



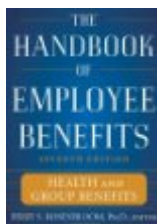
# **Self-Insurance**

**November 12, 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**

## NAHU / PAHU / GPAHU

*National and State “Days on the Hill”*

- 100,000 licensed health producers

## American Academy of Actuaries

*Health Practice Council Annual Hill Visits*




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.

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](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.<sup>2</sup> As a result, be-


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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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# Is Your Plan . . .



***Self Funded***  
***Or***  
***Fully Insured ?***

# PACE Act

Protecting Affordable Coverage for Employees



- October 7, 2015
- Many States Already Passed Conforming Legislation
  - CA, CO, NY, VA, VT
  - Rescinded by DC and MD

# Large Group Definition



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

# Essential Health Benefits



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

# 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

# Sizeable Increase in Risk Pool



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

# Health Insurance Industry Fee



2014: \$ 8,000,000,000

2018: \$14,300,000,000

**Increases with Premium Growth**

# HII Fee



2014: 2 - 2.5%

2016: 3 - 4 %

2018: ? - ? %

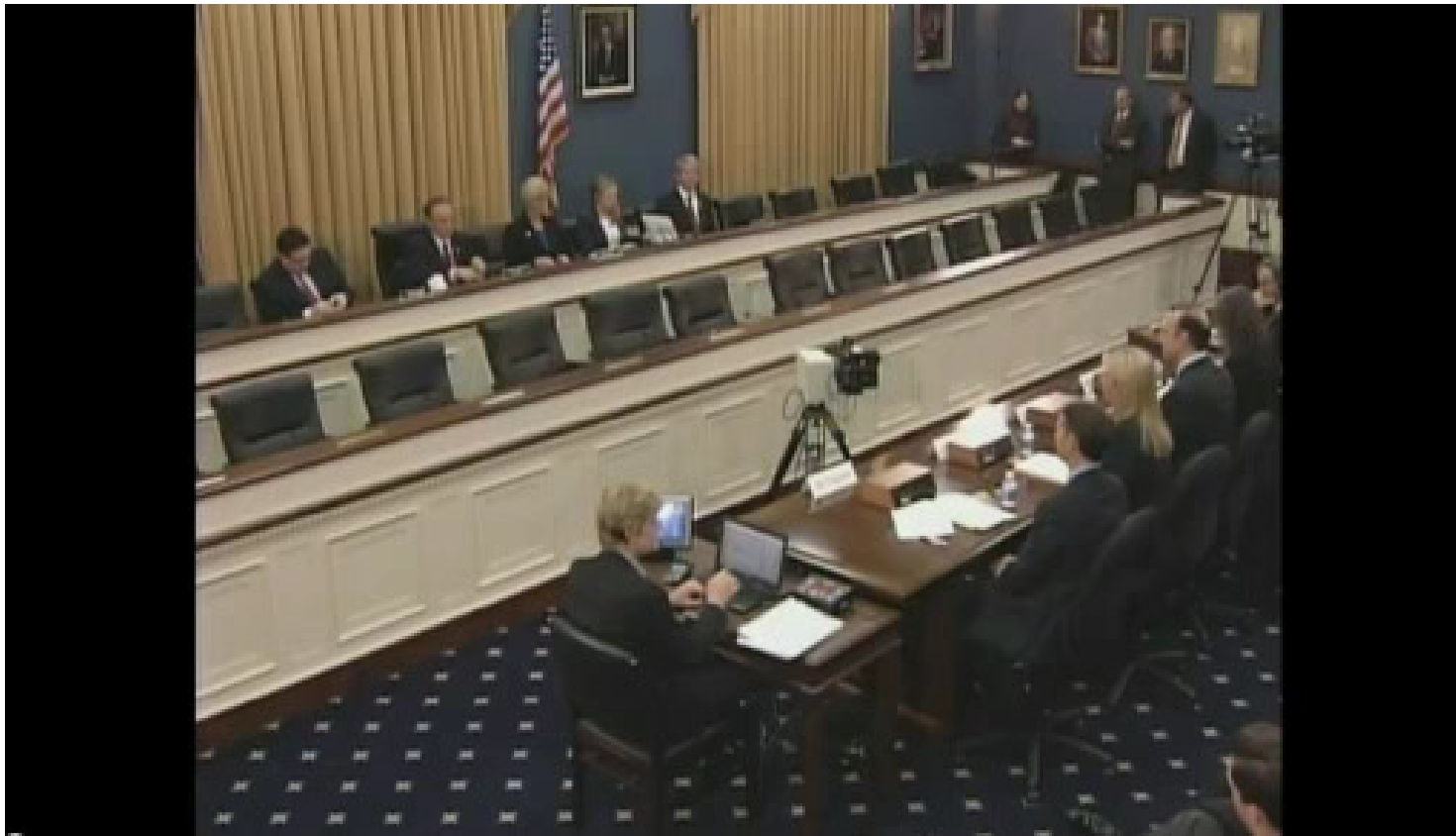
# Self-Insured Enrollments



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

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

# 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*

# 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%.



# Southeast Pennsylvania Five County



## Highlights

- Nationally, employers are much more likely to be self-insured than in the local market
- Phila. Metro clients expressing significant interest in exploring the feasibility of self-insurance (3x quote activity)

# Why Self-Insure



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

# 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* 22

# 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%)

# 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
  - Factor VIII
  - Transplants (\$500K and more)
- Common high dollar claims: cancer, heart conditions, traumas, severe burns, etc.

# An Example



- 37-year-old marketing consultant who lives south of the Twin Cities, Minnesota
- Hemophilia – A
- Prevent uncontrolled joint bleeding
- Uses six vials of Rec. Factor VIII a week
- Cost: \$250-500,000 per year
- Life expectancy extended from 17 to 60+
- In 2008, 44 Minnesotans spent > \$1 million



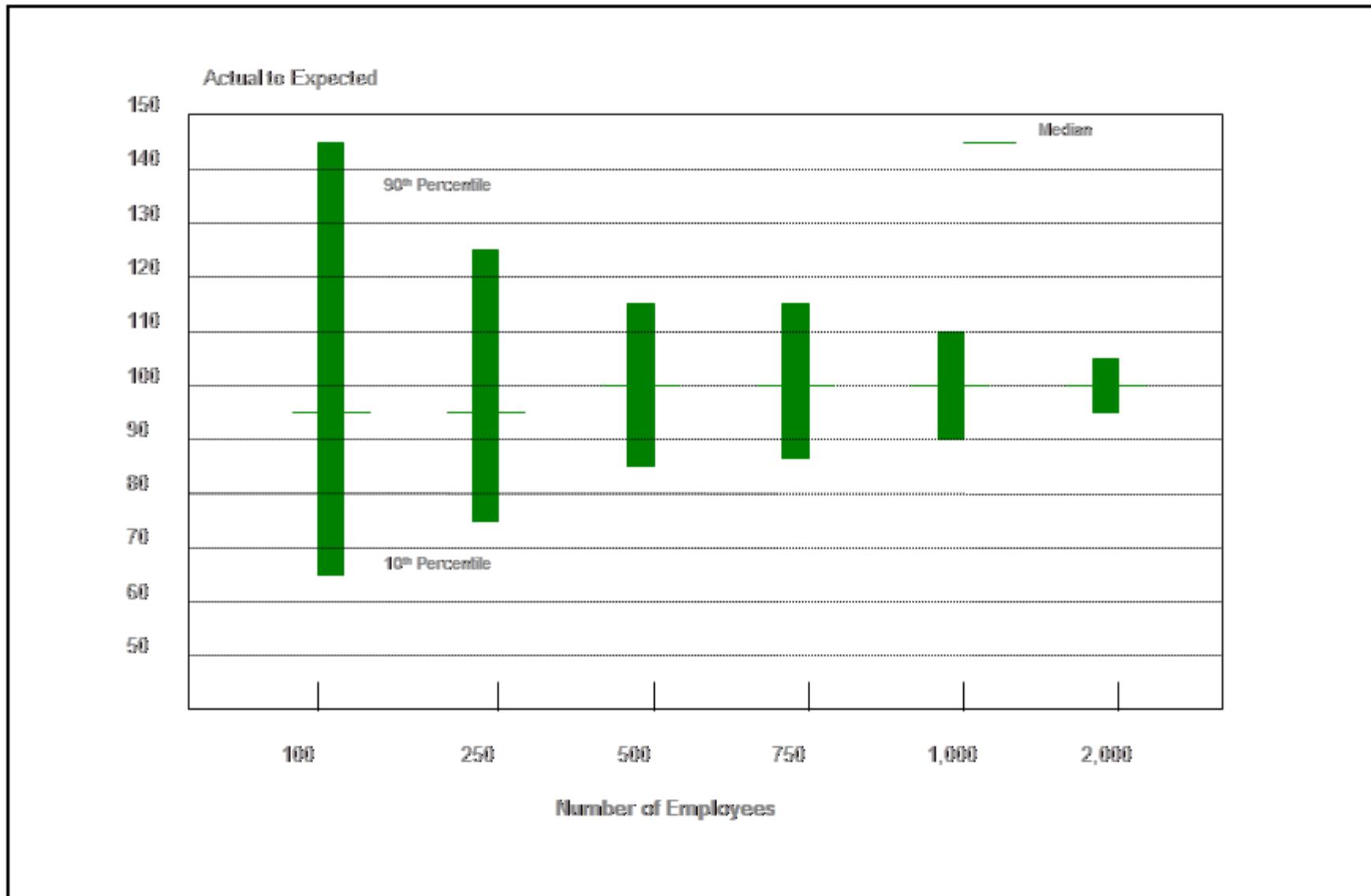
# Top Stop Loss Claims



<b>Medical Condition</b>	<b>% of Claims</b>
<b>Malignant neoplasm (cancer)</b>	<b>17.6%</b>
<b>Leukemia/lymphoma/multiple myeloma (cancers)</b>	<b>8.1</b>
<b>Chronic/end-stage renal disease (kidneys)</b>	<b>7.8</b>
<b>Congenital anomalies</b>	<b>4.3</b>
<b>Disorders relating to short gestation and low birth weight (premature births)</b>	<b>3.2</b>
<b>Congestive heart failure</b>	<b>2.6</b>
<b>Cerebrovascular disease (brain blood vessels)</b>	<b>2.5</b>
<b>Pulmonary collapse/respiratory failure (lungs)</b>	<b>2.3</b>
<b>Complications of surgical and medical care, not shown elsewhere</b>	<b>2.3</b>
<b>Septicemia (infection)</b>	<b>2.2</b>
<b>All other conditions</b>	<b>47.2</b>

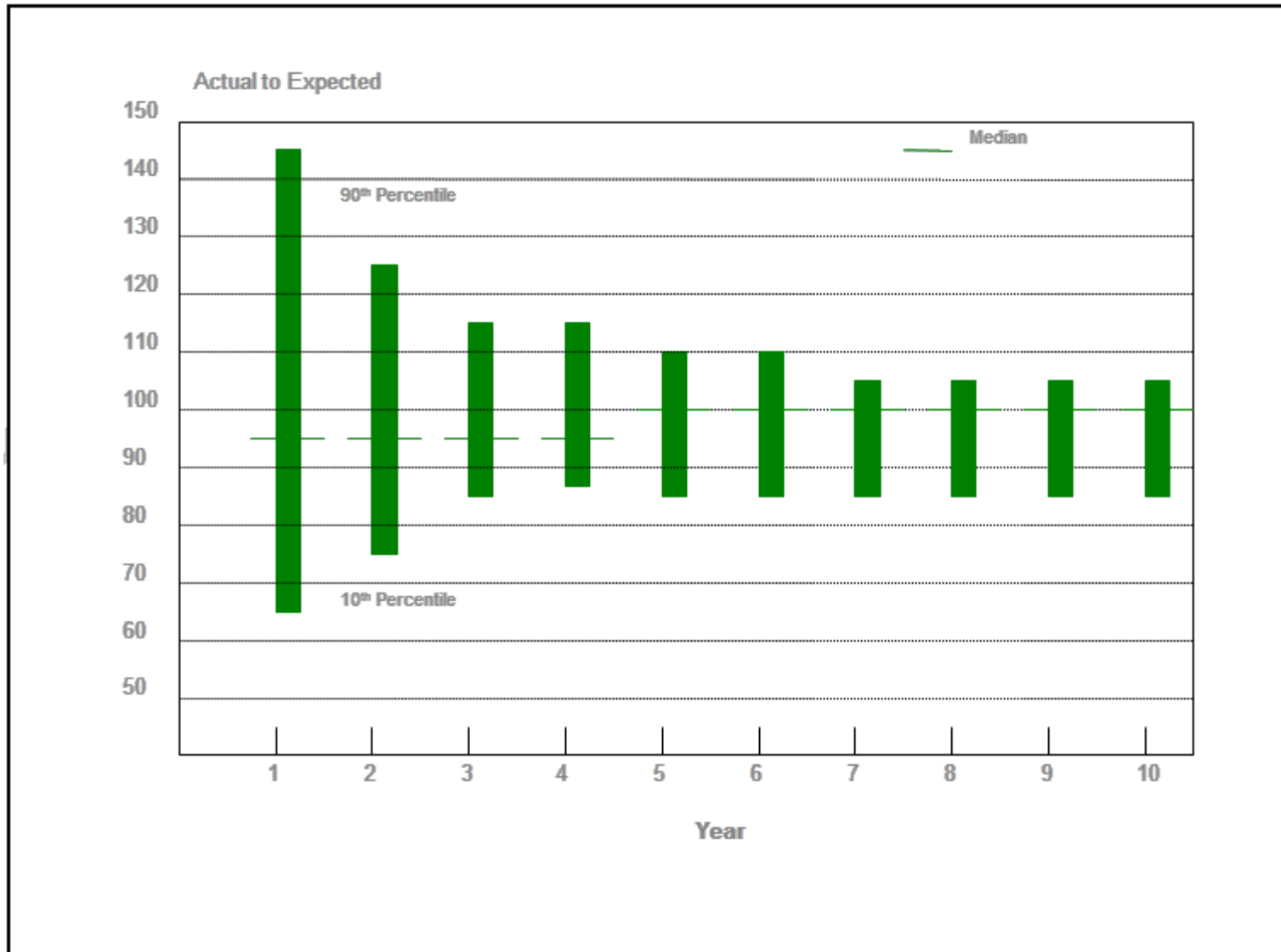
Source: Sun Life

### Claim Fluctuations per Year by Number of Employees



Source: Self-funding Health Care Plans, Dale H. Yamamoto

# Claim Fluctuations for a 100-Employee Company Over 10 Years



Source: Self-funding Health Care Plans, Dale H. Yamamoto

# Stop Loss Types



- Individual Stop Loss (ISL) – Specific Stop Loss
  - Attachment Point dollar value per covered member
  - generally set at 3-6% of expected claims for group (\$20K – 100K)
- Aggregate Stop Loss
  - % value related to expected claims
  - 115 – 135%

# Stop Loss Types



- Stop Loss generally expressed as:
  - Incurred months / Paid months
- 12 / 15 contract – run on policy years
  - January 1 – December 31, XX incurred claims paid by March 31, XX+1

# Common Contracts



If a policy was issued or renewed for the 12 months beginning January 1, 2015, then . . .

<b>Contract Type</b>	<b>Losses must be Incurred between</b>	<b>Losses must be Paid between</b>
<b>12/12</b>	January 1, 2015 - December 31, 2015	January 1, 2015 - December 31, 2015
<b>12/15</b>	January 1, 2015 - December 31, 2015	January 1, 2015 - March 31, 2016
<b>12/18</b>	January 1, 2015 - December 31, 2015	January 1, 2015 - June 30, 2016
<b>15/12</b>	October 1, 2014 - December 31, 2015	January 1, 2015 - December 31, 2015
<b>24/12</b>	January 1, 2014 - December 31, 2015	January 1, 2015 - December 31, 2015
<b>Paid</b>	Original Effective Date - December 31, 2015	January 1, 2015 - December 31, 2015

# 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*



# Features of Each Funding Type



<b><i>Funding Type</i></b>	<b>Fully Insured Participating</b>	<b>Minimum Premium</b>	<b>Administrative Services Only</b>
<b><i>Risk</i></b>	Insurance Company	Insurance Co/Insured	Insured
<b><i>Funding of Claims</i></b>	Insurer funds claims	Insured funds through bank account to predetermined maximum (trigger point)	Insured funds through bank account
<b><i>Reserves for Terminal Liability</i></b>	Insurer holds reserves	Insured or Carrier hold reserves	No terminal liability coverage, reserves insured responsibility
<b><i>Settlement</i></b>	Settled at year end, deficits carried forward, margins can be returned	Settled at year end, deficits carried forward, margins can be returned	Not Applicable
<b><i>State Mandates</i></b>	Indemnity mandates apply	Indemnity mandates apply	Most mandates do not apply
<b><i>Dollars Employer Pays Monthly</i></b>	Full Premium paid monthly	Expenses, Access Fees, and Experience Protection Benefit paid monthly	ASO fees, Access Fees and stop loss fees (if applicable) paid monthly

# 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

# Other Important Trends



- Accountable Care Organizations
  - Bundled Payments
  - Value-based Reimbursements
- Narrow Networks
- Providers Contracting Directly w/ Employers

**Self-funding Offers:**

**Flexibility**

# 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

# 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?

# Path to Self-Insurance



- Wellness
- Health Risk Assessments
- Biometrics
- Level Funding
- Minimum Premium
- ASO – Stop Loss

# 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  
November 14, 2013*

# Who Moved My Cheese?



“Sometimes, Hem, things change and they are never the same again. This looks like one of those times. That's life! Life moves on. And so should we.”

“What would you do if you weren't afraid?”

- *Spencer Johnson*  
*Author*





# *Ask an Actuary*

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