Self-Insurance: Is it Right For You?

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Presentation Overview

- Welcome and Introductions
- Comparison – Fully-Insured vs. Self-Insured
- Administration Options
- Managed Risk – Stop Loss Protection
- Self-Insured Financials
- Implementation Considerations
- Pros and Cons of Self-Insurance
- Summary
Comparison

Fully-Insured vs. Self-Insured
Three Primary Financial Components

- Claims
- Reserves
- Retention
Retention (Fixed Costs)

Fully-Insured Retention
- Administration/Claims Processing
- Network Access
- Managed Care/Cost Containment
- Stop Loss Protection
- Carrier Profitability
- Premium Taxes
- Risk & Fluctuation Margins

Fully-Insured Retention = 20% to 25% of Total Plan Cost
Retention (Fixed Costs)

Self-Insured Retention
Administration/Claims Processing
Network Access
Managed Care/Cost Containment
Stop Loss Protection

Self-Insured Retention = 10% to 20% of Total Plan Cost
### Claims

**Fully-Insured**
Experience impacts the renewal, but the monthly premium is stable. Will only see the overall effect of claims on the plan when renewal rates are presented.

**Self-Insured**
Experience has direct impact on monthly cost, actual claim cost is paid. Cash flow varies based on monthly claim volume.
The Role of Claim Experience

- Fully-Insured - Carrier “Owns” Plan Experience
- Self-Insured - Employer “Owns” Plan Experience
- Claim Experience is Used to Identify:
  - Plan Status
  - Utilization Patterns
  - Trend Impact

A self-insured plan is managed by understanding and using the claims experience.
Reserves

- Discretionary - Established at Inception of Plan and Monitored Each Year
- Used to Pay “Runout” at Termination
- “Runout” claims are claims incurred before termination, but not paid until after termination.
- “Lag” is the time period from when a claim is incurred to when a claim is paid (conservatively 2-3 months).
- Reserves are also designed to cover the maximum liability that exists as a result of the aggregate stop loss corridor.
# How Else is Fully-Insured Different Than Self-Insured?

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<th>Fully-Insured</th>
<th>Self-Insured</th>
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<td>Claim Fluctuation</td>
<td>Insurer is responsible</td>
<td>Employer is responsible</td>
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<td>Cash Flow</td>
<td>Insurer holds reserves and receives the interest</td>
<td>Employer holds reserves and receives the interest</td>
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<td>Plan Design</td>
<td>Insurer has more control</td>
<td>Employer has more control</td>
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<td>Data Collection</td>
<td>May be difficult or costly</td>
<td>Employer “owns” the data</td>
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<td>Plan Maintenance</td>
<td>Insurer</td>
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<td>Compliance</td>
<td>Insurer is responsible</td>
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<td>Fiduciary Responsibility</td>
<td>Carrier has partial responsibility</td>
<td>Employer has responsibility</td>
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Self-Insured Administration Options
Bundled vs. Unbundled

**Bundled**
One-stop shopping for all components. Bundled carriers are Aetna, Anthem, CIGNA, GHP, Humana, United HealthCare, etc.

**Unbundled**
All plan components handled separately

Claim Adjudication = Third Party Administrator (TPA)
Stop Loss Insurance = Through Stand-Alone Stop Loss Carrier
Pharmacy Benefits = Through Pharmacy Benefit Manager (PBM)
Network Services = Through Stand-Alone Network Provider i.e., HealthLink
**Bundled**

**Bundled Advantages**
- All Services Handled by One Carrier
- Typically National Carriers with National Networks
- Network Discounts are Generally Higher

**Bundled Disadvantages**
- Plan Administration Fees are Generally a Much Higher than a TPA
- Not as flexible as many TPAs with Custom Plan Designs
- Tend to Have a Lower Level of Service when Compared to TPA
Unbundled

Unbundled Advantages

- Administration Fees are Significantly Lower
- Greater Flexibility in Custom Network & Plan Design
- A Hands-On Service Approach
- Access to More Stop Loss Carriers
- Good Option for Groups with High Indemnity Population

Unbundled Disadvantages

- More Carriers/Vendors to Track & Administer Internally
- Network Discounts are Generally Not as High as Bundled Carriers
Self-Insured Administration Flow

- Performed by Insurer or Third Party Administrator (TPA)
- Patient Receives Care
- Provider Bills Carrier or TPA (May be Sent to Network First)
- Many Claims are Submitted Electronically
- Claim is Reviewed for Eligibility
- Claim System Adjudicates Claim
- Funds are Collected from Employer as Claims are Released
- Process is seamless and unchanged for plan members
Managed Risk - Stop Loss Protection
Stop Loss Protection

Two Types of Protection

**Specific**
Protects employer when there is a catastrophic claimant over a predetermined amount called the specific deductible or individual stop loss level. Once a plan member hits the predetermined specific deductible, the employer is protected and the stop loss carrier assumes responsibility for the remaining claim loss up to the lifetime maximum amount.

**Aggregate**
Protects employer when all combined claims exceed a predetermined amount called the attachment point.
Specific Stop Loss

- Since Claimants C and E exceeded the specific deductible of $60,000, the insurer will pay for the claims above $60,000 (total of $25,000).
- The employer pays a set monthly insured premium for this protection.
If cumulative claims exceed the aggregate attachment point of $600,000, the stop loss carrier will pay for the claims that exceed $600,000.

The employer pays a set monthly insured premium for this protection.
Stop Loss Contracts

There are a wide variety of stop loss contracts. Examples include:

12/12 contract
15/12 contract
12/15 contract
Paid contract

*Variations on the incurred and paid months are available and vary by stop loss carrier. Generally the higher the number on either incurred or paid (18/12, 24/12, 12/18, etc.) the more expensive the set monthly cost will be on both Specific Stop Loss and Aggregate Stop Loss.
Stop Loss Contract Examples

12/ 12 (Incurred in 12 Months; paid in 12 Months)

01/01/09
Effective Date

Incurred (Date of Service)

01/01/10
Renewal Date

Claim Paid by Administrator

12/12 contracts are always first year contracts for groups going self-insured after being fully-insured. No run-in or run-out protection is available. Considered an “immature” contract.
Stop Loss Contract Examples

Paid in 12 Months ("Paid")

01/01/09 Effective Date
01/01/10 Renewal Date

Claim Paid by Administrator

Paid contracts will pay claims regardless of incurred date since inception of the stop loss policy. 2nd year self-insured groups typically move from a 12/12 contract to a Paid contract for protection of claims that may have been incurred in the previous plan year and paid in the current plan year. This is considered a “mature” contract. There is usually a 20-25% “maturing” load to the premium.
Stop Loss Contract Examples

12/15 (Incurred in 12 Months; Paid in 15 Months)
Also Referred to as Terminal Protection

12/15 contracts offer 3 months of “run-out” protection after the end of the policy year. Usually for groups who know they will be terming at end of the year or moving to a new administrator.
Self-Insured Financials
Financial Components

**Claims**
Projected Cost of Utilization Based on Experience and Trend *(Represent 80-85% of Total Plan Cost)*

**Retention**
Administration Fees, Network Fees, Managed Care Fees, and Stop Loss Premium *(Specific and Aggregate)*

**Reserves**
Used to Cover Aggregate Corridor Plus Claims that Were Incurred But Not Paid Until After Termination of Contract
5 Year Forecast of Healthcare Costs

Fully-Insured

Self-Insured

Assuming 959 enrolled over a 5 year window the plan could conservatively realize $1.25 million in savings

1) Above projection does not account for any benefit changes.
2) Illustrated claims figures are projections only and do not represent guaranteed results.
VERY Important to Understand Funding Mechanism

- First year self-insured costs will be very attractive due to 2-3 months of little or no claim activity ("immature" year).

- Do NOT be fooled. Second and subsequent years will include a mature level of claims.

- Recommend fund first year cost based on a mature (12 months) of claim activity. By doing so, plan will establish the reserve for incurred but not reported (IBNR) claims and eliminate the second year "maturity" adjustment.
Implementation Considerations

- Allow adequate time for smooth transition. We recommend a minimum of three months.

- Large claim disclosure will be required. Vendors will also require claims, premium, census and plan design history.

- Preparation of enrollment and communication materials is very important.

- Schedule the open enrollment with enough time to get eligibility to the vendor(s) and allow them time to enter the data.
Implementation Considerations

- I.D. cards must be created and distributed to plan members prior to the effective date.

- Summary Plan Descriptions, Plan Documents, Contracts / Policies and Benefit Summaries will need to be created, proofed and distributed.

- Be sure you have partnered with an experienced and qualified employee benefits broker / consultant well in advance of your self-insured analysis.
Pros and Cons of Self-Insurance
PROS and CONS of Self-Insurance

- Cash Flow Advantages
- Cost Savings
- Plan Control
- Plan Design Flexibility
- Stability of Self-Insuring
- Fiduciary Responsibility
PROS and **CONS** of Self-Insurance

- Acknowledged Claim Experience
- Budgeting the Program
- Increased Employer Involvement
- Terminating Program
Thank You For Your Time and Consideration
Q & A