of claim dollars to pay claims
  - The remainder pays for plan administration, margin and profit



Section III

Self Insurance - Financial Analysis

Financial Analysis
Historical "Look Back" if Plan Had Been Self-Funded

Fully Insured vs. Self-Insured Estimation				
	Year 1	**Year 2**	**Year 3**	**Year 4**
Fully Insured				
Claims	$5,851,666	$5,111,158	$4,790,688	$4,650,038
Premium	***$6,564,443***	***$6,079,886***	***$6,653,305***	***$7,003,313***
Net Retention	$712,777	$968,728	$1,862,618	$2,353,275
Loss Ratio	89%	84%	72%	66%
Self-Insured				
Claims	$5,851,666	$5,111,158	$4,790,688	$4,650,038
Pooled Claims at $100K	($154,557)	($162,569)	($85,597)	($134,241)
Estimated Administration	$351,289	$317,011	$321,132	$329,160
Estimated Stop Loss Premium	$419,877	$425,115	$483,158	$555,631
Total Cost	***$6,468,276***	***$5,690,715***	***$5,509,380***	***$5,400,589***

Annual Savings $	**$96,168**	**$389,170**	**$1,143,925**	**$1,602,725**
Annual Savings %	**1.5%**	**6.4%**	**17.2%**	**22.9%**

Notes:

For purposes of illustration, assumes incurred claims = paid claims

Estimated Administration based on Year 4 carrier self-funded proposal and reduced by 2.5% per year

Estimated Stop Loss Premium based on Year 4 carrier proposal and reduced by 15% per year

Estimated 2015 pooled claims based on an average of prior 3 years.

Avg 2012 Headcount	485	$1,005.44

Financial Analysis
Comparison of Fully Insured Renewal to Self Funded Proposal

	Fully Insured[1]	Self Funded[2]
Expected Claims	$6,007,290	$5,663,274
Maximum Claims	N/A	$7,079,092
Administration Fees	$1,202,362	$370,308
Stop Loss Premium	N/A	$396,165
Expected Financial Requirement	$7,209,652	***$6,464,876***
Maximum Financial Requirement	$7,209,652	***$7,845,566***

[1] Fully insured estimate based on carrier renewal (no increase from prior year's premium rates)
[2] Self insured estimate uses carrier's self-insured quote ($100,000 spec level, 12/18 contract)

Notes:

- Fully Insured Expected Claims include Pooling Charges ($33.36 PMPM)
- Fully Insured Admin Fees include Retention/Premium Tax/ACA Fees
- Difference in Expected Financial Requirement is: $744,776; Difference in Maximum Financial Requirement is $635,914

Section IV

Self Insurance – Plan Administration

Self Insured Administration
Fees and Claims

- **Setup Fee:**
  - One-time charge for the input of eligibility and benefits in order for the plan to be administered if done through a Third Party Administration (TPA)
- **Administrative Fee:**
  - Fee charged for claims adjudication, customer service, plan document maintenance, network access, disease management and claims fiduciary responsibility
- **Claims Funding**:
  - Employer would be required to fund claims either weekly or monthly based upon services incurred by members
  - Funding is based on paid claims versus projected incurred claims under a fully insured arrangement
- **Expected Claims:**
  - Total claims the underwriter expects the employer to have in one policy year, actuarially determined from the employer's historical claims experience, trended
- **Maximum Claims:**
  - Worst case scenario – this is 125% above the employers expected claims level

Self Insured Administration
Example Billing Procedure

Self Funded Plans - example of carrier administrator:

- Administrative Services Contract bill will be based on PEPM fee; will be billed monthly

- Stop Loss Premium bill will be based on stop loss rates and monthly enrollment; will be billed monthly

- For paying claims, carrier will determine a Level Deposit that employer will be required to pay; the Level Deposit is typically billed monthly or weekly

  - The Level Deposit is charged prior to and is due by the 1st of the month for which the deposit is required – in advance of the month being funded
  - Employer will have the ability to select either Monthly or Quarterly Settlements; The settlement statement will track Level Deposit payments vs. actual claims. If there is a funding shortfall, the shortfall will be billed with the next Level Deposit, if there is a surplus, there will be a credit on the next Level Deposit
  - Stop Loss claims are tracked in arrears; individuals who exceed the stop loss deductible will have those amounts over the limit credited to the Level Deposit bill of the month following payment.
  - Underwriting reserves the right to adjust the Level Deposit based on how the group is running; the Level Deposit should be, on average, close to what is being paid, but fluctuations are a certainty

Self-Insured Reporting Responsibility

- **ERISA Filing (Form 5500/SAR)**
- All ERISA welfare plans are subject to 5500 reporting regardless of funding (general assets versus VEBA trust – fully-insured versus ASO)
  - Current exemption – welfare plans < 100 enrolled employees first day of the ERISA plan year
  - Proposed 2018 plan year regulation – all welfare plans will be required to file regardless of size
- Form Schedule A is required to report fully-insured policies whether paid for by general assets or trust
  - Current exemption – stop-loss coverage paid for through general assets
- Form Schedule C is required to report ASO service provider fees when paid for by a trust
  - Current exemption - Form Schedule C is not required for plans paid for by general assets.
- SAR is not required for a 100% ASO plan
- SAR is required for an ERISA plan with both fully-insured and ASO benefits
  - SAR will include fully-insured vendor data
  - Vendor may include a reference to the ASO plan on a SAR but it is not mandatory

Self-Insured Reporting Responsibility
Section 6055 and Section 6056 Reporting Summary

	Section 6055	Section 6056
What is it for?	Reports who is **covered by minimum essential coverage** and therefore not liable for the individual shared responsibility payment.	Reports who is **offered sufficient & affordable coverage** to employees and helps to indicate whether the employee may be eligible for an exchange subsidy.

Who Reports What?

Funding Arrangement	Employer Size	Report to Who?	Section 6055 Insurance Carrier	Section 6055 Employer	Section 6056 Insurance Carrier	Section 6056 Employer
Fully-Insured	50+ FTE's	IRS	1094-B & 1095-B	n/a	n/a	1094-C* & 1095-C
		Employees	1095-B	n/a	n/a	1095-C (top half)

Who Reports What?

Funding Arrangement	Employer Size	Report to Who?	Section 6055 Insurance Carrier	Section 6055 Employer	Section 6056 Insurance Carrier	Section 6056 Employer
Self-Insured	50+ FTE's	IRS	n/a	1094-C* & 1095-C	n/a	1094-C* & 1095-C
		Employees	n/a	1095-C (both halves)	n/a	1095-C (both halves)

Form Definitions

1094-B: Transmittal form to IRS that summarizes 1095-B for who was offered minimum essential coverage.

Transmittal form to IRS

IRS

1094-C: Transmittal form to IRS that summarizes 1095-C for who was offered sufficient & affordable coverage.

1095-B: Return submitted to employees who were covered by minimum essential coverage.

Return submitted to employee

1095-C: Return submitted to employees to indicate whether or not they are offered sufficient & affordable coverage (also determines if employee is subsidy eligible).

Self Insured Administration
Summary of Fiduciary Requirements

Activity	Process	Frequency	Timing
Plan Performance Evaluation	▫ Based on Medical Carrier reporting, evaluate plan experience against budget	▫ Monthly	▫ End of each month
Stop Loss Evaluation	▫ Review contract terms (i.e. appropriateness of specific stop loss deductible) ▫ Evaluate marketplace on current and alternate contract terms (no impact on employees)	▫ Annually	▫ 3-4 Months Before Renewal
Budget/Working Rate/Contribution Development	▫ Projection prepared for Mid-Year review ▫ Rate development finalized pending stop loss renewal and marketing results ▫ Employee contributions developed once working rates finalized	▫ Annually ▫ Annually ▫ Annually	▫ Mid Plan Year ▫ 3 Months Before Renewal ▫ 3 Months Before Renewal
Reconciliation	▫ Analysis of actual vs. budgeted cost	▫ Quarterly	▫ Month 3, 6, 9 and 12 of plan year
IBNR *Incurred But Not Reported, aka Reserve or Retention*	▫ An estimate of the amount of liability for services that have happened, but have not yet been reported to the employer ▫ Used to cover any run-out should the plan terminate (typically 1-2 months of claims)	▫ Annually	▫ As requested
Health Care Reform Fee Requirements	▫ Adherence to federal deadlines for fee requirements ▫ PCORI, Transitional Reinsurance (sunsets 2017)	▫ Annually	▫ As required by government ▫ PCORI: July 31

Section V

Self Insurance – Captive Option

edHEALTH Strategy
Value of the Stop Loss Captive

Category	Issue	Result
Stop Loss Captive	- Main purpose of edHEALTH is to provide stop loss captive - Creates a pooled risk of approximately 10,000 employee lives - More predictable, resulting in better pricing and lower renewals	- edHEALTH stop loss renewals have outperformed industry trends/benchmarks over the past 4 years - From 2014 – 2017, if stop loss had increased at 12%/10% 8%, instead of actual, ABC University would have spent $1.5M more in stop loss premium
Self Insurance	- Stop loss requires plan to be self funded - In good years, plan maintains the savings that otherwise would have been spent on insured premium - Self Insurance allows for plan flexibility, including Rx Carve out, plan design, avoiding state mandates	- Overall, based on projections of fully insured premium beyond 2013 when plan first self funded, ABC University has saved approximately $2M over the first 3.5 years in edHEALTH - Changing Rx PBM to Optum has increased pricing efficiency and allowed schools to receive rebates that had been held by medical carrier
Collaboration	- Member schools able to consistently meet and discuss issues and strategy much more freely than outside a captive	- Have an understanding how member schools are managing similar issue - Know what member schools are offering their employees – competition for talent
Plan Design Options	- Plan designs limited to maintain pricing structure and ease administrative burden on captive administrators	- There are 2 traditional PPO, 5 HMO and 2 CDHP options available to member schools - Most schools offer 2-3 options, making available/reasonable alternatives often number 1 or 2 plans

edHEALTH Strategy

Summary of Stop Loss & Overall Plan Increases, 2015 - 2018

	2015	2016	2017	2018	4-Year Average
STOP LOSS ONLY					
Industry Stop Loss Benchmark	12.0%	12.0%	12.0%	12.0%	**12.0%**
edHEALTH Aggregate Stop Loss	1.3%	6.1%	10.4%	9.7%	**6.8%**
ABC University Stop Loss	-0.9%	-0.3%	11.6%	8.3%	**4.7%**
OVERALL INCREASE					
Industry Overall Increase Benchmark	8.0%	8.5%	8.5%	7.5%	**8.1%**
edHEALTH Aggregate Overall Increase	0.5%	3.8%	6.3%	0.2%	**2.7%**
ABC University Overall Increase	0.5%	6.4%	8.5%	-2.0%	**3.4%**

Note: All Industry Benchmarks are based on edHEALTH reported data in 2018 renewal cover letters

edHEALTH Strategy

Optum Rx – Illustrative Rx Pricing Changes: ABC University

	2017	2018
OPTUM		
Generic MAC Pricing Change - Estimated Annual Savings	N/A	$97,000
Closed (Premium) Formulary Change - Estimated Annual Savings	N/A	$55,720
Rebates on Preferred and Non-Preferred Brand Rx - Estimated Annual Payout	$148,450	$433,397

THANK YOU!

Please send your feedback to:

David Montville | Managing Consultant

100 Front Street
Suite 800
Worcester, MA 01608

(508) 595-7910
David.Montville@marshmma.com

Joan Cunnick | Senior Vice President

101 Huntington Avenue
Suite 401
Boston, MA 02199

(617) 777-4762
Joan.Cunnick@marshmma.com

www.MMA-NE.com