Innovative Self-Funding Strategies

Brian Glock  Aldrich
David Underwood  Sun Life
Medical Debt Stats

Medical Debt is a major problem in the US. The burden of a Healthcare system out of control is placed on the American Public, primarily the Average American Employee.

- Medical Costs
  - The average medical insurance premium has increased 50% in last decade
  - 66% of Americans fear they won’t be able to afford health care
  - 33% of Americans have postponed visiting a doctor due to cost
  - On average, Americans spend about $10,000 a year on healthcare

- Medical Debt
  - Approx. 60% of Americans have medical debt
  - 70% of Americans with Medical bills had to lower spending on food to avoid bankruptcy
  - Medical bankruptcies represent 66.5% of all personal bankruptcies
    - 78% of these people had health insurance
Employers are the Answer to Fixing Healthcare
Self Funding Creates Opportunities

**Employer**
- Visibility into plan performance
- Plan design and clinical outreach
  - Direct to employer contracting
- Increased control over risk
- Transparent vendor compensation
- Contain Costs

**Employee**
- Opportunity to reduce deductibles and coinsurance
- Programs to help navigate complex health system
- Employer give backs
Self-funded medical coverage

44% of U.S. employees are enrolled in a self-funded plan\(^1\)

81% of brokers say they have fully-insured clients considering making the switch to self-funding\(^2\)

Affordable Care Act (ACA) becomes law

61% of U.S. employees are enrolled in a self-funded plan\(^1\)

Sun Life continues its long-term commitment to helping the self-funded community


2. Based on July 2019 study from Sun Life’s Employer Voices and Broker Voices online community; 44 brokers were surveyed and responded for this study.
How often are covered workers enrolled in a self-funded plan?

In 2021, 64% of covered workers were enrolled in a self-funded plan.

*Estimate is statistically different from estimate for all other firms not in the indicated size category (p < .05).
NOTE: Includes covered workers enrolled in self-funded plans in which the firm’s liability is limited through stop-loss coverage. See the glossary at the end of Section 10 for definitions of self-funded, fully-insured, and level-funded premium plans.
SOURCE: KFF Employer Health Benefits Survey, 2021 From Kaiser Family Foundation
Employer Premiums and Deductibles Have Risen Much Faster than Wages Since 2010

NOTE: Average general annual deductibles are for single coverage and are among all covered workers. Workers in plans without a general annual deductible for in-network services are assigned a value of zero.
Traditional Self-Funding
Fully insured health plan costs

Insurance company charges a premium to provide a benefits plan

- Administration
  - Claims adjudication

- Costs
  - Premium and taxes
  - Risk and pooling
  - General expenses

- Claims
  - Medical
  - Reserves (first year)

Potential profit
Self-funded health plan costs

Employer self-funds the benefits plan

Administration (TPA or ASO with a health insurer)
- Claims adjudication

Costs
- Administrative fees
- Stop-loss specific (catastrophic claims)
- Stop-loss aggregate (ordinary claims)

Claims (employer’s bank account)
- Medical
- Rx, dental, vision
- Reserves (first year)

Potential savings
Who administers claims?

Administrative Services Only (ASO) with a health insurance carrier

OR

Third Party Administrator (TPA)

Scale and standardization

• National reach and network discounts
• Standard service model
• Set cost-containment programs

Customization

• Local and regional presence, including various networks with discounts
• Personalized service model
• Options for cost-containment programs and vendors
• Advanced funding of claims
What does the marketplace do?

Source: Sun Life Stop-Loss quote requests from Jan 2018 to Jan 2022.
Unbundling can be a seamless experience

- **Mirroring Endorsement** (with review and approval)
- **No New Lasers at Renewal option** with Renewal Rate Cap
- **Easy and dependable claims process** with accelerated reimbursement options

More than half of our clients have chosen a medical administrator that also offers stop-loss insurance, however they still chose to carve-out their stop-loss with Sun Life.
Stop-loss caps the risk

- Protection for the self-insured employer from large claims that occur for any one plan member

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<tr>
<th>Specific</th>
<th>Aggregate</th>
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<tr>
<td>Protection for the self-insured employer from large claims that occur for any one plan member</td>
<td>Protection for the self-insured employer from higher-than-expected first-dollar claims from plan members</td>
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More flexibility and financial control

Self-funding benefits include...

• Not subject to state mandated benefits
• Plan design customization opportunity
• Lower state and federal taxes
• Greater cash-flow control
• Potential savings compared to fully insured
• Increased claims data access
• Claim trend analysis and benefit plan strategy
• Tailored health management programs, case management, wellness, and employee incentives
Human resources professionals are busy. They rely on partners—especially brokers—to be the experts in self-funding and stop-loss so they don’t have to be.

**BROKERS**

- **Employer belief:** self-funding is a long-term plan that makes financial sense.
- **Employer need:** when it comes to stop-loss—beyond cost—what matters to employers is a carrier’s reliability, reputation, and a “seamless” stop-loss experience.
- **Employer perspective:** those that have never unbundled (or “carved out”) stop-loss have some concerns about the transition but those same pain points are rare for those currently unbundled.

**HUMAN RESOURCES**

- Employee Benefits
- Health insurance
- Life insurance
- Recruiting
- Payroll
- Employee relations
- Dental & vision
- Risk management
- LTD/STD
- Open enrollment
Learn more in our next deck on alternative options to move from fully-insured

May be a solution for reduced volatility for fully-insured employers transitioning to self-funded with 50-500 lives.

- Captives
- Level-funding
- Reference Based Pricing (RBP)
Level funding
What is level funding? How does it work?

- **Level funding** is a self-insured medical product where clients pay set level premium payments each month based on enrollment and has a lower claims threshold to create an experience that is similar to a fully-insured plan.

- If there is a surplus based on the client’s premium if claims experience is better than expected, clients are eligible for a refund, which is the potential financial upside to level funding compared to a traditional fully-insured option.

- Claims funding + stop-loss premium + terminal reserve + administrative fees = Monthly PEPM payment
To level-fund, why or why not?
That is the question.

Potential benefits to level-funding:
- ✓ Fixed PEPM fee- monthly cost doesn’t vary based on experience just enrollment numbers
- ✓ Less risk involved- specific claims get reimbursed over the claims threshold, but amount under threshold has fixed costs
- ✓ Improves timing for cash flow reimbursement
- ✓ Eligible for surplus if claims experience is better than expected*

Potential drawbacks to level-funding
- ✓ Client pays the monthly PEPM (Premium) regardless if claims are incurred
- ✓ Surplus is limited to a percentage, if it is offered – so you don’t get the full potential financial benefit of being self-funded with first-dollar savings
- ✓ Refund can be contingent on renewal

*Not all carriers guarantee a surplus reimbursement
Who may be good fit

Smaller employers (typically, 50-250 employees)

Those transitioning to self-funding

EMPLOYERS THAT CHOOSE LEVEL FUNDING TYPICALLY:

✓ Looking for consistent cash flow and predictability
✓ Looking for more flexibility in their plan design
✓ Focused on cost-containment within their benefits plan
✓ Open to new strategies and solutions
Captive arrangements
What is a captive?

• A **group stop-loss captive** is an insurance entity formed and managed by like-minded employers looking to increase control of their employee health benefit program to reduce overall costs.

• These captives allow small employers to gain the negotiating power of a larger company by sharing a layer of risk that results in more predictable claims experience, while stabilizing the overall cost of providing healthcare insurance to employees long-term.

44% of fully insured employers evaluating self funding would consider a group stop-loss captive arrangement

Source: Number of employees covered under a partially or completely self-funded medical plan according to Kaiser/HRET’s Survey of Employer Sponsored Health Benefits, 1999–2020.
• Each employer in the captive can have their own specific deductible level

• Once breached, the captive bears the risk until the excess risk limit is reached

• The captive risk layer can be shared between the captive and the stop-loss carrier
• The stop-loss carrier provides protection over the entire captive risk layer in the form of a reinsurance aggregate

• The reinsurance aggregate corridor is a percentage of the captive member’s expected claims in the captive risk layer

• Once the reinsurance aggregate limit has been breached, any additional claims accruing to the captive risk layer would be covered by the stop-loss carrier
• Employers join together in the captive arrangement
  • They go through their individual brokers to find a captive manager, who then submits the group prospects to the stop-loss carrier
  • The carrier underwrites the risk and issues the policy; a portion of this risk will be transferred back to the captive entity
Why employers choose captives

- Ease the transition to self-funding
- Pool and share their risk
- Reduce claim volatility
- Profit share when experience is better than expected

“An easy transition into understanding self-funding.”

“Added security of the captive pool.”

“Access to tools and spreading of risk.”

“The groups like the added flexibility of plan choices for their employees most of all. Many like the feeling that there will be greater price stability for them as well.”
Different types of captives

Group captives can either be **heterogeneous** or **homogeneous**

**Heterogeneous** captives occur when employers from different industries come together to form a collective captive. Generally, these types of captives acquire more participants and can quickly achieve an appropriate spread of risk.

**Homogeneous** captives are made up of employers from the same or similar industries. Employer membership is often smaller, but the underlying risks/underwriting profiles are often more similar.
Who may be good fit

Smaller employers (typically 50-250 employees)

Those transitioning to self-funding

EMPLOYERS THAT CHOOSE A CAPTIVE TYPICALLY:

✓ Share a common focus on cost-containment within their benefits plan
✓ Are willing to join like-minded employers to share risk
✓ Value peer collaboration
✓ Open to new strategies and solutions
Key questions that any broker or client interested in captives should look to answer

✓ Who owns the captive? Who controls the decision-making process?
✓ Are distributions from the captive guaranteed?
✓ Is the captive onshore or offshore?
✓ Is cost-containment support provided?
✓ Why type of policy is used initially and at renewal?
✓ What data is provided to the employer?
✓ What is the managers renewal ratio?
✓ What is the captives philosophy on lasering?
✓ Who negotiates the reinsurance arrangements?
An introduction to reference-based pricing
What is reference-based pricing?

The goal of any Reference-Based Pricing (RBP) program is to pay claims at an amount closer to their **actual cost** plus a **fair and reasonable margin**.

RBP programs have historically served as **network replacement** options for self-funded clients, reimbursing certain medical claims on a predetermined reference rate methodology (most often Medicare).

As these programs don’t typically rely on contracts to define reimbursement, a member can be **balance billed** by a provider. While not every member will get balance billed, a good program will offer services to support members when they do.
What else should you know?

RBP typically applies to facility claims, although can also be applied to physician claims, known as “full replacement”.

Generally no contract in place, however, direct contracts and single patient contracts can be used if needed.

Other benchmarks may be used if a Medicare rate is not available or appropriate:

✓ **Cost-to-Charge ratio (“Cost”)**: average mark-up of billed charges over a hospital’s true cost at a department level.

✓ **Average Wholesale Price (“AWP”)**: average price at which wholesalers sell drugs to physicians, pharmacies and other customers.

✓ **Manufacturer’s Retail Pricing (“MRP”)**: invoice cost, commonly used for implants and devices.
**RBP ADVANTAGE**

**Top-Down Pricing**
The hospital sets the price and the plan has a PPO contract for ~50% discount off of hospital’s price

**Bottom-Up Pricing**
RBP health plan pays the hospital a percentage above the Medicare reimbursement (140% in this example)

**RBP is a method of determining an allowable amount**

**RBP has no impact on claims or appeals procedures**

- Medicare Reimbursement Rate: $15,893
- RBP Price: $22,250
- Plan Savings: $15,250
- PPO Price: $37,500
- $75,000
- $50,000
- $25,000
- $0
What support will a program provide?

Clients should expect some members to be balance billed. The RBP vendor will help assist the member/client when, not if, this happens.

**Pre-Claim Services**
- Plan Language
- Member Education

Any reference rates used need to be included in the plan document indicating how and when they will be used to determine reimbursement.

**Post-Claim Services**
- Claim Repricing
- Member Advocacy
- Legal Defense

Some programs may confirm reimbursement or negotiate with the provider before services occur, while others may defend reimbursement or negotiate after a claim is appealed.
Where are we seeing interest?

*Other markets w/ 2-3%: IN, IL, NJ, CT, OR, MO, NC, MA, CO, LA, MS
STATES, CITIES, AND SCHOOL DISTRICTS ADOPTING RBP

- Montana state employees now
- Oregon state employees considering
- North Carolina trying
- Orlando School District, 500+ employees

SHIFT FROM BLUE COLLAR TO WHITE COLLAR

- Employee types changing as healthcare cost are pinching everyone
  - High tech, Nationally recognized companies, Large employers
- Shift from central US to the Coasts
- Major household names coming to the PNW
Key questions that any broker or client interested in RBP should look to answer

✓ How will the **plan language** be changed to support the RBP program’s services?
✓ How will their members be **educated** on how to use this program?
✓ How will the program **assist plan members** when balance billing does occur?
✓ Have the providers in the areas where our members are located **accepted** RBP previously?
✓ How will **transplant** services and **pharmacy** costs be managed, as these typically fall outside the scope of RBP?
✓ How will employer share results of RBP program with employees?