Any Company USA, Inc.

Employee Health Insurance Funding Alternatives

Presented by:
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The Alternative Continuum

- Fully insured – non-participating
- Fully insured – participating
- Fully insured - reserveless participating
- Self-insured - look alike plans
- Self-insured - ASO managed care
- Self-insured – TPA minimal managed care

Where is Your Company Today?

- **Fully insured – non-participating?**

Possibly not an inappropriate place to be, given the size and composition of your group to date.

Pros and Cons of Present Situation

Pros:

- Fixed cost
- No deficit carryforward (per se)
- Lowest potential liability of all alternatives

Cons:

- No sharing of surplus in good year
- Cash tied up in IBNR reserves held by carrier
- Subject to state mandated benefits
- Subject to multiple state jurisdictions with different mandates
- Must accept carrier standard plans
- Inability to make plan “exceptions” as desired

The Standard for Large Multi-state Groups

- Employers refuse to allow carriers potentially exorbitant "underwriting gains" in which they do not share. They insist on some form of underwriting participation
- Large employers recognize that carriers underwrite fully insured "participating" policies on a dollar for dollar basis (i.e., claims net of shock claims all ultimately paid by the employer via current or future rate structure; some form of "deficit recovery" required by carrier)
- Only frequent carrier changes can avoid the ultimate recovery but that tactic can cause an employer to be "blackballed" by underwriters.

The Standard for Large Multi-state Groups ...continued

- Employers seek to pay the fixed administrative portion of total costs month-to-month and then claims only as they occur
- A mid-sized, single-site employer might seek a "reserveless" minimum premium approach as an interim step
- A larger multi-jurisdictional employer will virtually always opt for some form of true self-insurance
- ERISA pre-empts state jurisdictions when benefits are self-insured (i.e., no mandates apply; a single plan can apply to all employees, regardless of state locations)

The Standard for Large Multi-state Groups ...continued

- IBNR reserves held by a carrier under an insured contract (i.e., both non-participating and participating) can be freed up immediately
- Many employers use this cash as immediate working capital source
- Important to note that the IBNR liability must be booked on balance sheet and the above working capital is only a source of cash so long as employer remains self-insured and does not terminate the plan
- If any approach requiring a carrier held reserve is contemplated in the future, the IBNR amount would then require front-end funding
- If the plan is terminated in entirety, the IBNR would be required to pay all claims in the pipeline as of the date of termination.

The Standard for Large Multi-state Groups ...continued

- How much is the IBNR worth?
  - Depending on actual plan design, it ranges from 20-25% of paid claims
  - If claims are $4 million (1,000 ees x $4,000 per ee) the IBNR amount would range from $800,000 to $1,000,000
  - Larger employers often request an actuary to do a "triangulation" study to determine their own unique IBNR amount (i.e., often allows less to be carried on balance sheet)
  - Certain audits require the IBNR to be substantiated

Making the Insured versus Self-Insured Decision

- A large employer should rarely look at recent loss ratios and conclude that his/her company has better or worse claims experience than average and then make that the basis of the insured versus self-insured decision.
- Even surpluses continuing 2-3 years in a row are not normative unless the employer falls into a “jumbo” category (i.e., 10,000 employees).
- Loss ratios are unpredictable at best. In a high growth industry with shifting demographics, the variability is magnified by a quantum factor. Today’s 20% surplus will unlikely be next year’s number.
- Renewal underwriting always seeks to reduce both excessive surpluses and excessive deficits.

Making the Insured versus Self-Insured Decision

- The insured versus self-insured decision should be based on the fundamental decision points, not the most recent financials:
  - Do we want to share risk for claims experience?
  - Do we want to streamline benefit plans across multiple states?
  - Do we want the ability to tailor our plan exactly to our needs and desires (i.e., as opposed to carrier standard plans)?
  - Do we want to rely on ERISA versus state insurance departments for regulation?
  - Do we want to free up IBNR's as working capital source?

The Two Self-Insurance Alternatives

- **Self-insured - ASO managed care**
  - ASO is “administrative services only”
  - Major managed care carrier based
  - Carrier provides entire plan infrastructure and claims paying services (same as if insured) utilizing their own provider network
  - Carrier does not assume any insurance risk unless they are also the provider of “stop loss” coverage
  - Carrier revenue is fee-for-service based only (no insurance premium)
  - Carrier usually will not act as ERISA “plan fiduciary” as they do in insured scenario (claims paying agent of employer plan sponsor only)
- **Self-insured – TPA minimal managed care**
  - TPA is “third party administrator”
  - Usually has no carrier affiliation and works in conjunction with various independent provider networks
  - TPA is usually claims payor only
  - TPA may act as a conduit for other services
  - TPA assumes no risk
  - TPA also will not accept ERISA “plan fiduciary” responsibility

Elements of Self Insurance

- Provider network
- Medical management protocols
- Claims administration
- Paid fee-for-service claims
- Paid capitated claims
- Access fees
- Specific stop-loss insurance
- Aggregate stop-loss insurance
- Misc. claims management services
- Direct printing costs

Elements of Self Insurance ...continued

- Provider network
  - Proprietary owned network when carrier based ASO used
  - Various national PPO's available when TPA used
  - Carriers with substantial local market share typically get edge in discount negotiations with local providers
  - Less urban areas typically have only marginal penetration by national PPO's
  - Medical management protocols often are less integrated in TPA scenario than ASO
  - A ZIP code match and a top 20 CPT code analysis are tools for gauging efficacy of alternative networks

Elements of Self Insurance ...continued

- Medical management protocols
  - TPA's and their associated network partners use third party medical management companies
  - In any situation when a patchwork of vendors is utilized, workflow and efficiency are effected
  - State of the art product rollouts take longer when third parties are used
  - For the most part, carriers have a more seamless integration of medical management protocols
  - However, carriers sometimes too use third party vendors and have coordination issues arise

Elements of Self Insurance ...continued

- Medical management protocols
  - Consultants and underwriters concur that across broad populations the mean claim cost per capita is most often less in the ASO environment than in the TPA environment (i.e., negotiating leverage and tighter integration)
  - Not true for every procedure and/or mix of procedures an employer might see in a given year
  - Even taking this conclusions as “given”, there is a direct trade-off between claim cost and administrative costs which does not make the ASO decision a foregone conclusion

Elements of Self Insurance ...continued

- **Claims administration costs:**
  - **TPA's have an unequivocal advantage here. Carriers attempt to load as much into their "ASO fees" as the market will bear.**
  - **TPA's have virtually a dollar for dollar savings trade-off versus the higher than ASO claim cost**
  - **A first year snapshot will make the total self-insured plan costs appear to be equal between the two alternatives as the result of the admin fees versus claims trade-off.**
  - **Large employers need to utilize a longer term view**
  - **A longer term projection of administrative costs and negotiated fees often shows an eroding TPA position over time**
  - **A snapshot also does not reflect the potential difference in claims cost which might result from the protocol integration differential when applied to a chronic or shock type claim.**

Elements of Self Insurance ...continued

- Stop-loss insurance
  - Two types required
    - "Specific" for high individual claims (e.g., all claims over $100,000 paid by a self-insured plan in a single year on behalf of a plan participant are reimbursed to the plan sponsor)
    - "Aggregate" for total plan claims (e.g., if non-reimbursed claims exceed 125% of a pre-determined "expected claims cost" in a year then the excess over 125% is reimbursed to the plan sponsor)
  - Certain specialty stop-loss carriers and TPA's attempt to differentiate an otherwise homogeneous product with various twists on the above.
  - Those alternatives are usually nothing more than a repackaging of the basic coverages

Elements of Self Insurance ...continued

- Stop-loss insurance
  - If purchased in conjunction with TPA approach then always from a specialty stop-loss carrier
  - If purchased in conjunction with an ASO approach employer has an option to purchase from the ASO carrier itself or from a specialty stop-loss carrier
  - Stop-loss provided by ASO carriers is often unduly conservative and uncompetitive (i.e., from both a terms and premium cost perspective)
  - However, when stop-loss is provided by an ASO carrier, and when a large claims is paid by the plan, the reimbursement mechanism is virtually transparent
  - For most large employers the significant administrative advantage above rarely will outweigh the negatives of terms and cost and the specialty stop-loss carrier approach will be chosen

Elements of Self Insurance ...continued

- Stop-loss insurance terms
  - Specific in thousands (i.e., $100, $150, $200, $250)
  - Aggregate claims factor (125% ECC)
    - A first year factor will have roughly a 25% discount reflecting the prior insured carrier paying all run-out claims following that plans termination
    - Second year will be fully mature without that discount
  - First year run-in from an insured group: “12/12” (i.e., incurred in 12 and paid in 12)
  - First year run-in from a previously self-insured group: “15/12” or “18/12” (i.e., incurred in either 15 or 18 months and paid in 12)
  - Second year: “paid in 12” (i.e., any claim paid in 12 months regardless of the date of incurral)

Elements of Self Insurance ...continued

- Direct printing costs
  - In self-insurance scenario plan sponsor must pay for all printing costs as a direct expense
  - Summary Plan Description (i.e., “SPD”)
  - Plan document (i.e., if separate from SPD)
  - ID cards
  - Draft wording is usually provided to the plan sponsor without cost

Elements of Self Insurance ...continued

- **The Hidden Costs: Legal & Regulatory Compliance**
  - Self-insurance takes away the safety net of ERISA fiduciary responsibility being borne by a carrier
  - Neither TPA nor ASO carrier will go too far in advising on legal or regulatory compliance issues
  - Of the two, the ASO carrier and their field force representatives will likely be greater assets

Conclusion

Boca Benefits Consulting Group, Inc. appreciates the opportunity Any Company USA, Inc. has provided to present this information.

The depth of additional information related to these subjects is vast. We look forward to further discussions in the future.