



Navigator Benefit
Solutions LLC

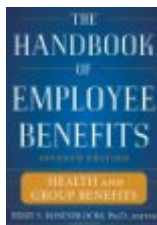
Self-Insurance, Affordable Care Act, and Audits

April 23, 2015

Tim Luedtke, FSA

Navigator Benefit Solutions LLC

Our Involvement



The Handbook of Employee Benefits, Seventh Edition - 2011, McGraw Hill

- ***Consumer-Driven Health Plans - Chapter 7***
- ***Understanding Behavioral Health Care Benefits - Chapter 8***
- ***Funding Health Benefits: Self-Funded and Captive Arrangements - Chapter 30***

American Academy of Actuaries

Health Practice Council Annual Hill Visits

NAHU / PAHU / GPAHU

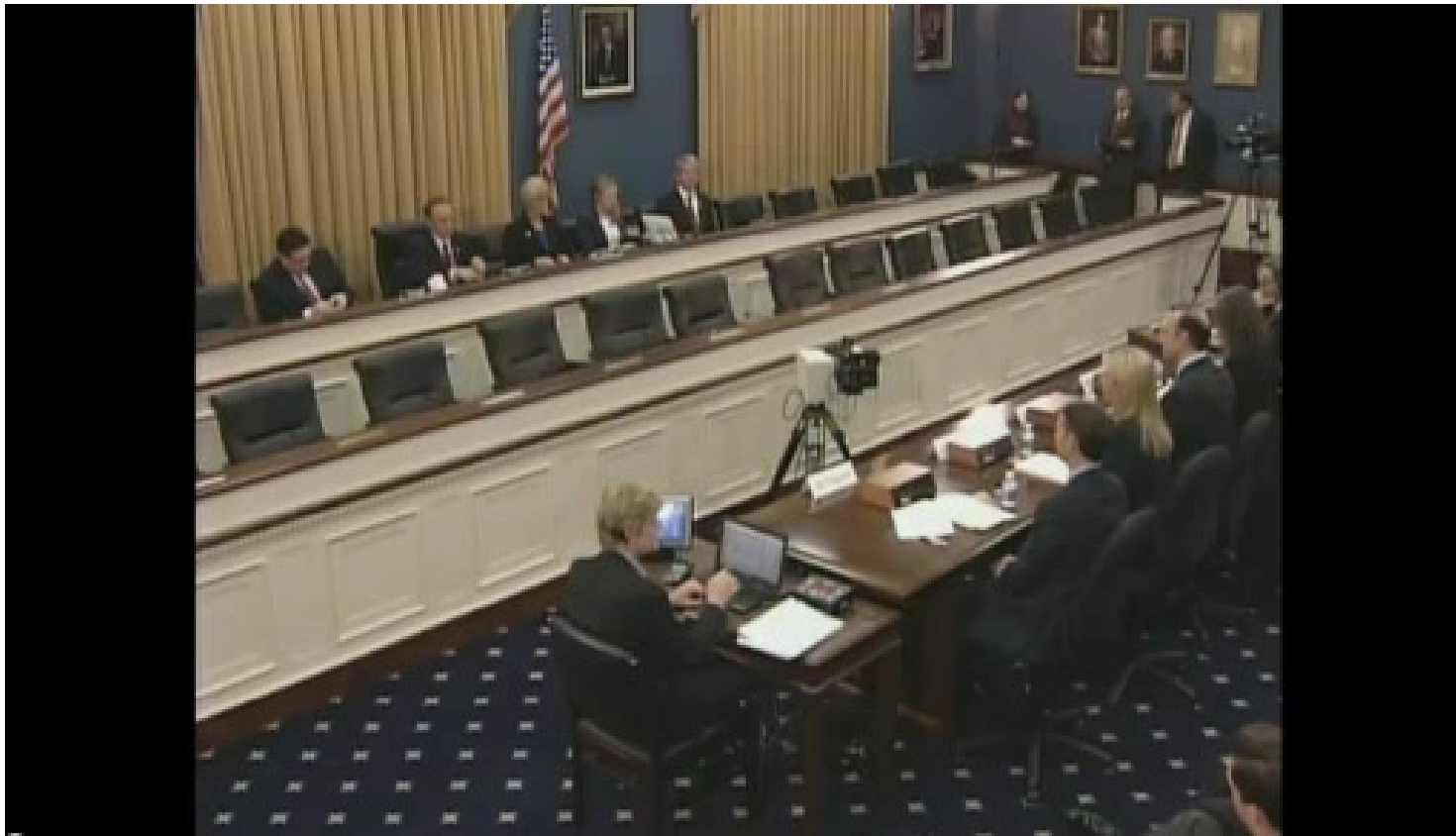
National and State “Days on the Hill”

- 100,000 licensed health producers



From left to right, Academy members April Choi, Patrick Collins, and Tim Luedtke in the Capitol Rotunda prior to a meeting with a member of House Minority Leader Nancy Pelosi's staff.

Congress Sees Value



***Congressman Chris Collins, New York
November 14, 2013***

Congress Sees Value




“ . . . I think it is very appropriate, at the trend of smaller companies now exploring self-insurance as a very viable option to provide their employees with healthcare coverage.”

*Congressman Chris Collins, New York
November 14, 2013*

AMERICAN ACADEMY of ACTUARIES

ISSUE BRIEF

MARCH 2015



Key Points

- Many employers and employees will be affected by the change in the small group definition. Among employers offering coverage, employees in groups sized 51-100 comprise roughly 30 percent of employees sized 1-100.
- Groups sized 51-100 will face more restrictive rating rules, which will increase relative premiums for some

Potential Implications of the Small Group Definition Expanding to Employers with 51-100 Employees

In the health insurance market, small employers are those employing up to 50 employees. For plan years beginning in 2016, the Affordable Care Act (ACA) expands the definition of small employers to include those with up to 100 employees. As groups with 51-100 employees renew or newly purchase coverage, they must abide by the rules and regulations governing the small group market, including those related



http://actuary.org/files/Small_group_def_ib_030215.pdf


increase under the new rule.

- If adverse selection occurs among groups sized 51-100, premiums for groups sized 1-50 could increase.

of 100 and above will begin applying to groups of 50-99 employees in 2016. Under these provisions, employers will face financial penalties if they have employees who obtain subsidized coverage in an exchange and either don't offer coverage or offer coverage that doesn't meet minimum value and affordability requirements.² As a result, be-

1. This paper refers to small groups as beginning with groups of one, although many states define small groups as beginning with groups of two.
 2. See the Kaiser Family Foundation, "Penalties for Employers Not Offering Coverage under the Affordable Care Act During 2015 and 2016," for more details on the shared responsibility requirements and penalties. Available from: <http://act.org/infographic/employer-responsibility-under-the-affordable-care-act/>.

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Sizeable Increase in Risk Pool

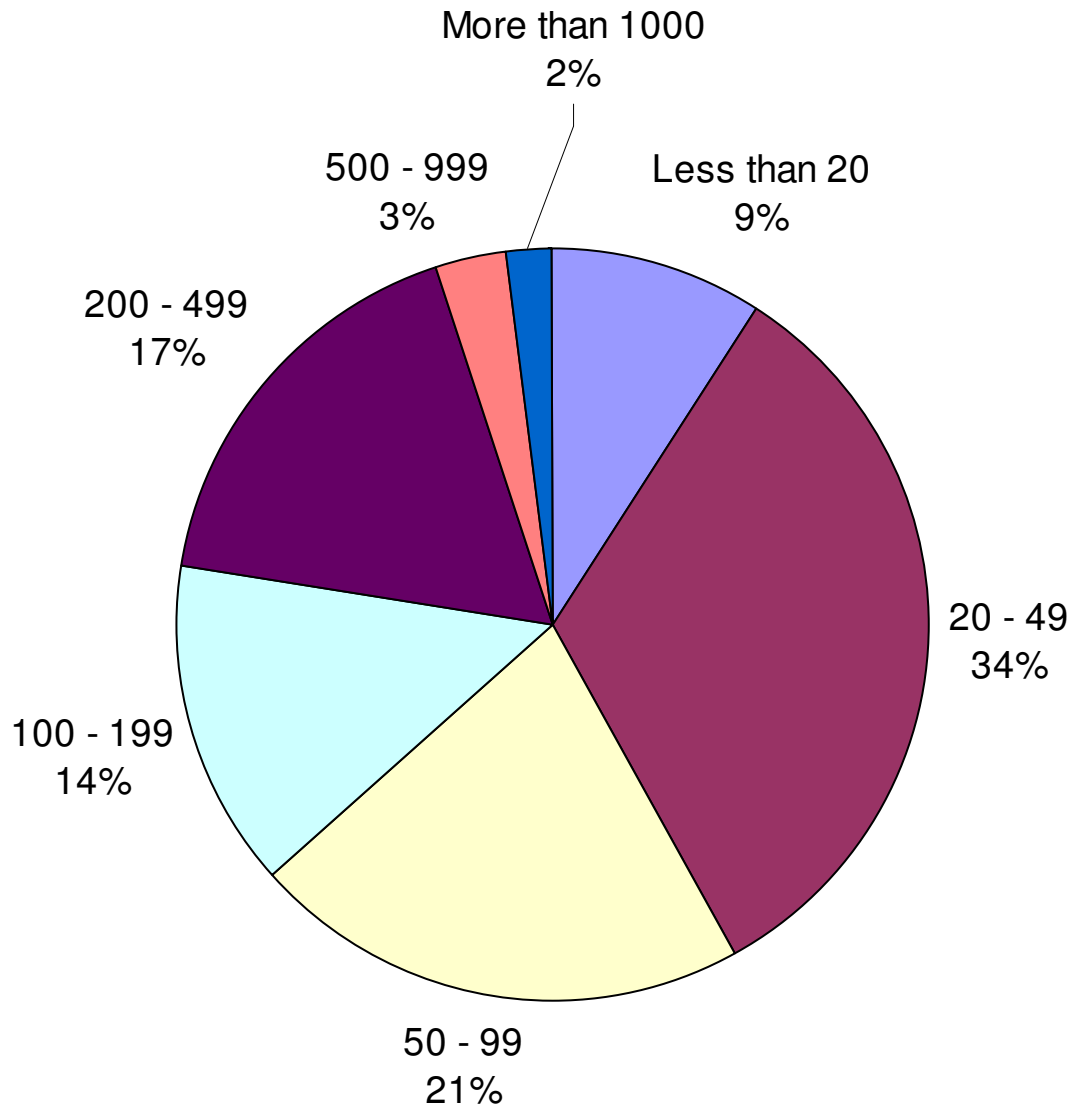


	-ers Offering Only FI Coverage		-ees Enrolled in FI Coverage	
Firm Size	# (000s)	%	# (000s)	%
1-49	1,592	91 %	8,393	71 %
50-99	159	9	3,413	29
Total	1,752	100 %	11,806	100 %

Employer Size (# of Employees)



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Key ACA Provisions by Funding Type



This chart summarizes the ongoing provisions and changes coming in 2013 and 2014 that may affect employer health plans. Currently, states can define small group as 1 to 50 or 1 to 100 employees. Beginning in 2016, small group will be defined as 1 to 100 in all states.

PROVISION	Market Impact		Funding Impact		Does not apply to grandfathered plans
	Large Group	Small Group	Insured	Self-Funded	
2014					
Modified Community Rating		✓	✓		✓
Essential Health Benefits (EHBs)		✓	✓		✓
Reinsurance Assessment	✓	✓	✓	✓	
Health Insurance Industry Fee	✓	✓	✓		
Comparative Effectiveness Research Fee (CERF)	✓	✓	✓	✓	
Cost Sharing Limits – Out-of-Pocket Maximums	✓	✓	✓	✓	✓
Cost Sharing Limits – Deductibles		✓	✓		✓

Large Group Definition



- Moving from 50 to 100 Employees
- Minimum Loss Ratio 85% → 80%
- 6% implicit rate increase
- Modified Community Rating
- Rate uncertainty
- Essential Health Benefits

Modified Community Rating for Small Group



- Family Size
- Geography
- Age (limited)
- Tobacco

New Rating Restrictions



- Health Status
 - Historical Group Claims Experience
- Industry
- Group Size
- Gender
- Employee participation rates
- Employer contribution shares
- Age limitation – 3 to 1

Administrative Complexity



- List Billing (existing SG market)
- Composite Billing
- Impact on groups offering more dependent tiers

Essential Health Benefits



- Qualified Health Plans
- Health Insurance Marketplace
- 10 Essential Health Benefits
 - Outpatient Care
 - ER Visits
 - Inpatient Care
- Unlimited Coverage
unless . . .

Self-Insured Enrollments



Firm Size	% Enrollees
1-10	13.1 %
11-24	9.7
25-49	11.9
50-99	14.3
100-999	33.6
1,000 +	85.6

Source: American Academy of Actuaries calculations of various MEPS Insurance Component tables

Potential for Savings



Urban Institute proposals to limit self-insurance to protect ACA goals:

Otherwise . . .

- Smaller fully-insured market (33%)
- Higher premiums (20-25%)

Suggesting . . .

- On average self-insurance offers potential 40-50% price reduction

Massachusetts Example



- Employers with >50 Employees
 - Self-insured increased post-reform from 54.4% to 67.2%.
- Employers with 100-999 Employees
 - Self-insured increased post-reform from 16.6% to 29.2%.

Sheffield Pharmaceuticals



“ . . . our fully-insured provider increased our rates 25 percent. The next year, they were looking to increase our rates 39 percent, and when we looked around . . . comparable products...were even higher...we took . . . a leap of faith knowing that our staff were both fairly young and fairly healthy, we went for the opportunity to self-insure...[in] 2009...so far that has been a great decision...saved over that four-year period roughly \$400,000 compared to what we would have paid for our insurance premiums...a 19 percent savings.”

Thomas Faria, President and CEO

- 162 employees, insuring 75 17

Self-Insurance



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Highlights

- Nationally, employers are much more likely to be self-insured than in the local market
- 20% of Phila. Metro clients expressed an interest in exploring the feasibility of self-insurance

Why Self-Insure



- customize plan rather than a 'one-size-fits-all' insurance policy
- control over the health plan reserves and interest income
- avoid state mandates
- avoid premium taxes
- free to contract with provider network
- lower costs

Self-Funded Legal



- ERISA
- Exempt from state insurance regulation
- HIPAA
- COBRA
- ACA

State Mandates



- Common
 - Alcoholism Treatment (1-3%)
 - Well-child Care (1-3%)
 - Breast Reconstruction (<1%)
- Less Common
 - Birthing Centers/Midwives (<1%)
 - Chemotherapy (<1%)

Applicability of ACA



- Premium Stability and Access to Insurance – 3 to 1 Rule
- Minimum Loss Ratios
 - Stop Loss Contracts
- Essential Health Benefits

Penalties & Reporting



- Employer Mandate – Shared Responsibility
- Tax Penalties (Sec. 4980H)
 - No Coverage - \$2000
 - Affordable / Minimum Value - \$3000
- 2015 Effective
- Forms 1094-C / 1095-C

Employer Mandate



<u>FT -ees</u>	<u>2015</u>	<u>2016</u>
<50	N/A	N/A
50-99	N/A	Offer coverage to 95% FT -ees and dependents
100+	Offer coverage to 70% FT -ees and dependents	Offer coverage to 95% FT -ees and dependents

Self-Insuring – Qs to Ask



1. Was premium increase higher than expected?
2. Was rate increase supported by plan experience? Reports provided?
3. Are experience refunds accruing when experience is good?
4. Willing to spend more time reviewing and managing the health plan?

Typical Self-Insured Plan



- Administrator
- Network Provider
- Stop Loss Provider
- Disease Management
- Wellness

Stop Loss – Why?



- Serious diagnoses lead to significant annual claims (\$15K to \$1 million)
- 1 in 8 newborn deliveries are born prematurely (\$100K to \$1 million)
- Treatment advances continue
 - Proton Accelerator
 - Transplants (\$500K and more)
- Common high dollar claims: cancer, heart conditions, traumas, severe burns, etc.

Stop Loss Risks



- Not regulated like health insurance
- Not guaranteed renewable, allowing declination due to changing health
- Not subject to minimum coverages
- Reunderwriting occurs regularly
- Cash flow mismatches
- Incurred vs. paid mismatches
- **Lasering common**

Sheffield Pharmaceuticals



“We had a situation where an individual has some cancer and they were lasered. I will say that the laser does add some risk to the self-insurance plan. You can have a situation where a person gets cancer and then the reinsurer comes in and says we are going to laser, meaning that their deductible now is let us say 300,000.”

*Thomas Faria, President and CEO
- 162 employees, insuring 75*

Pre-Packaged Plan



- Administrator, Network Provider, Stop Loss Provider prepackaged offering small employers a one-stop shop for self-insurance.
- 125% Expected Claims plus Fee
- Annual Settlement – After Assessing Terminal Funding Requirement

Consider Self-Insurance



- in business for three years
- current liquidity ratio of at least 1.3-1
- debt to net worth ratio $< 4/1$
- positive earnings last 2 of 3 years
- positive earnings overall

Review



- Sizeable increase in small group risk pool
- Redefined groups face new rating rules
- Effects of adverse selection are unknown
- Lead more groups to self-insure

Audit Risk



- self-insuring an employer health plan may be an employer's first experience with self-insurance;
- self insurance liability for employee health is misstated;
- could also include: general liability, worker's compensation, and general property and casualty.

Audit Reviews



- Perform competence assessment of actuary
- Assess the propriety and completeness of data sent to actuary
- Evaluate the actuarial reports and assumptions utilized
- Evaluate the amount recorded compared to actuary's computation

Congress Sees Value



“ . . . the biggest benefit that we have and the biggest problem we have in this country today is a lack of jobs . . . I know I am going to and the Committee will certainly be suggesting to--and I will pick the number, over 25 employees--to go out and take a look at self-insurance.”

*Congressman Chris Collins, New York
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Ask an Actuary

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More Information



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http://actuary.org/pdf/health/merging_markets_sept09.pdf

CRITICAL ISSUES IN HEALTH REFORM
Merging the Small Group and Individual Markets
September 2009
AMERICAN ACADEMY of ACTUARIES

As part of the ongoing health care reform dialogue, one question is whether legislation should include the merger of the individual and small group health insurance markets. This paper discusses the potential effects of merging these markets and necessary considerations to ensure adverse implications are minimized.