

Innovative Self-Funding Strategies

Brian Glock

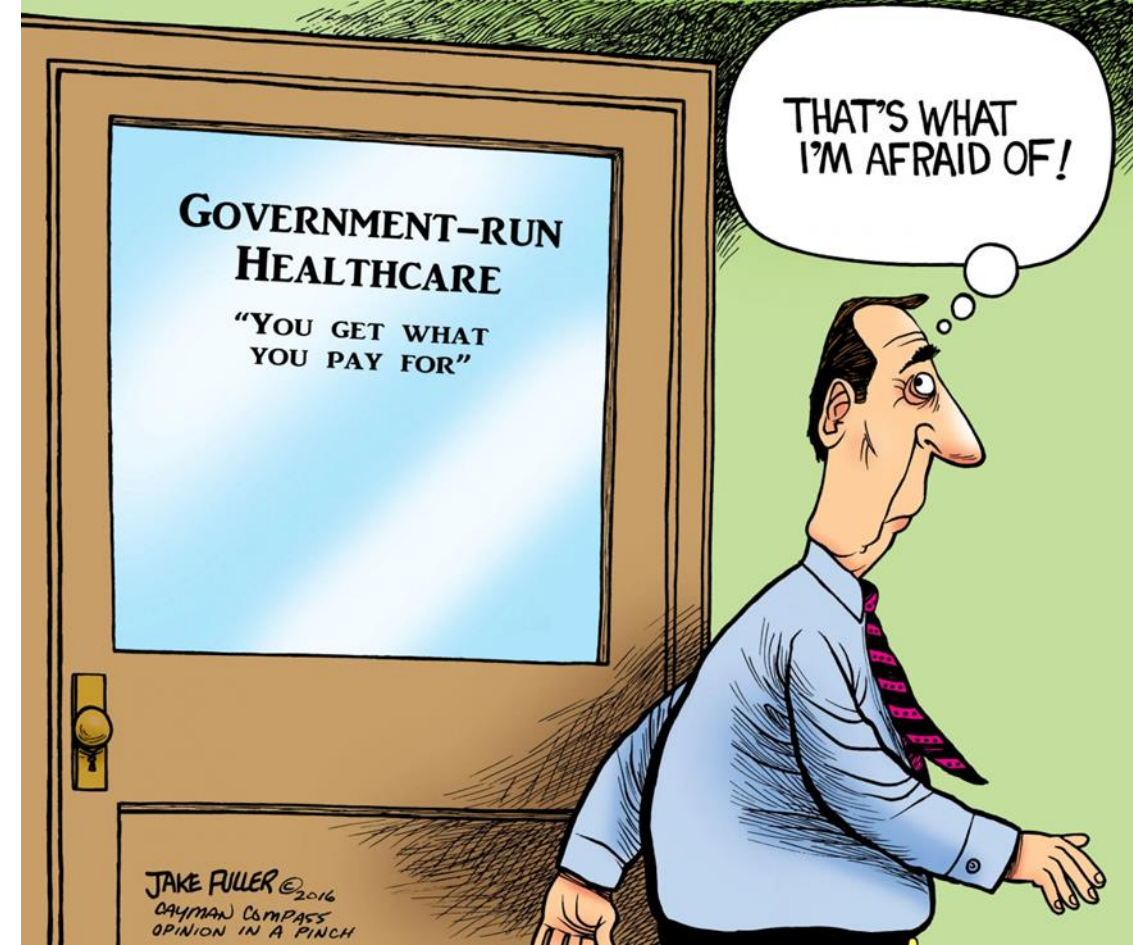
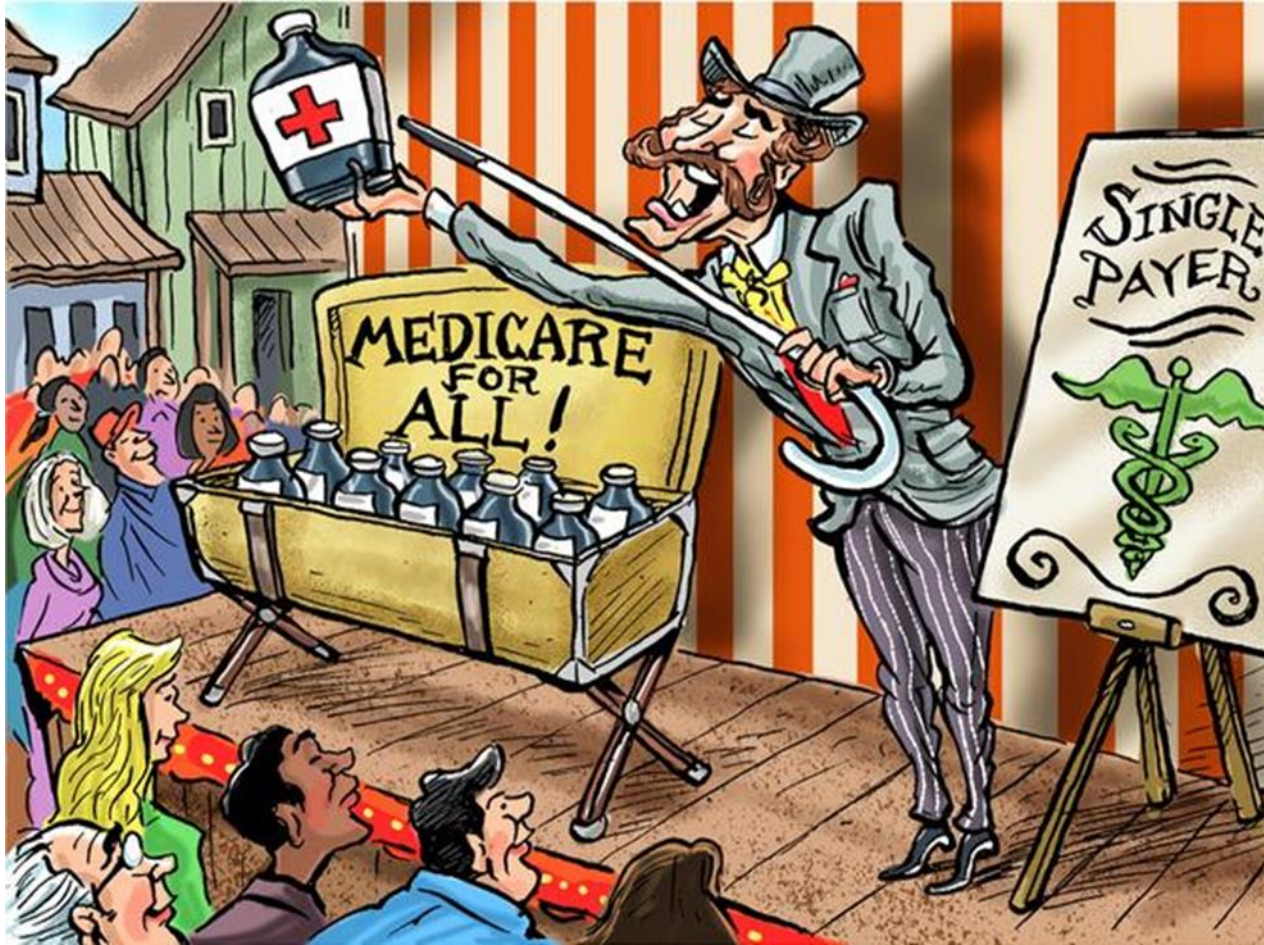
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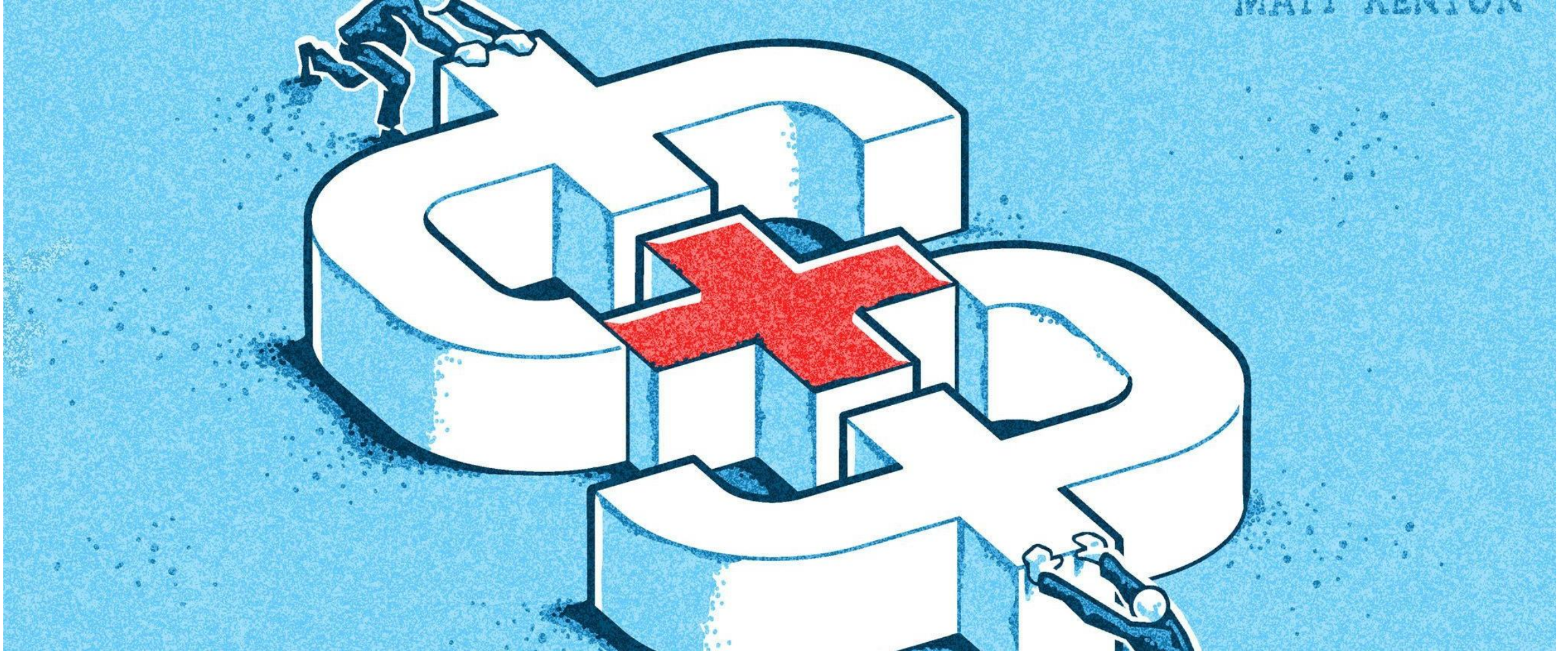
David Underwood

Sun Life

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





Self Funding Creates Opportunities

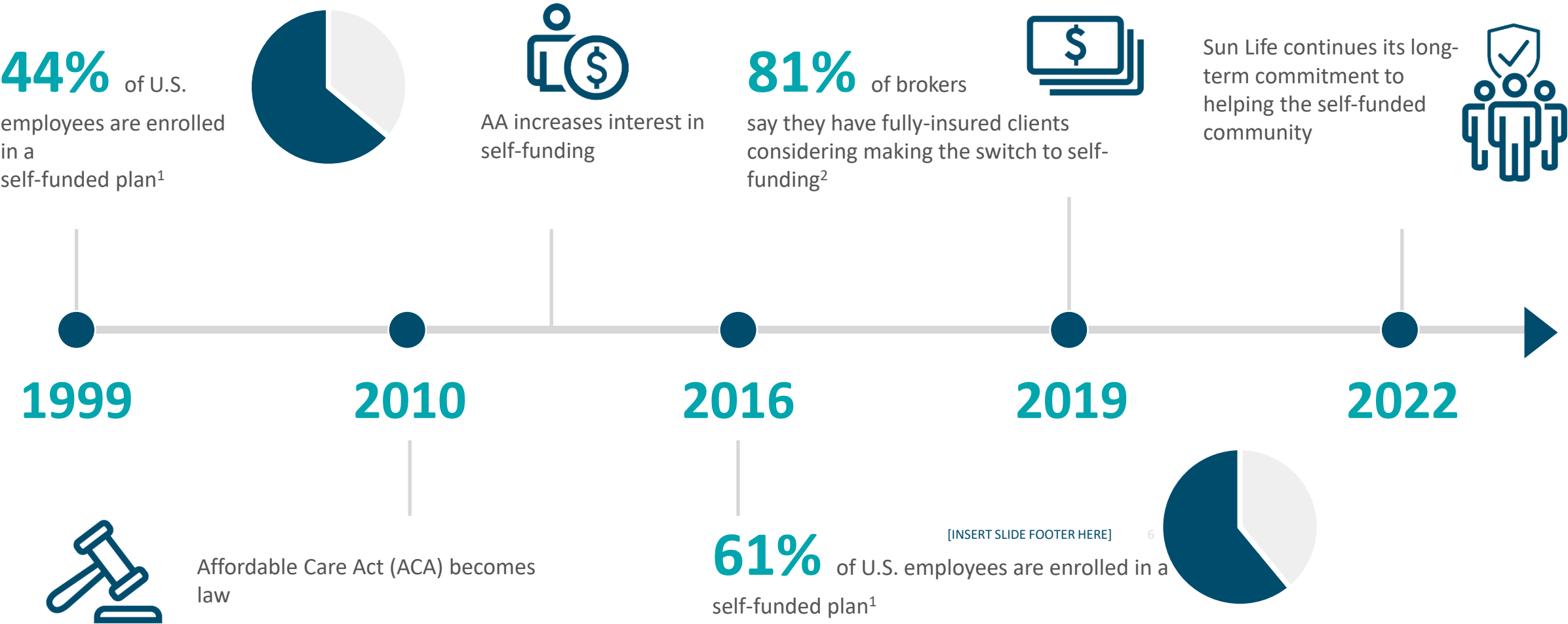
Employer

- 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



1. Source: Percentage of workers covered in a partially or completely self-funded plan comes from Kaiser/HRET's Survey of Employer Sponsored Health Benefits. 2021; <https://files.kff.org/attachment/Summary-of-Findings-Employer-Health-Benefits-2021.pdf>

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 ($p < .05$).

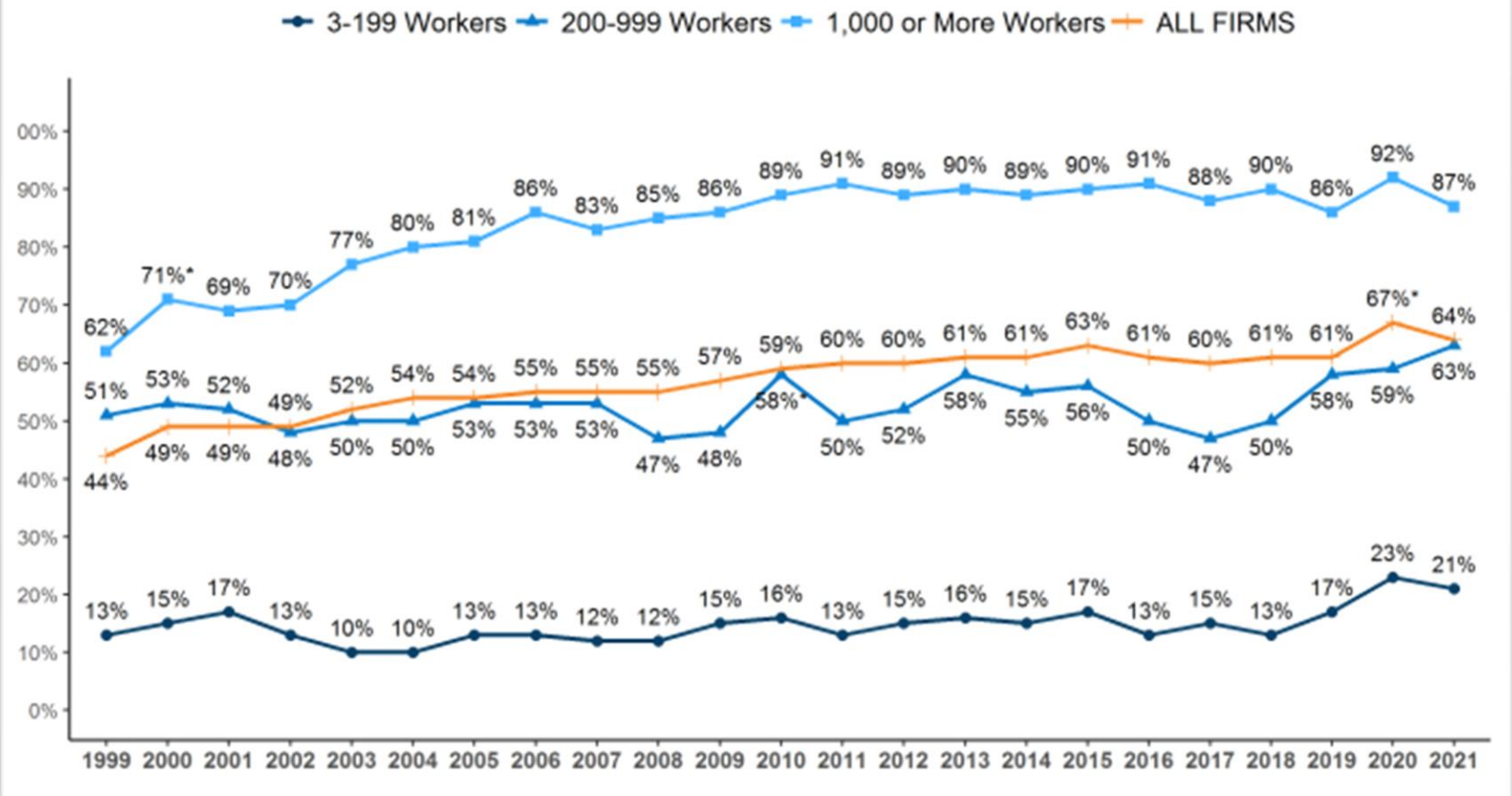
NOTE: Includes covered workers enrolled in self-funded plans in which the firm's liability is limited through stop-loss coverage. See the glossary at the end of Section 10 for definitions of self-funded, fully-insured, and level-funded premium plans.

SOURCE: KFF Employer Health Benefits Survey, 2021

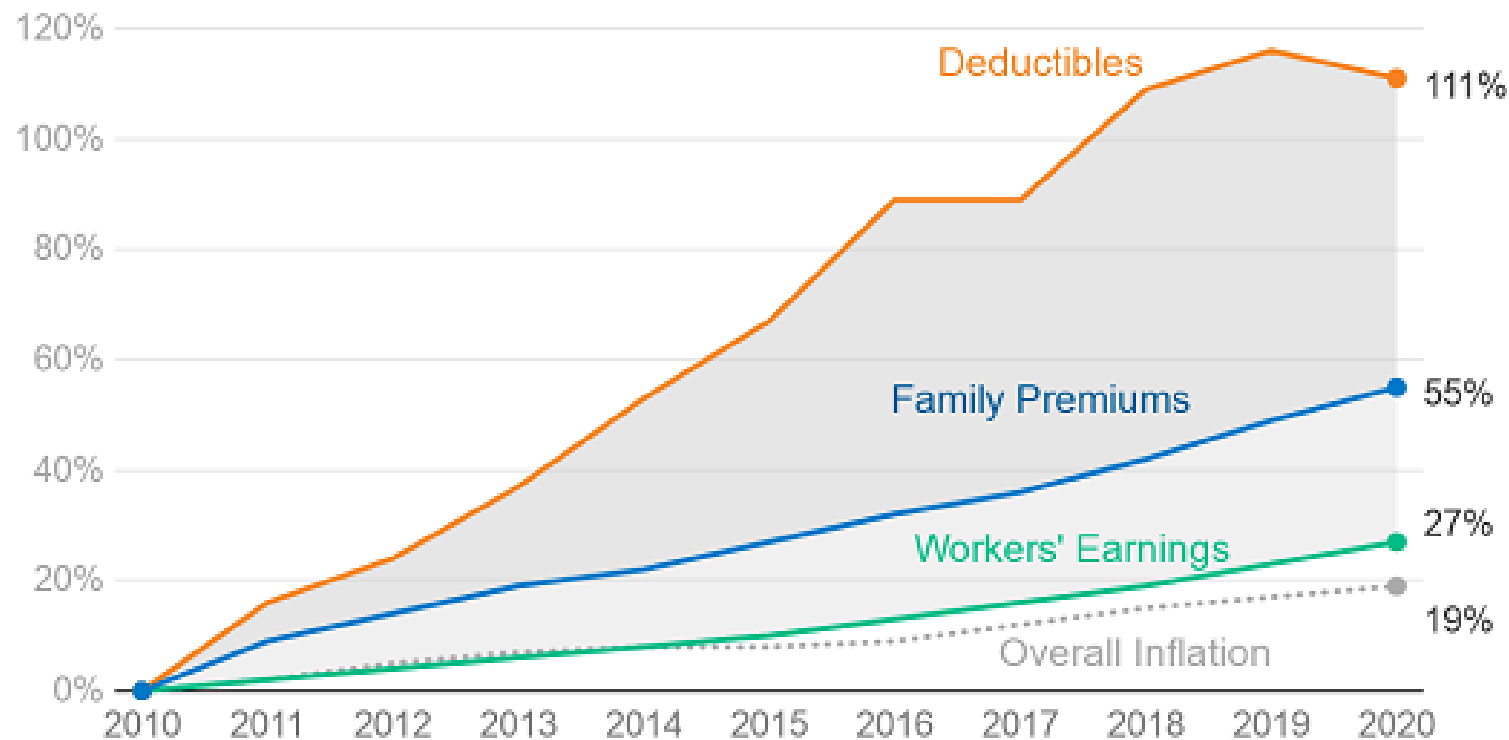
From Kaiser Family Foundation

Figure 10.2

Percentage of Covered Workers Enrolled in a Self-Funded Plan, by Firm Size, 1999-2021



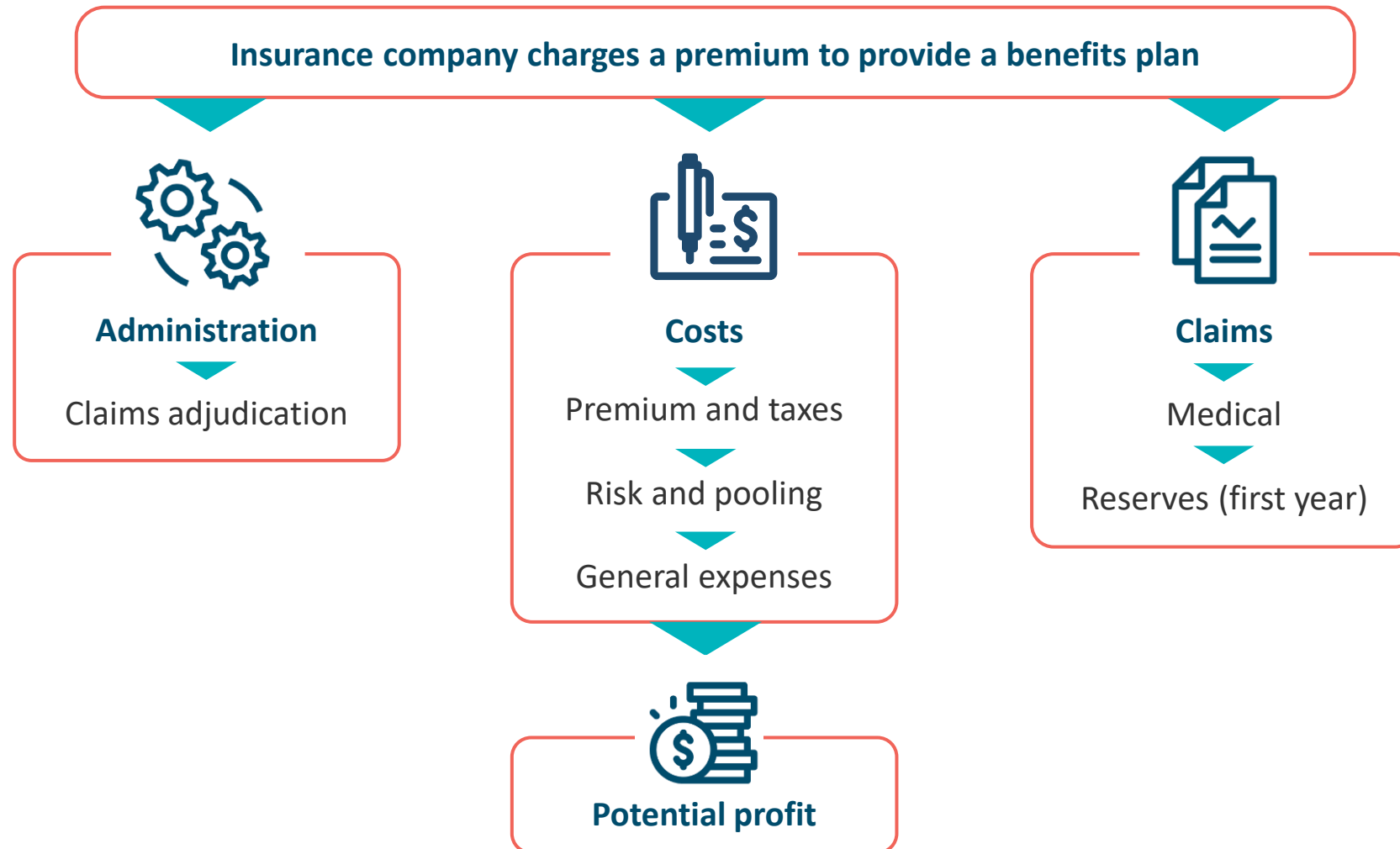
Employer Premiums and Deductibles Have Risen Much Faster than Wages Since 2010

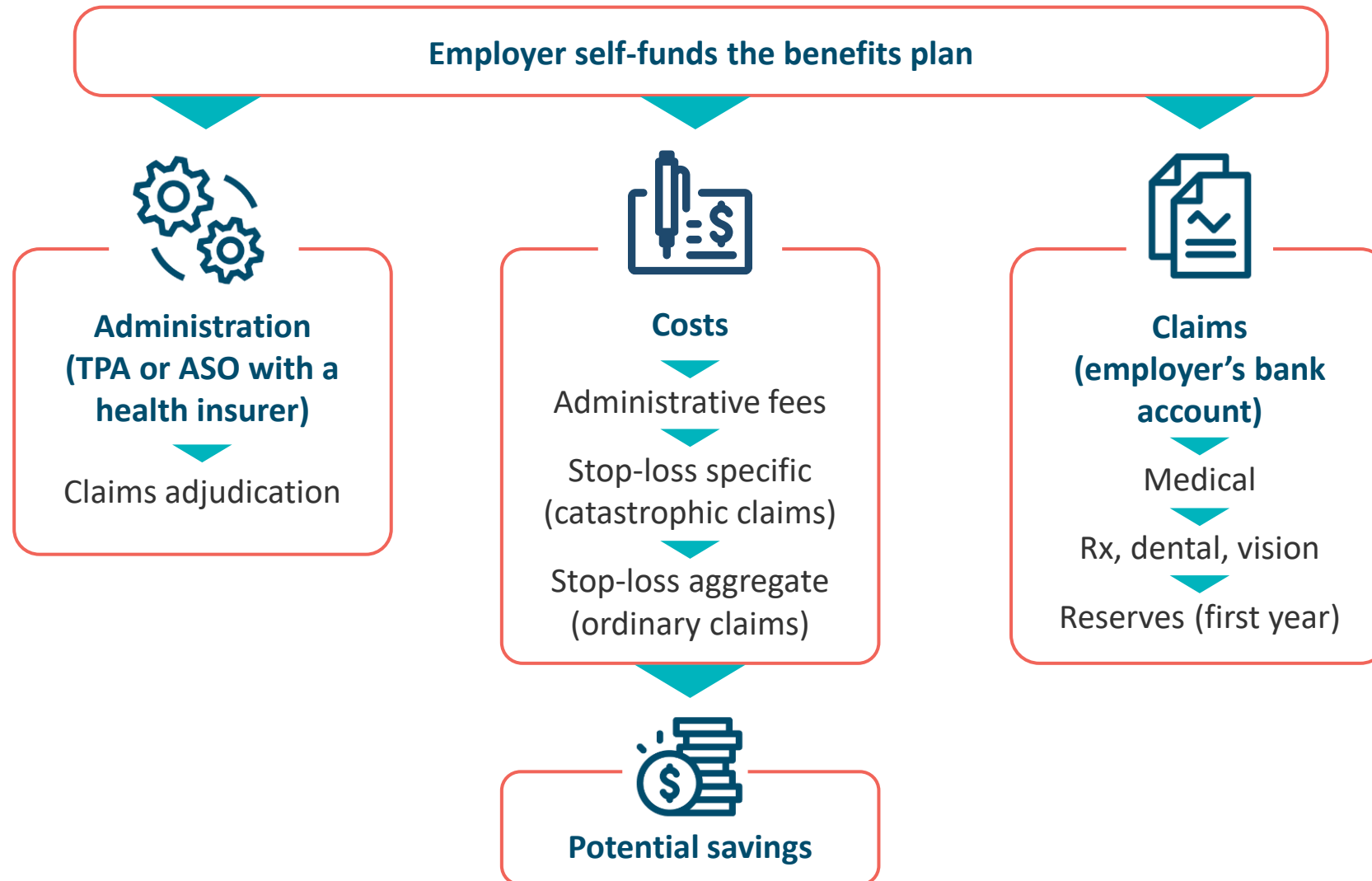


NOTE: Average general annual deductibles are for single coverage and are among all covered workers. Workers in plans without a general annual deductible for in-network services are assigned a value of zero.

KFF

Traditional Self-Funding





Who administers claims?

Administrative Services Only (ASO) with a health insurance carrier



OR

Third Party Administrator (TPA)



Scale and standardization

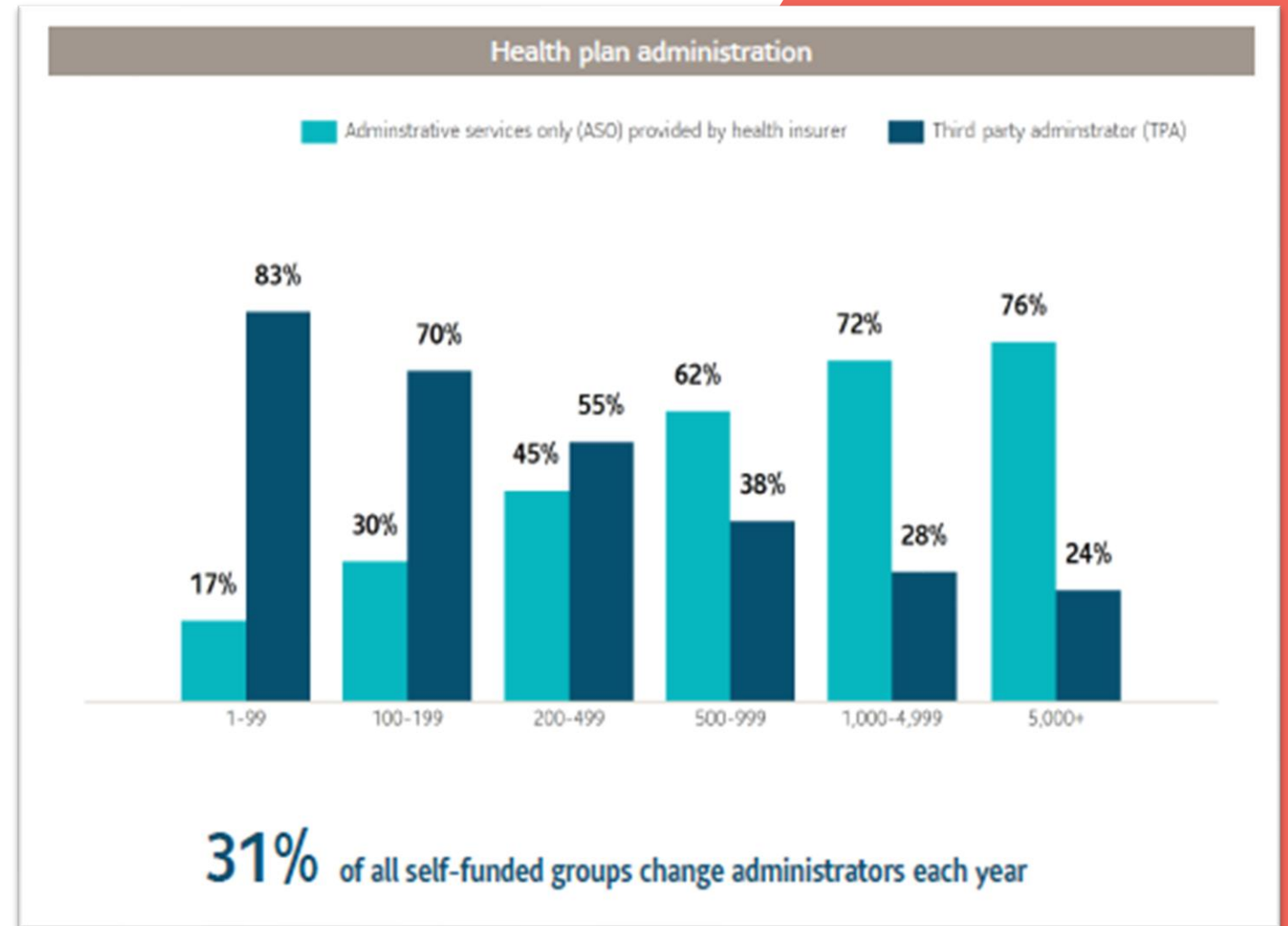
- National reach and network discounts
- Standard service model
- Set cost-containment programs

SLPC 28862

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.



- ✓ **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

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



Specific

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



Aggregate

Protection for the self-insured employer from higher-than-expected first-dollar claims from plan members



**Two types
of coverage**

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.



HUMAN RESOURCES

- Employee Benefits
- Health insurance
- Life insurance
- Recruiting
- Payroll
- Employee relations
- Dental & vision
- Risk management
- LTD/STD
- Open enrollment



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.



Captives



Level-
funding



Reference
Based
Pricing
(RBP)



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

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?

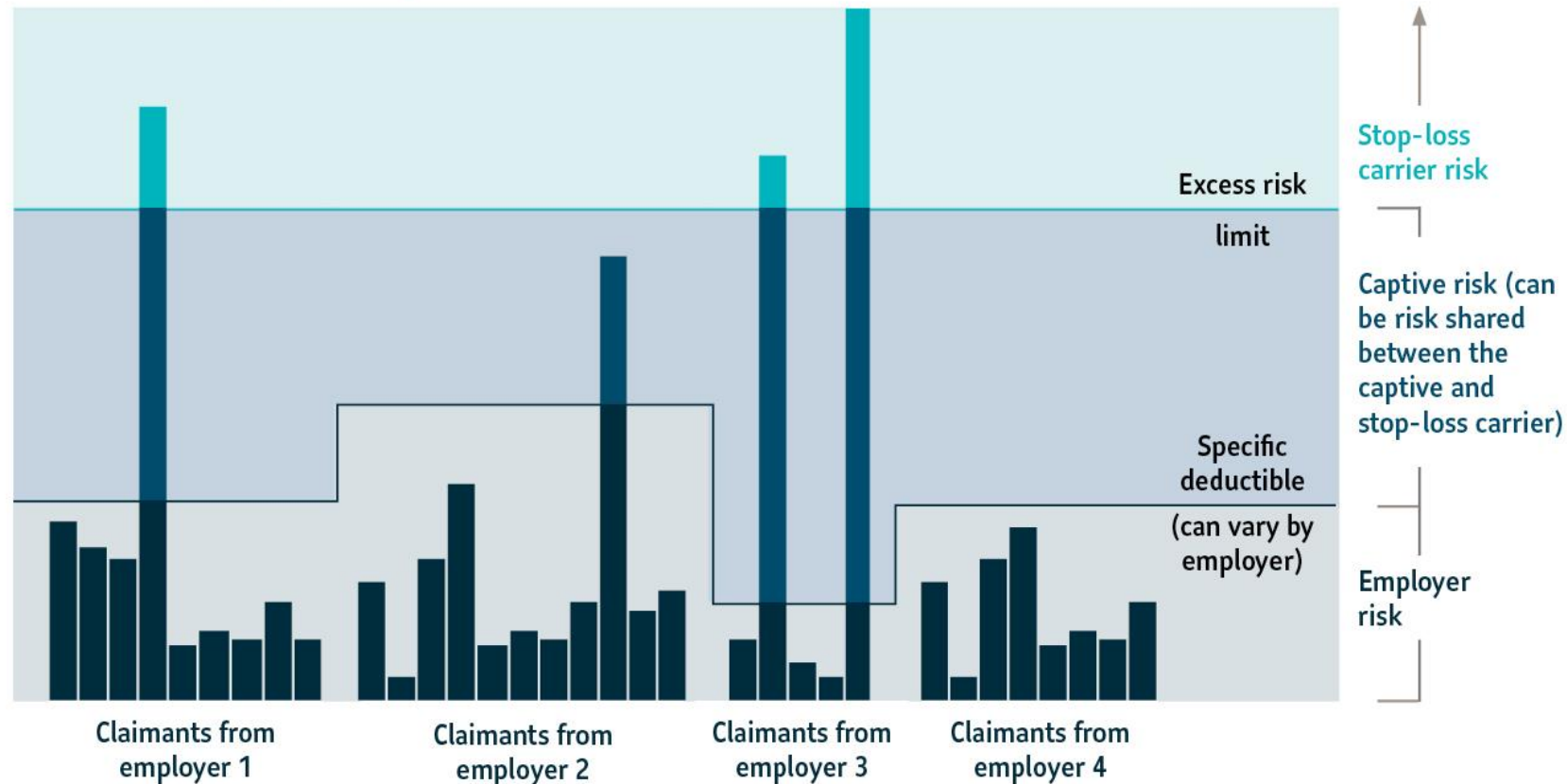
- A **group stop-loss captive** is an insurance entity formed and managed by like-minded employers looking to increase control of their employee health benefit program to reduce overall costs.
- These captives allow small employers to gain the negotiating power of a larger company by sharing a layer 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

Captive program structure

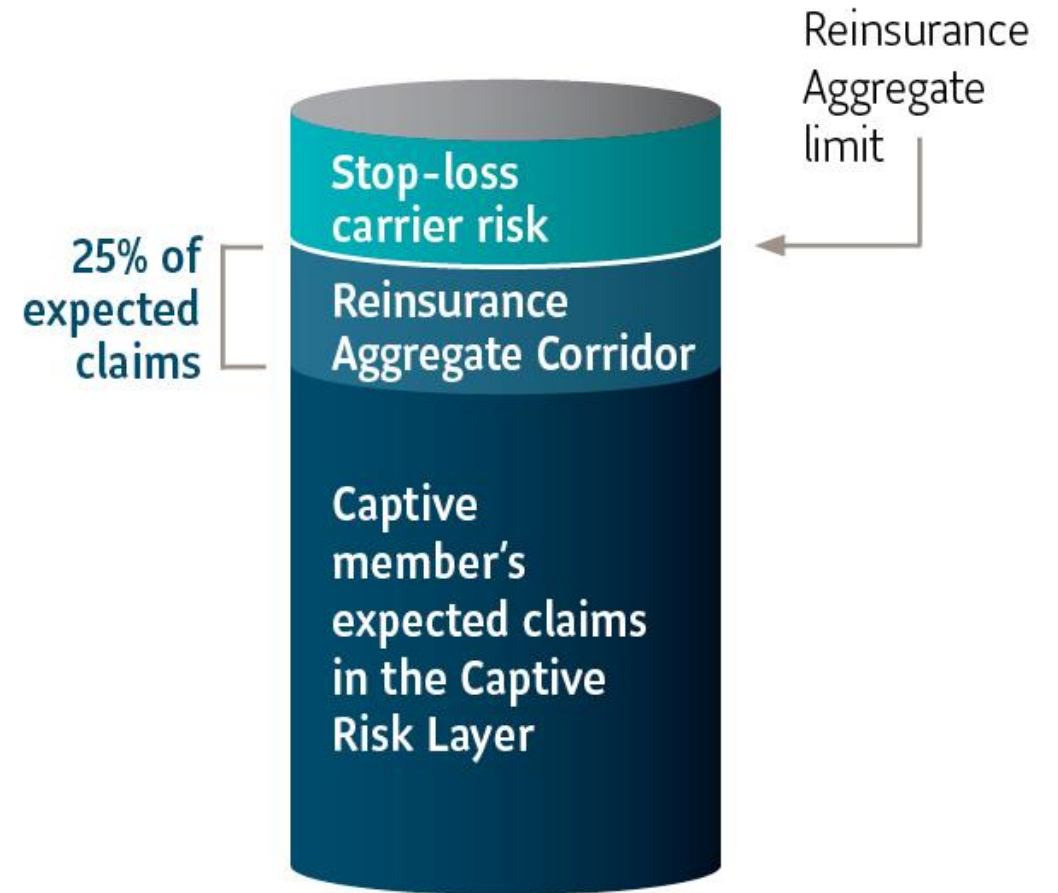
Understanding stop-loss captive solutions



- 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

Captive program structure

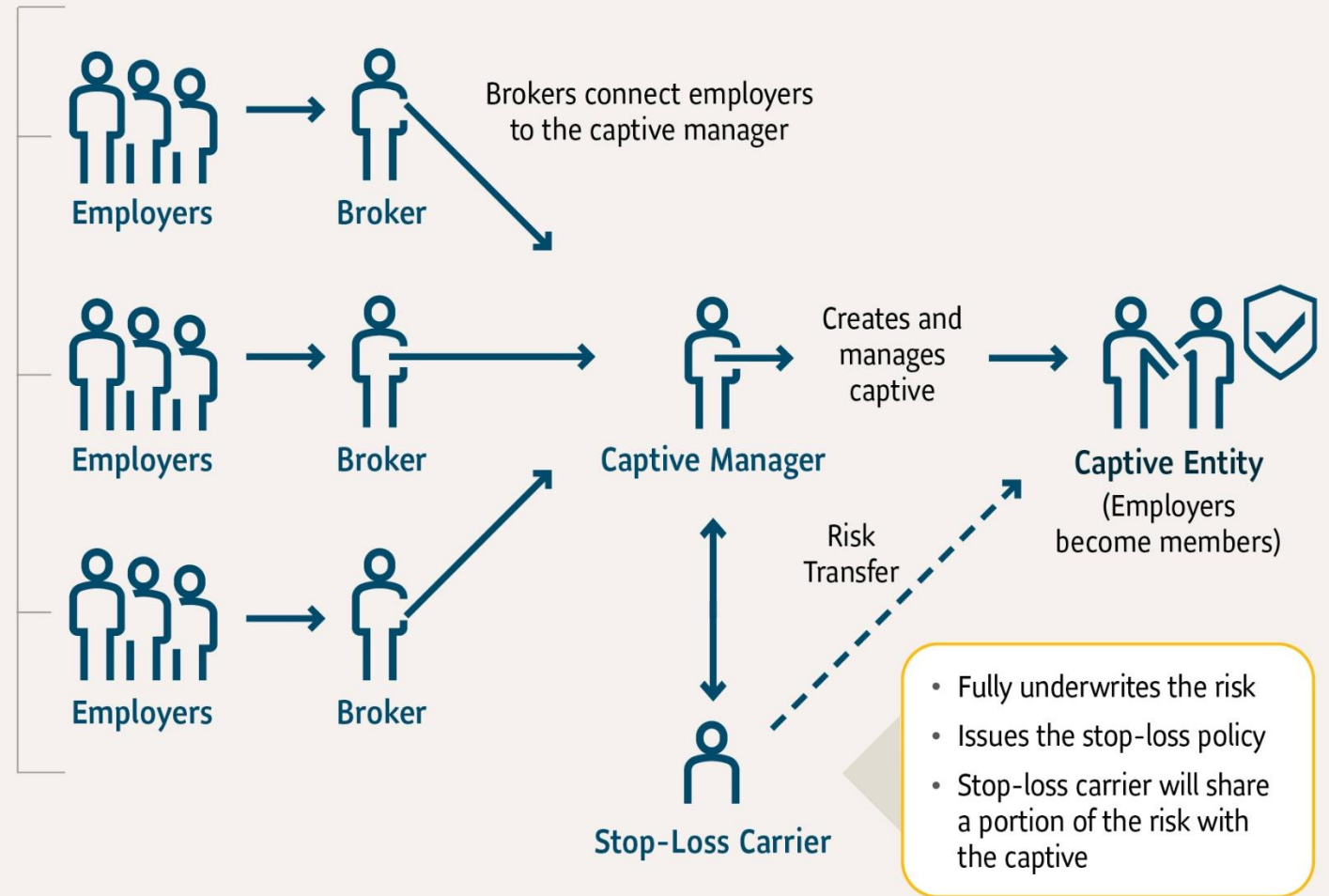
- The stop-loss carrier provides protection over the entire captive risk layer in the form of a reinsurance aggregate
- The reinsurance aggregate corridor is a percentage of the captive member's expected claims in the captive risk layer
- Once the reinsurance aggregate limit has been breached, any additional claims accruing to the captive risk layer would be covered by the stop-loss carrier



How it works

- 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

Group stop-loss captive arrangement



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

“ 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. ”

“ An **easy transition** into understanding self funding. ”

“ **Added security** of the captive pool. ”

“ Access to tools and **spreading of risk**. ”



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

What questions should you ask a potential captive partner?

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



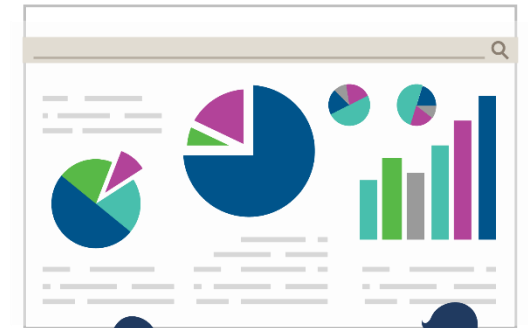
The goal of any Reference-Based Pricing (RBP) program is to pay claims at an amount closer to their **actual cost** plus a **fair and reasonable margin**.



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.



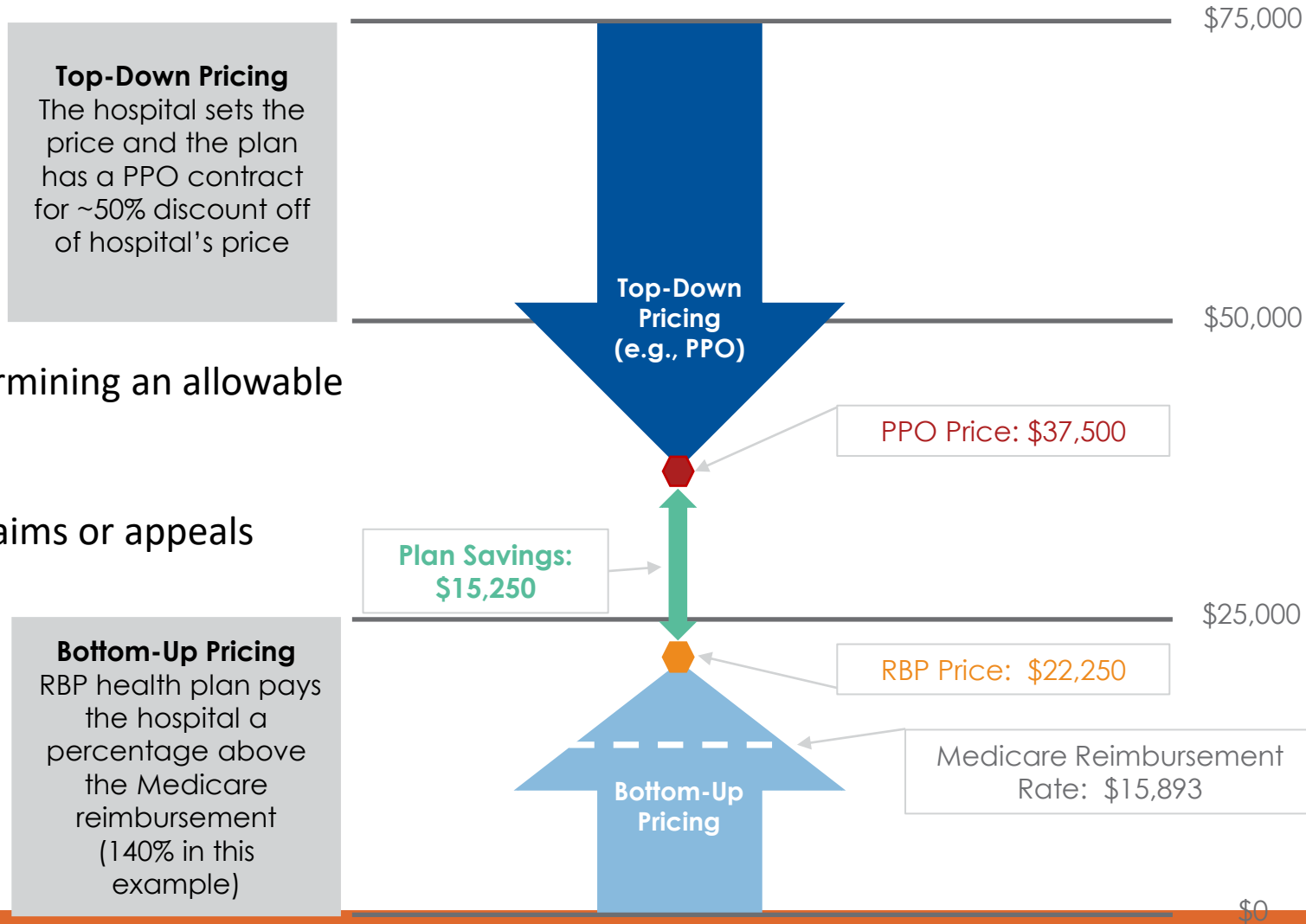
Other benchmarks may be used if a Medicare rate is not available or appropriate:

- ✓ **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.

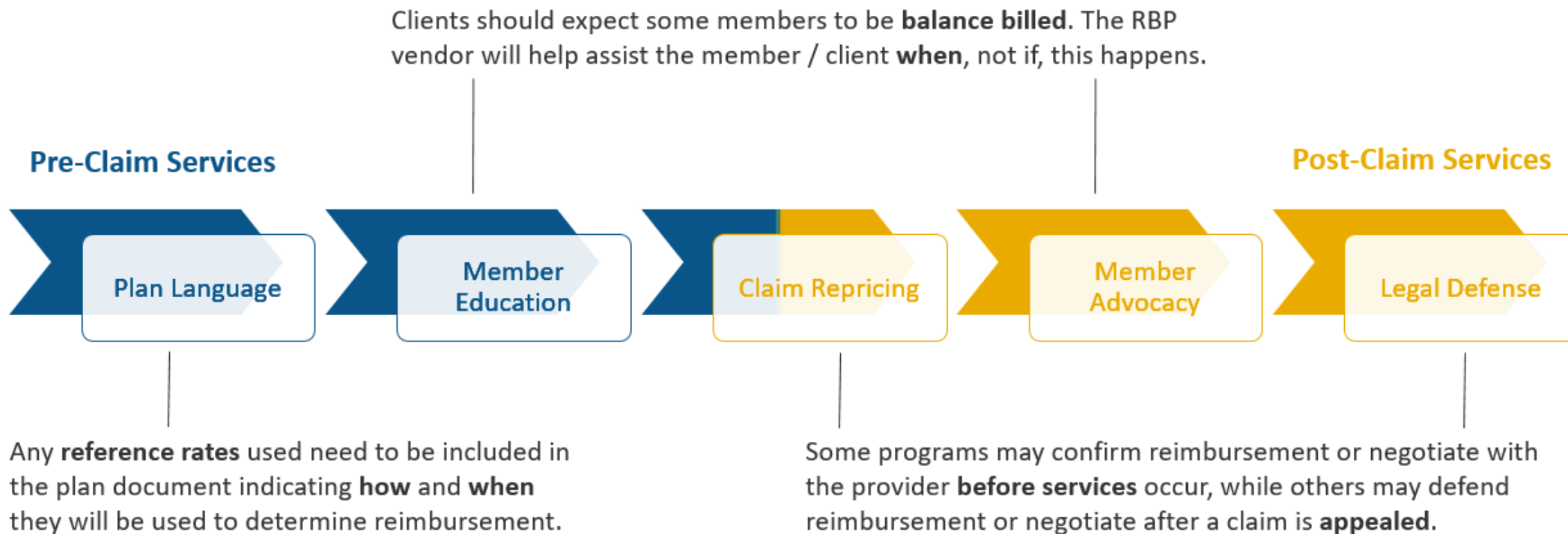


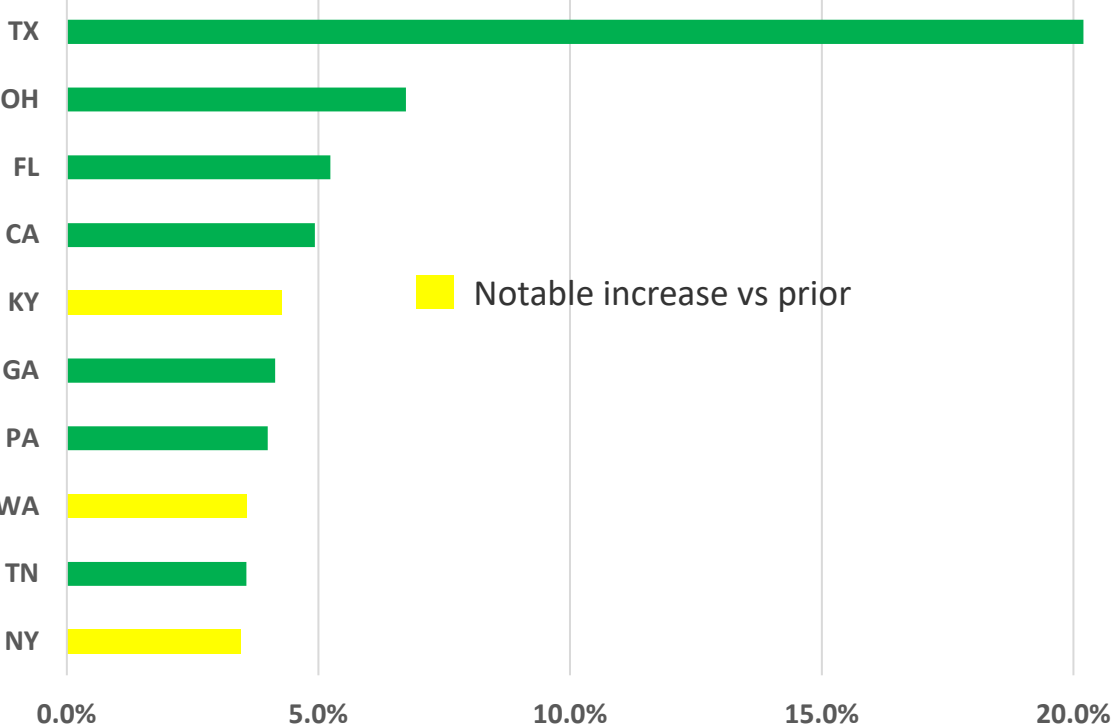
RBP is a method of determining an allowable amount

RBP has no impact on claims or appeals procedures

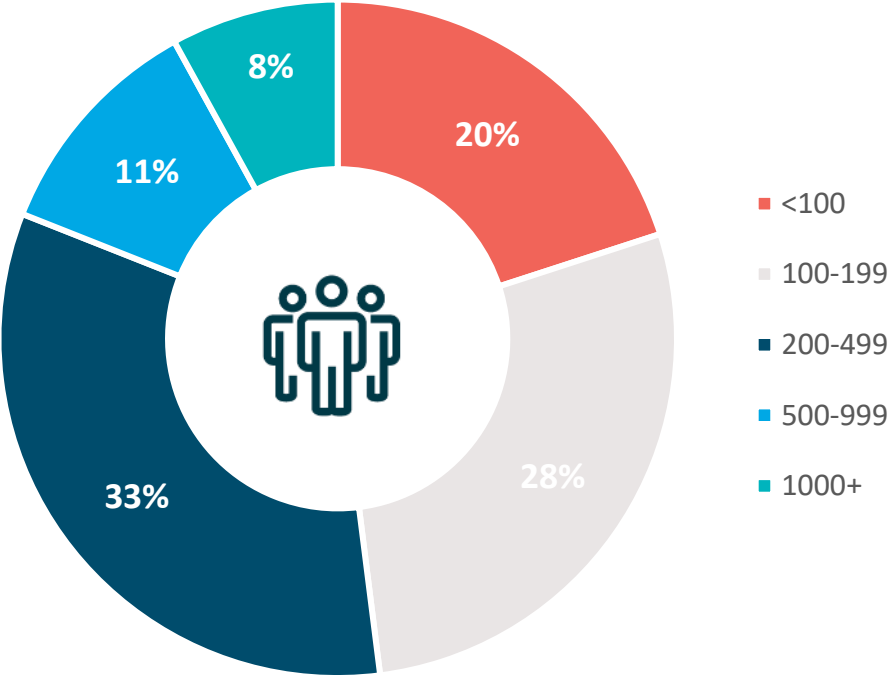


What support will a program provide?





Case size for 2020/2021 RFP's



*Other markets w/ 2-3%: IN, IL, NJ, CT, OR, MO, NC, MA, CO, LA, MS

Gaining Steam

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?

