



# Self-Funding 101

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Cathy Gee, MBA, Vice President  
Scott Aston, GBDS, Vice President  
Ryan Meissner, Director of Finance and  
Underwriting

# Who Is Burnham Benefits?



## Burnham in Brief

- Over **\$1.5B** Premium Under Management
- **400+** Clients
- **98%** Client Retention Rate
- **#1** Best Places to Work in Orange County – OCBJ 2011 through 2014 & #1 in Business Insurance, Nationally
- Premier Broker Status with Carriers

## Compliance

- Health Care Reform Guidance / Legislative Updates
- **Educational** Webinars
- Employee Communications
- **In-House Compliance Attorney**
- Annual Disclosure Notices

## Breadth of Resources

- Client Centric
- Retain Leading Talent
- Exceptional Staff to Client Ratio
- Hire Ahead of Need
- **In-House Resources: Underwriting, Compliance, Wellness, Communications, and Technology Solutions**

## Cost Controls and Analytics

- Claims and Utilization Analysis
- Underwriting and Actuarial Services
- Financial Forecasting
- Renewal Projections and Marketing
- Benchmarking

# Objectives of Course



- ✓ Compare to fully insured
- ✓ Mechanics of self funding
- ✓ Stop Loss contract types
- ✓ Types of self funding arrangements
- ✓ Renewal methodology
- ✓ When to move to self funded
- ✓ Plan design issues



36 million employees are covered by a self-funded medical plan



One-third of all employer sponsored plan participants are in a self-funded plan

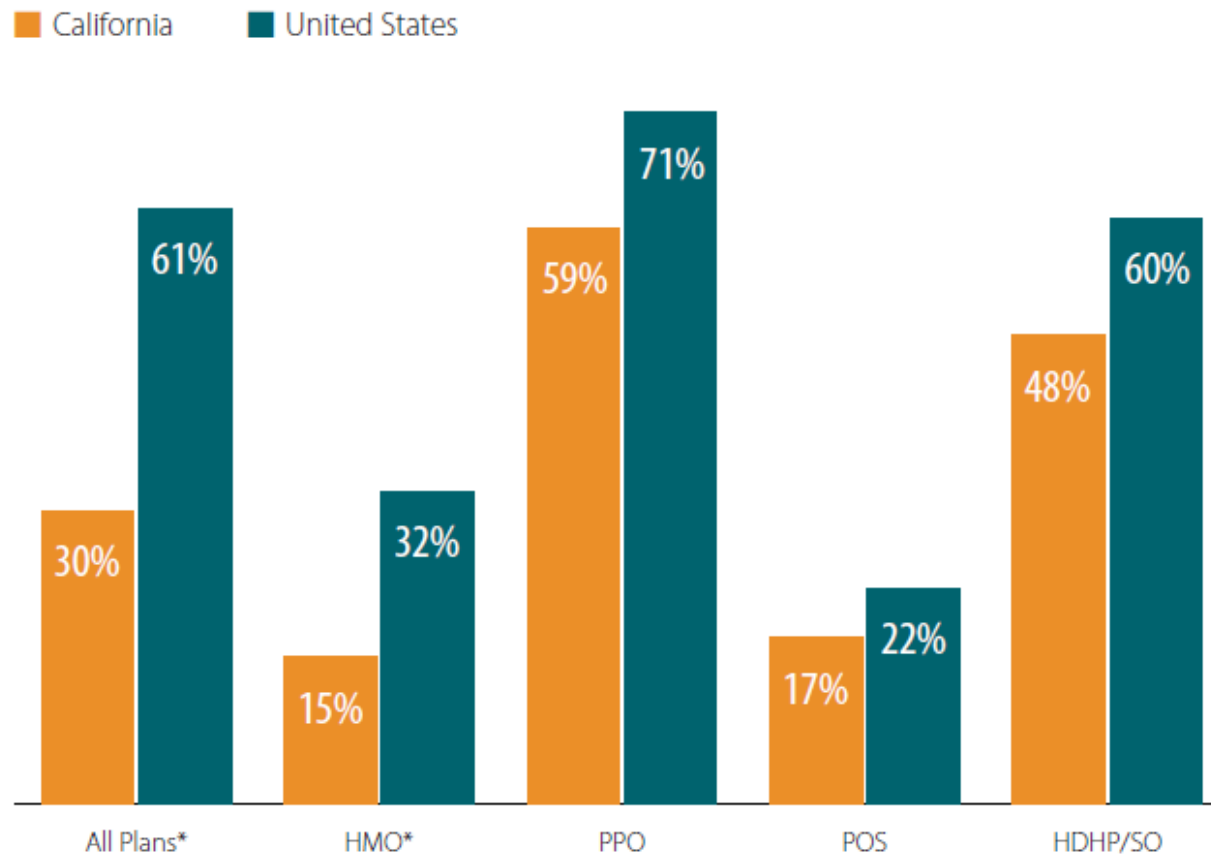


58% of companies with over 500 employees are self-funded

# Prevalence of Self-funded Plans



## Employees in Self-Insured Plans, by Plan Type California vs. United States, 2014



# Why and Why Not – dispelling the myths



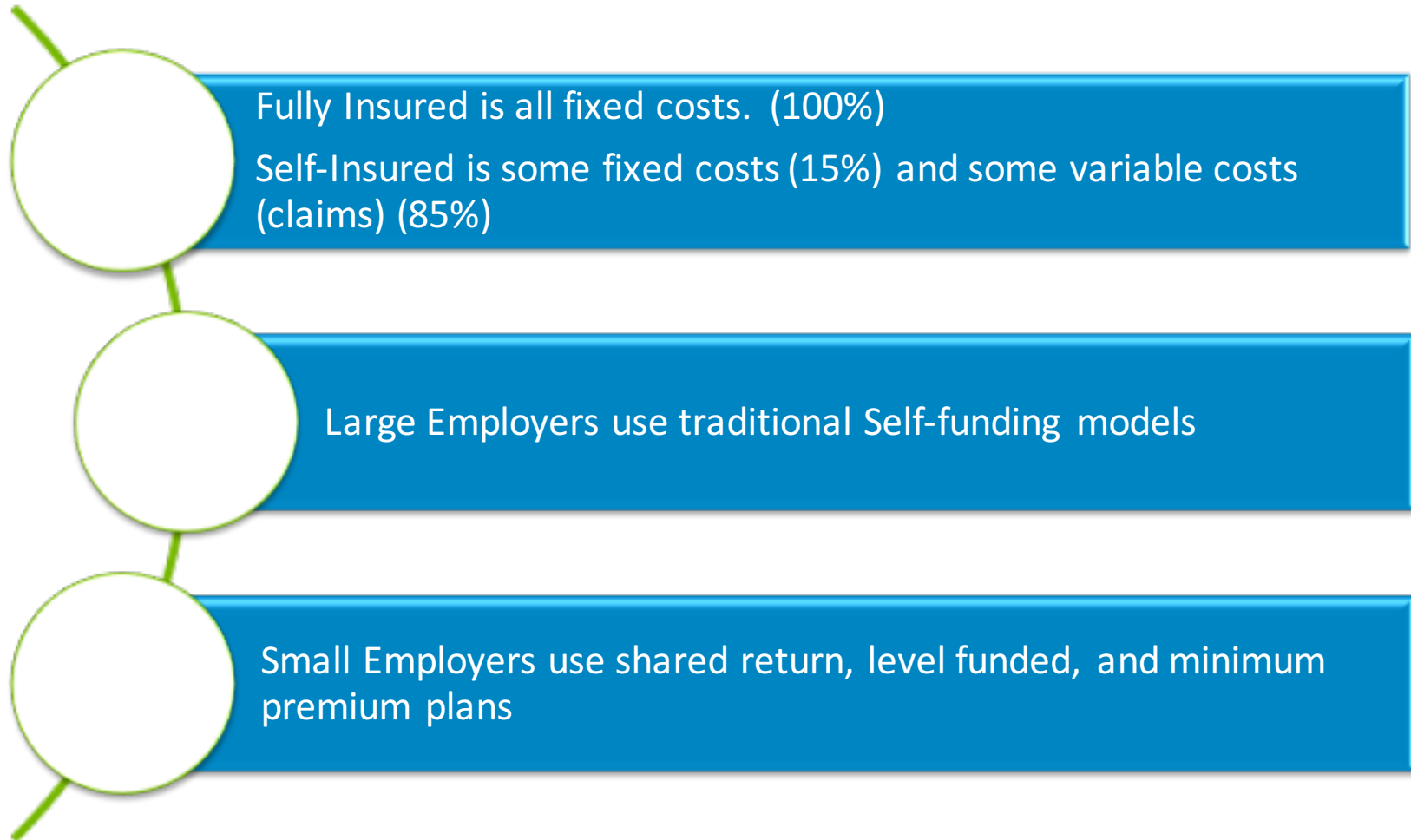
## **WHY?**

- \$\$ Savings?
- Flexibility?
- Consistency across all populations?
- Easy
- More predictable

## **WHY not?**

- Major claims could break the company
- More legal risk
- Too hard for HR to administer
- Misunderstood by employees
- Unpredictable

# What is Self-Insurance?





## Fully Insured

Fixed Costs (premium)

Administrator comes with Insurance

Governed by federal & state laws

Standard plans and benefits

All size employers

All ACA Taxes, plus state premium taxes

3%-5% Carrier profit

## Self-Funded

Fixed costs + variable costs

Variety of service providers

Governed by federal law (ERISA)

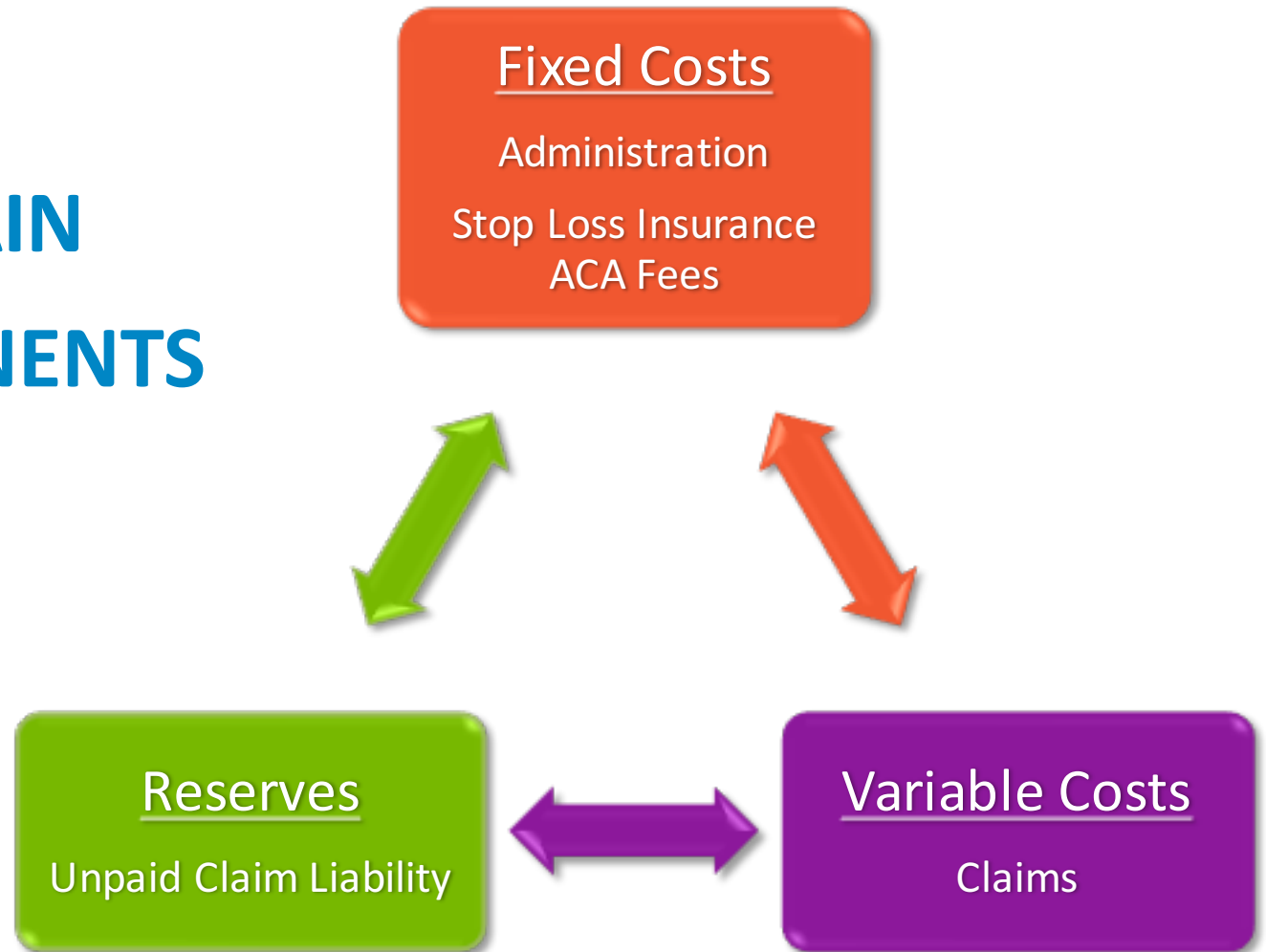
Flexible plan designs and benefits

Medium/large employers

Some ACA Taxes, no state premium taxes



## 3 MAIN COMPONENTS

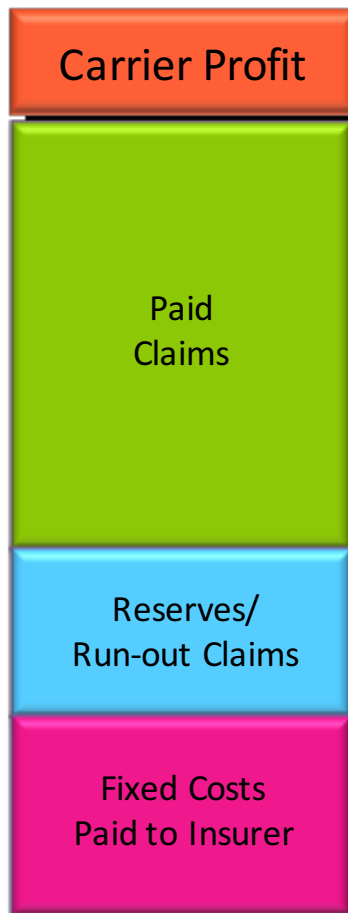


# How Funding Works...

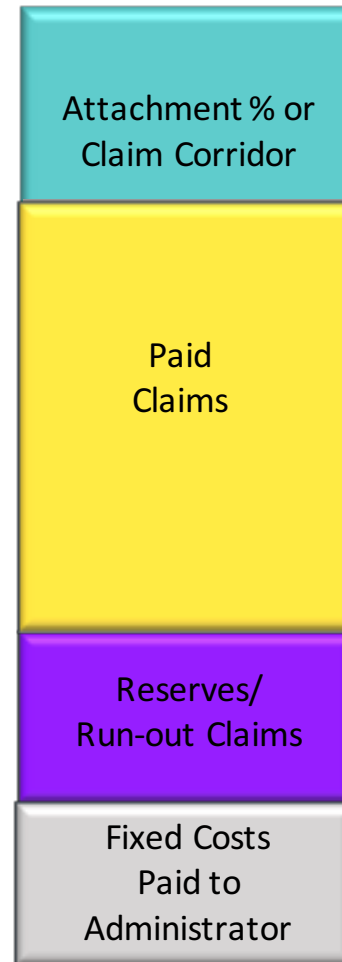


*...funding options give an employer the choice of how they want to pay for those costs.*

## Fully Insured



## Self Insured



Expected Liability

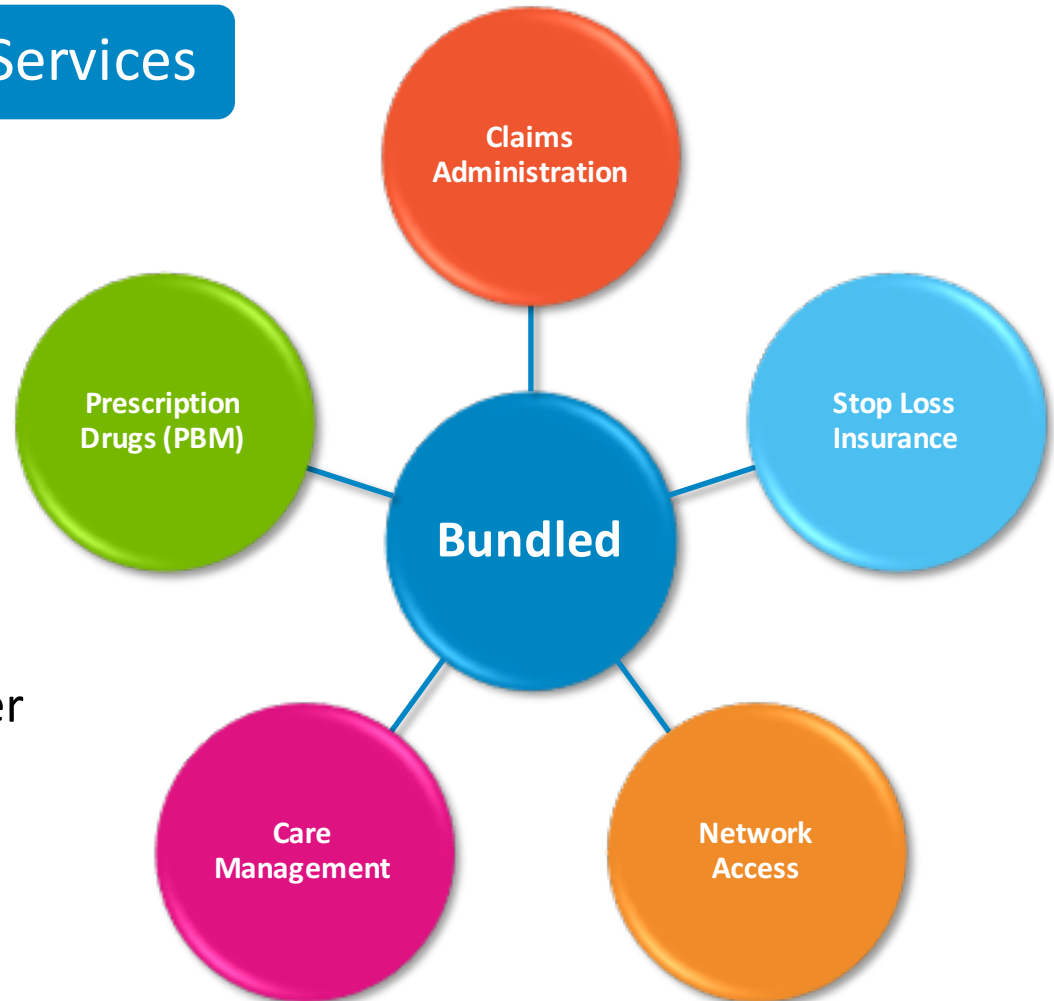
Participate in claims

# Bundled Approach



## Single Carrier Providing All Services

- Blue Cross/Blue Shield
  - United Healthcare
  - Aetna
  - Cigna
- 
- + Single Vendor Service Team
  - + One Customer Service Number for Members



# Unbundled Approach



## Several Vendors Providing Services

- Third Party Administrator (TPA)
- Pharmacy Benefit Manager (PBM)
- Disease & Care Management
- Stop Loss Insurance Carrier
- Leased/Rented Networks

*Some Vendors May Provide Multiple Services*

- Multiple Service Teams
- Multiple Customer Service Numbers for Members
- Multiple Eligibility Feeds





## Stop Loss Insurance

### Types of claims covered by stop loss insurance

- Medical claims
- Prescription Drugs claims
- Dental claims
- Vision claims

### Types of stop loss insurance

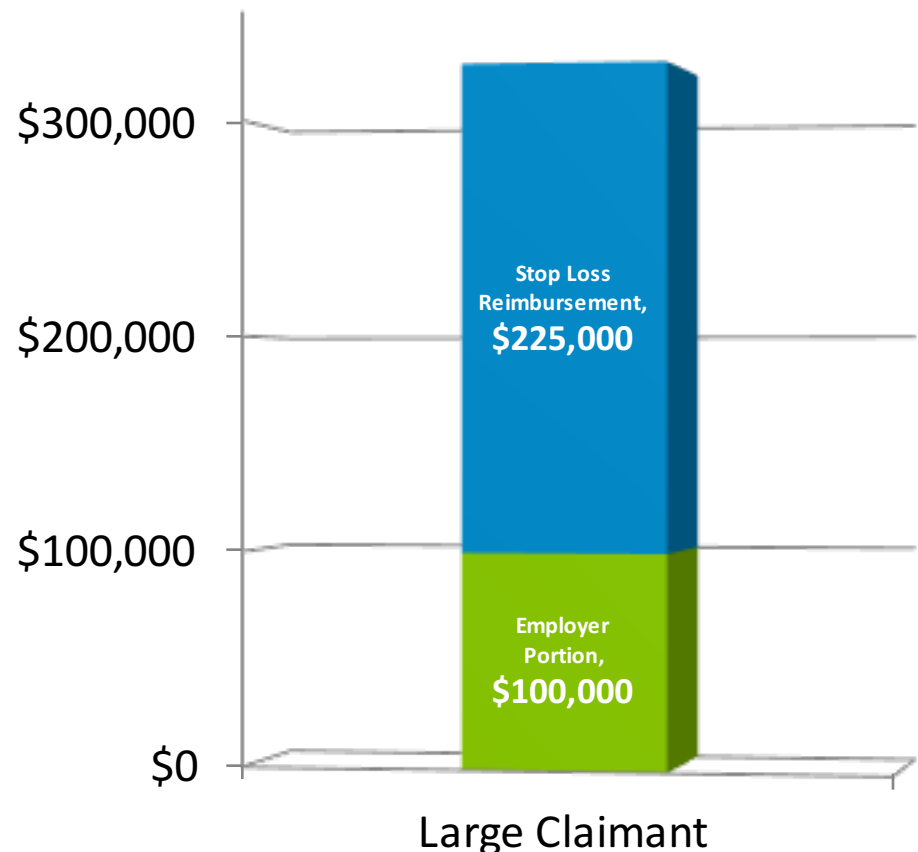
- Specific/Individual Stop Loss (SSL or ISL)
- Aggregate Stop Loss (ASL)



## Specific/Individual Stop Loss Insurance

### Example:

- \$100,000 Specific Stop Loss deductible
- \$325,000 in paid claims.
- Client pays only \$100,000



# Aggregate Example

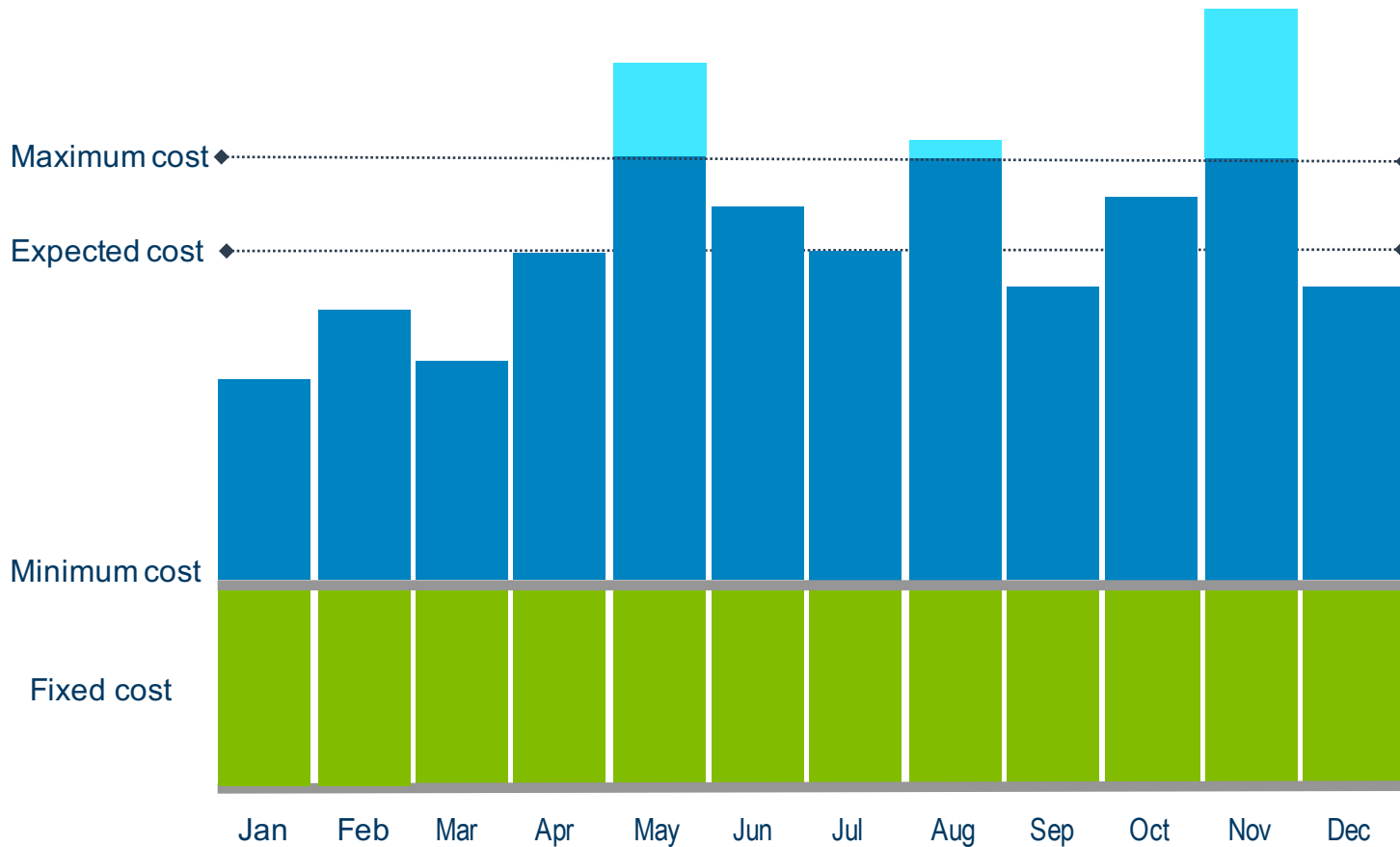


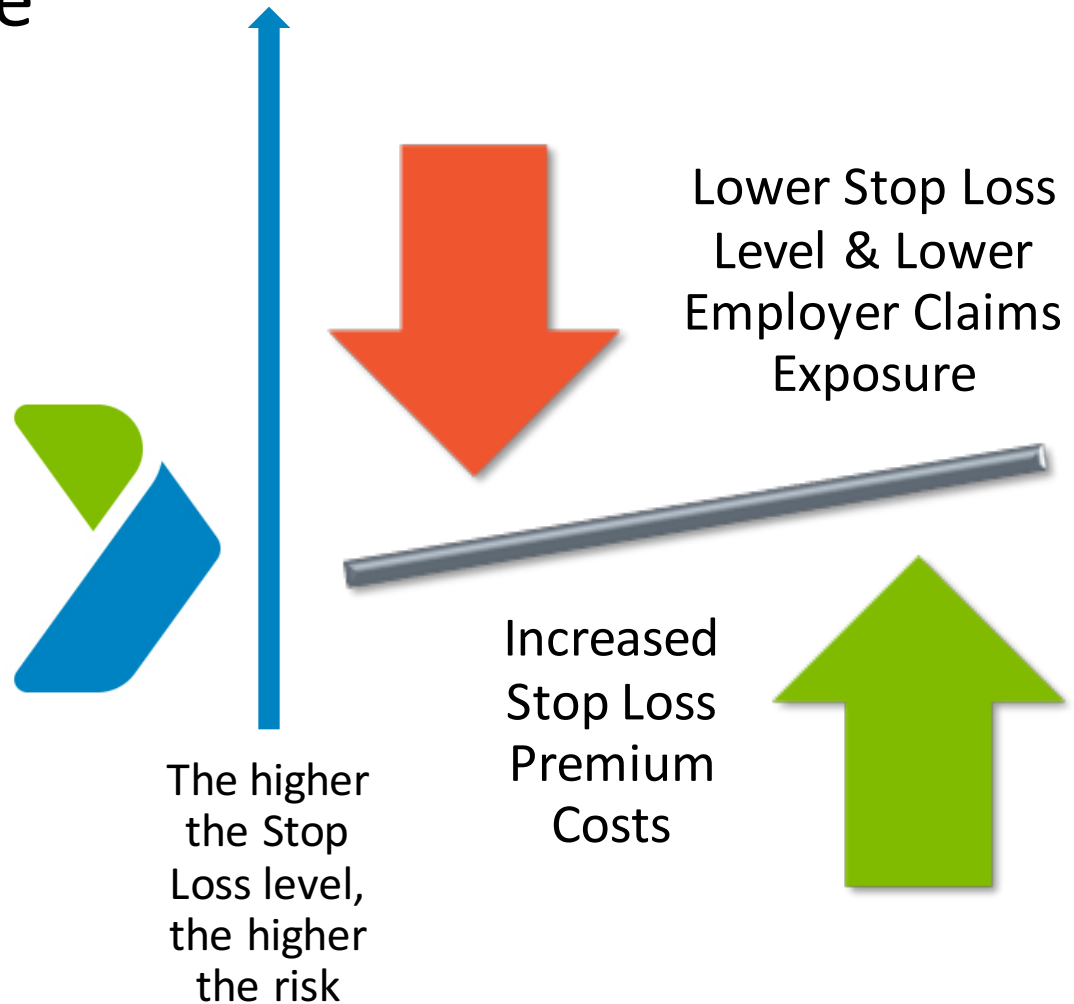
Chart shown for illustrative purposes only.



## Stop Loss Insurance

Determining the appropriate stop loss levels is a balance between expected claims, stop loss premium and risk tolerance.

Consultants will help you select the proper stop loss coverage levels based your specific plans, claims, employees and risk tolerance.



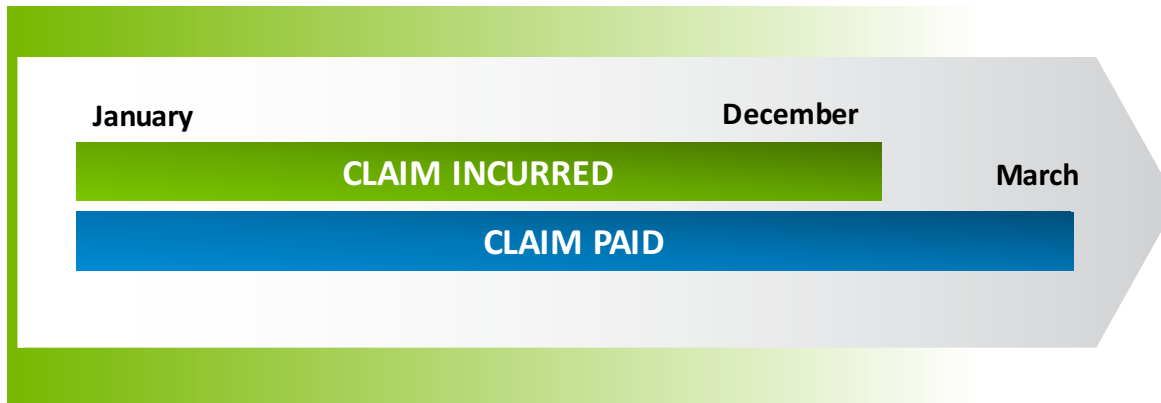


## Contract – 12/15 Incurred & Paid

**First year** – eligible claims must be both incurred and paid within the 12-month benefit period, or the 3 month run out period

**Renewal year** – converts to 12/24 or Paid basis

- Appropriate for plans coming from fully insured





## Other Stop Loss Contract Options

Specific  
Advancement  
Reimbursement

Terminal Liability

Aggregate  
Monthly  
Accommodation

Aggregating  
Specific

Family Specific  
Deductible

Lasers

# Self-Funded vs. Fully Insured Analysis



## CURRENT SELF-FUNDED PLAN (BLUE SHIELD)

PLAN	PPO 500	PPO 1000
<b>Copay</b>	\$25	\$35
<b>Deductible</b>	\$500 / \$1,500 x3 Fam	\$1,000 / \$3,000 x3 Fam
<b>Coinsurance</b>	80% / 50%	70% / 50%
<b>OOPM</b>	\$2,500 / \$5,000 x3 Fam	\$4,500 / \$7,500 x3 Fam
<b>IP Hospital</b>	80% / 50% after ded.	70% / 50% after ded.
<b>Lab/X-Ray</b>	80% / 50% (ded waived)	70% / 50% (ded waived)
<b>Rx</b>	\$7 / \$30 / \$60	\$10 / \$50 / \$75
<b>ENROLLMENT</b>		
<b>Employee Only</b>	47	20
<b>Employee + Spouse</b>	25	3
<b>Employee + Child(ren)</b>	10	2
<b>Employee + Family</b>	43	5
	<b>125</b>	<b>30</b>

<b>CURRENT COST OF PLAN</b>	<b>\$2,080,287</b>
<b>PROJECTED RENEWAL</b>	<b>\$2,152,070</b>
<b>MAXIMUM LIABILITY</b>	<b>\$2,574,000</b>

## ANTHEM BLUE CROSS

PLAN	CLASSIC PPO 500/20/20	CLASSIC PPO 1000/30/20
<b>Copay</b>	\$20	\$30
<b>Deductible</b>	\$500 / \$1,500 x3 Fam	\$1,000 / \$3,000 x2 Fam
<b>Coinsurance</b>	80% / 40%	80% / 40%
<b>OOPM</b>	\$3,500 / \$7,000 x2 Fam	\$5,000 / \$10,000 x2 Fam
<b>IP Hospital</b>	80% / 40% after ded.	80% / 40% after ded.
<b>Lab/X-Ray</b>	80% / 40% after ded.	80% / 40% after ded.
<b>Rx</b>	\$10 / \$30 / \$50 / 30%	\$15 / \$30 / \$50 / 30%
<b>RATES</b>		
<b>Employee Only</b>	\$682	\$522
<b>Employee + Spouse</b>	\$1,510	\$1,148
<b>Employee + Child(ren)</b>	\$1,235	\$939
<b>Employee + Family</b>	\$2,127	\$1,618
	<b>\$2,083,570</b>	<b>\$375,362</b>

<b>TOTAL</b>	<b>\$2,458,932</b>
<b>% CHANGE RENEWAL</b>	<b>14.3%</b>



## Stop Loss Renewals – Leveraged Trend

*Why do Stop Loss renewals have a higher rate increase percentage than claims or administrative fees?*

### The problem:

	This Year	Next Year	% Increase
Medical Expense	\$200,000	\$220,000	10%
Deductible	100,000	100,000	0%
Specific Claim	100,000	120,000	20%

### The solution:

	This Year	Next Year	% Increase
Medical Expense	\$200,000	\$220,000	10%
Deductible	100,000	110,000	10%
Specific Claim	100,000	110,000	10%



## Stop Loss – Gaps or Exclusions

Medical plan excludes only “felonies” but the stop loss contract excludes “all illegal acts.” A serious car accident resulting in \$300k in claims from a misdemeanor DWI will not be paid under the stop loss plan.

Stop loss contracts generally exclude

- Services or supplies which are not **Medically Necessary**
- Drugs, treatment, services or supplies which are **Experimental or Investigational**
- In excess of the **Usual and Customary (U&C)** charge for the locality where administered
- Any managed care discount, negotiated discount or any other **discount or savings forfeited or waived by the policyholder** including but not limited to untimely payment
- Treatment received **outside the U.S.**
- All **cosmetic surgery**



## Moving to a Self-Funded Program

*Considerations when moving from a fully insured to a self-funded plan.*

- 
- **Actual paid claims in the first 12 months will be 15%-25% lower than the second 12 month period**

- 
- **A 12/12 stop loss contract is not a fair comparison to a fully insured plan. Fully insured pricing compares more closely to a 24/12 or Paid stop loss contract.**

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- **The policy change from 12/12 contract to 24/12 or Paid contract on the initial renewal, plus trend will produce a renewal increase of approximately 30%**

# Small Employer Programs

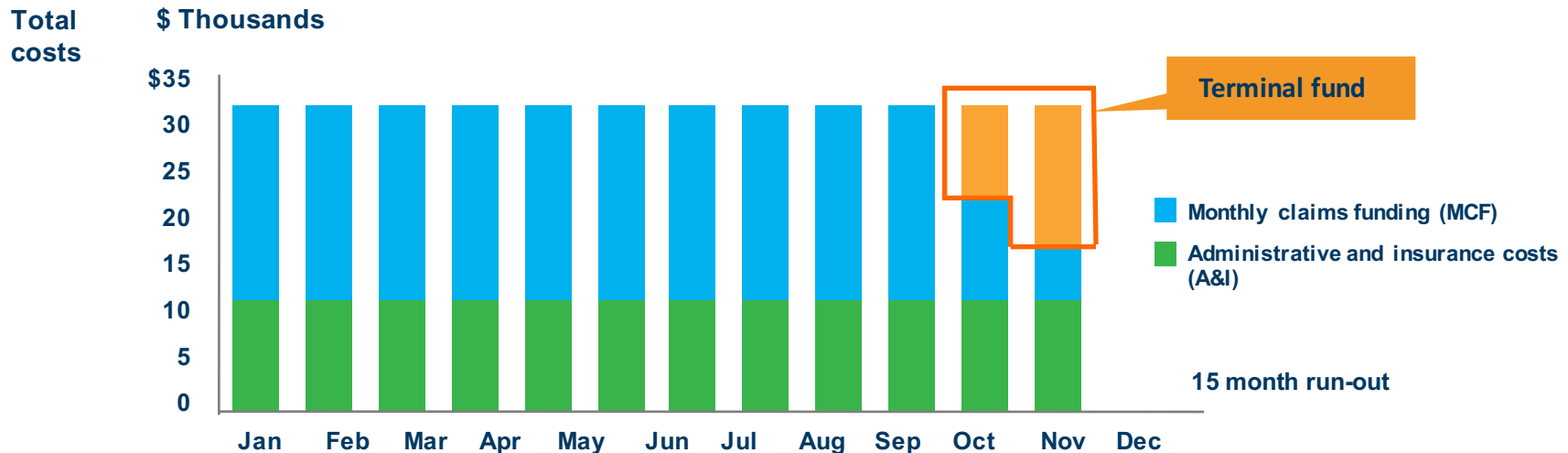


- Like CIGNA, Starmark,
- How they differ

# Level Funding



- Level Funding<sup>SM</sup> is a participating contract
- Client pays **preset level payments** (maximum costs) each month
- Regardless of claim activity from month to month, client **costs do not fluctuate** (except to adjust for enrollment shifts)
- Client and broker can view **monthly claims reporting** and assess expected surplus throughout the year
- In month 15, the claims funding surplus and terminal fund are assessed (terminal fund covers run-out claims; no additional fees due)
- In month 16, the client receives their portion\* of the claims funding surplus



\*Surplus share arrangements vary and may be impacted by state regulations. Includes ⅓ option, ½ option, and 100% option. Surplus is given as an administrative fee credit.



## Fees Impact All Coverage Types

The Transitional Reinsurance Contribution fee, Annual Health Insurance tax, fee for Carrier Exchange Participation, Cadillac tax, Patient Centered Outcomes Research Institute (PCORI) fees and the Risk Adjustment Program will impact all coverage types, as shown.

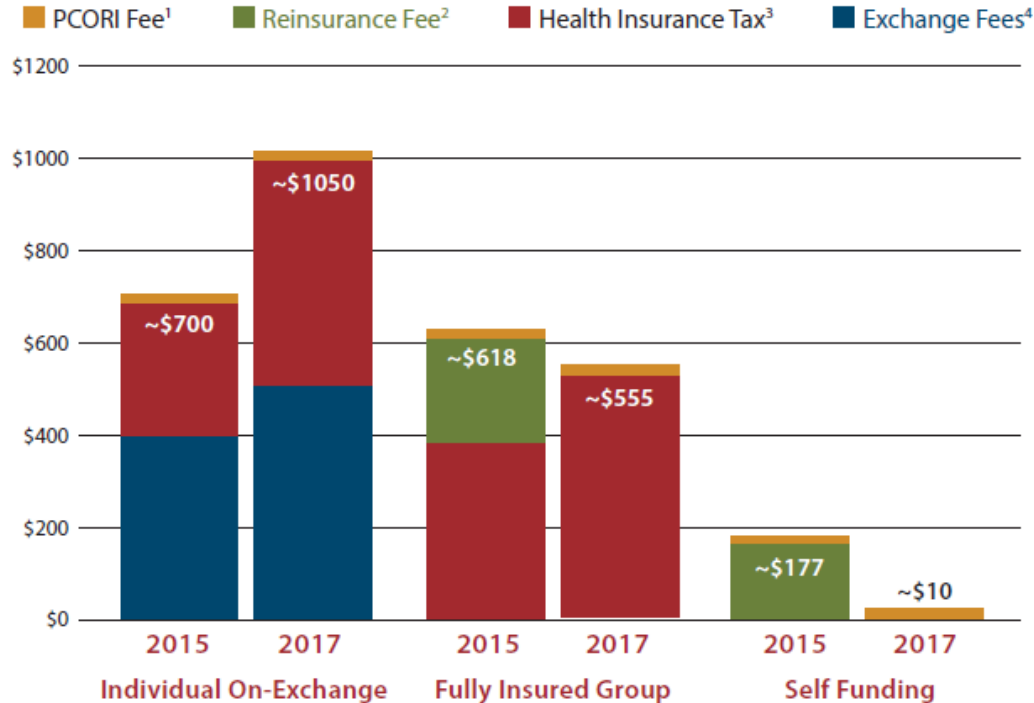
Reform Measure	Types of Coverage Impacted			
	Individual	Fully Insured	Self-Funded	Stop Loss
Transitional Reinsurance Contribution Fee		X	X	
Annual Health Insurance Tax	X	X		
Fee for Carrier Exchange Participation	X			
Cadillac Tax (Starts in 2018)		X	X	
PCORI Fee	X	X	X	
Risk Adjustment Program	X	X		

Sources: HHS.gov; IRS.gov; 2016 Notice of Benefit and Payment Parameters, Final Rule.

# Employees Save on ACA



## Annual ACA Fees: Estimated Amount for a Family of 4



1. PCORI Fees are \$2.08 PMPY in 2015 and increase thereafter based on health expenditure data (Source: IRS)
2. \$42 per member per year and \$27 in 2016; tax sunsets in 2016 (Source: IRS)
3. Estimated premium impact of annual fees assessed on health insurance plans (Source: Oliver Wyman)
4. Assumes annual \$12K cost per family; 10% annual premium growth and 3.5% fee; not applicable

# ACA Fee Comparison



## ACA Fee Comparison Reform Fees on Fully Insured and Self-Funded Plans

### Group Information

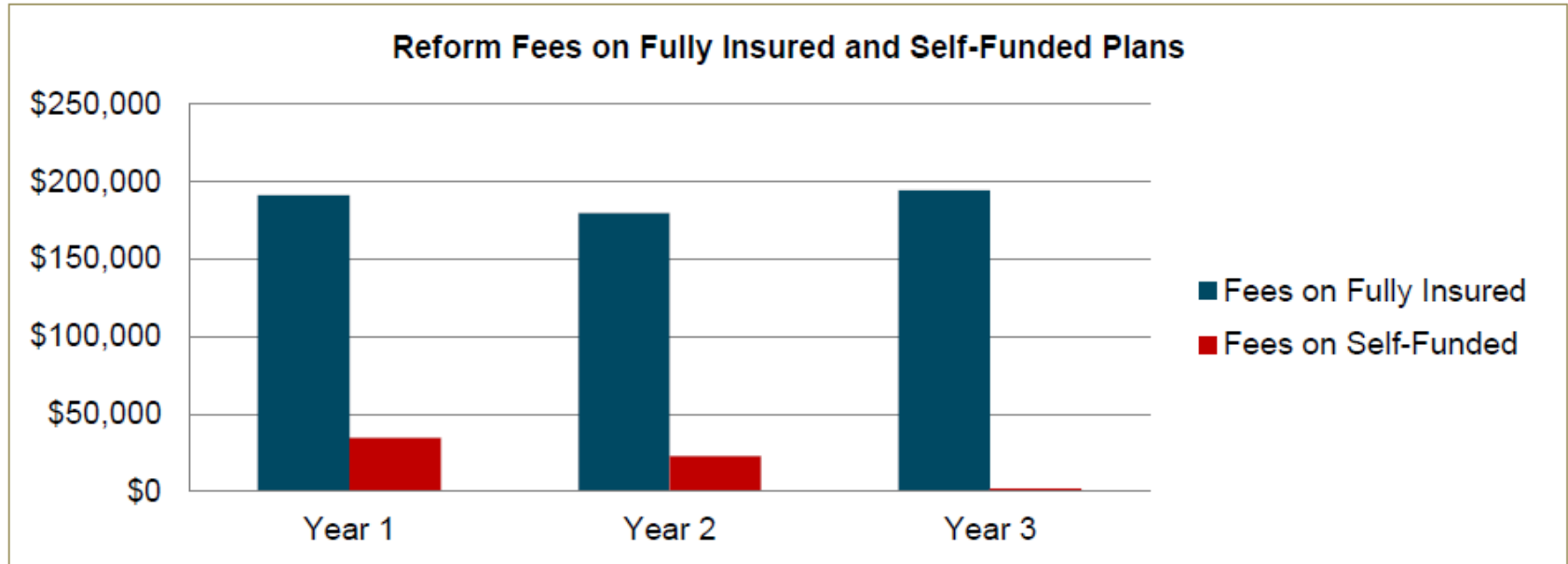
Name of Group:	ABC Company	Number of Members:	790
Effective Date:	01/01/2015	Fully Insured Renewal:	\$4,753,850
Number of Employees:	500	Future Fully Insured Rate Increases:	10%

### Fees and Taxes

	01/01/2015	01/01/2016	01/01/2017
PCORI Fee:	\$1,684	\$1,853	\$2,038
Transitional Reinsurance Fee:	\$33,180	\$21,330	\$0
Risk Adjustment Fee:	\$0	\$0	\$0
Health Insurance Tax:	\$154,441	\$154,441	\$189,976
State-Specific Fees:			

	Year 1	Year 2	Year 3	3-Year Total
<b>Fees on Fully Insured</b>	\$190,989	\$179,476	\$194,052	<b>\$564,517</b>
<b>Fees on Self-Funded</b>	\$34,864	\$23,183	\$2,038	<b>\$60,085</b>
<b>Self-Funded Fee Savings</b>	<b>\$156,125</b>	<b>\$156,293</b>	<b>\$192,014</b>	<b>\$504,432</b>

# ACA Fee Comparison



**Notes:** Totals may not add exactly due to rounding. PCORI Fees were \$2 per member in financial year 2014, \$2.08 per member in financial year 2015 and increase thereafter based on health expenditure data. Transitional Reinsurance Fees are determined by the HHS; enrollment reporting is due mid-November with HHS providing plan sponsors and insurers notice of the assessment amount due by December 15, payable in 30 days to HHS. Risk Adjustment Fee for groups with less than 50 members is assumed to be \$1 per member in 2014, \$1.75 per member in 2015 and 2016. Annual Health Insurance Tax is assumed as 2.3% in 2014 increasing to 4.11% in 2018.

**Disclaimer:** Please note that fully insured and self-funded costs are illustrative and may vary in later years based on actual claims experience and health care cost trend. The ACA fees information is based on our understanding of the Affordable Care Act of 2010, as amended and guidance as of October 2013. This is for general informational purposes only and is not intended to constitute legal advice or a recommended course of action in any given situation and should not be relied upon in making decisions of a legal nature. Costs are illustrative and may vary in other years based on actual claims and the health care cost trend.



## Claims

**Claims payments represent the largest portion of plan cost**

- Typically about between 80%-85% of yearly expenses

**Incurred claims that have already been paid**

- Claims that have been adjudicated, reviewed and payment has been made to the provider or facility



## Claims

### **Underwriting**

- Expected claims costs are derived from reviewing one or more prior year's claims history and applying trend projections and credibility adjustments
- Maximum claims protection (aggregate) are generally set at 25% above expected.

### **Employer Becomes the Insurer**

- The employer assumes responsibility to pay ALL claim payments
- A portion of claims may be reimbursed from stop loss insurance



## Claim Reserve Liability

**Incurred claims that have not yet been paid**

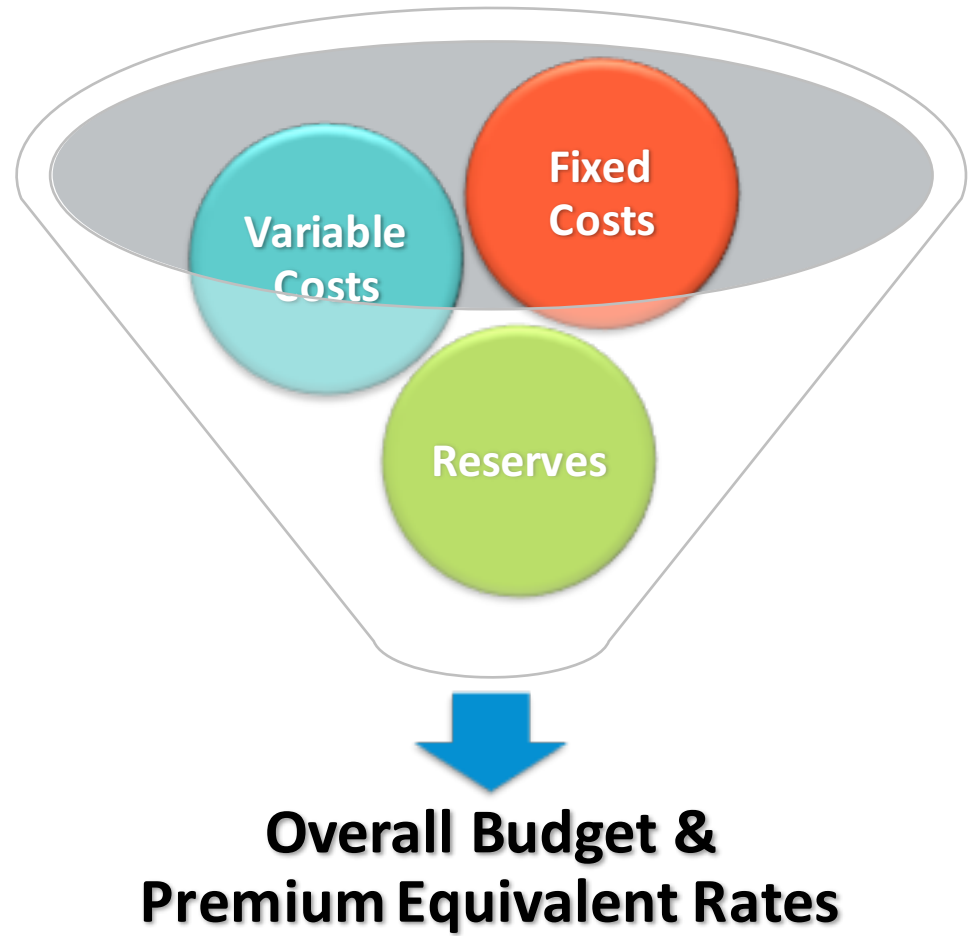
- Claim Reserves IBNR – Incurred But Not Reported

**Used to pay claims after plan termination – run-out claims**

- Claims that were incurred prior to but not paid before the termination date of the plan



**PUTTING IT ALL  
TOGETHER...**



# Fully Insured vs. Self-Insured



## Sample Client Marketing Fully Insured Compared to Self-funded

Anthem PPO and H.S.A Plans Combined		
Current	\$1,918,098	
Renewal	\$2,397,623	25% increase
Alternative FI Carrier	\$2,224,994	16% increase

	25% Claims Corridor		Percent of Total Costs
	At Expected	At Maximum	
Expected Claims	\$1,683,123	\$2,103,904	78%
Administration	\$115,893	\$115,893	4%
Stop Loss Premium	\$462,209	\$462,209	17%
<b>Total Plan Cost</b>	<b>\$2,261,225</b>	<b>\$2,682,006</b>	
Risk of not taking renewal	(136,398)	284,383	
Risk of not taking Alternative	36,231	457,012	

### Questions:

Does the fact that the current carrier stood firm on a 25% increase, mean it might not be the best idea to go self funded?

How do you predict if you will run at, near, over, under expected claims?

# Underwriting Sample



## Sample INC.

### 2015 RENEWAL EXPERIENCE-BASED PROJECTED COST AT \$90,000 ISL

April 1, 2014

Experience Period: April 1, 2011 through December 31, 2013

Enrollment: Counts as of December 1, 2013

Medical & Rx	4/1/2011-3/31/2012		4/1/2012-3/31/2013		4/1/2013-12/31/2013		Combined
	Medical	Rx	Medical	Rx	Medical	Rx	
Paid Claims	\$3,693,287	\$545,012	\$4,074,250	\$568,496	\$2,089,733	\$408,527	
Pooled Claims @ \$90K	(\$965,732)	\$0	(\$687,198)	\$0	(\$30,000)	\$0	
Non-Pooled Claims	\$2,727,554	\$545,012	\$3,387,052	\$568,496	\$2,059,733	\$408,527	
Benefit Plan Change Adjustment	\$54,551	\$10,900	\$67,741	\$11,370	\$0	\$0	
Adjusted Non-Pooled Paid Claims	\$2,782,105	\$555,913	\$3,454,793	\$579,866	\$2,059,733	\$408,527	
Lagged Enrollment (Medical 2-months, Rx-None)	4,627	4,703	4,976	5,271	4,249	4,007	
Incurred Claim Cost PEPM	\$601.28	\$118.20	\$694.29	\$110.01	\$484.76	\$101.95	
Trend to 10/1/2014 @ 9.0% for PYs 2011, 2012 and 6.5% for PY 2013	1.2950	1.2950	1.1881	1.1881	1.0734	1.0734	
Expected Claims Cost PEPM	\$778.65	\$153.07	\$824.89	\$130.70	\$520.34	\$109.44	
Credibility Factor	10.0%	10.0%	35.0%	35.0%	55.0%	55.0%	
Experience Rated Claims Cost PEPM					\$652.76	\$121.24	\$774.01
Adjustment for Projected Rx Rebates							(\$3.78)
Adjusted Experience Rated Claims Cost PEPM							\$770.23
Margin for Claim Fluctuation						1.00%	\$7.70
<b>Expenses</b>							
Administration/ Network Access							\$67.30
ACA PCORI Fee							\$0.36
ACA Reinsurance Fee							\$11.33
Specific Stop Loss							\$144.33
Aggregate Stop Loss							\$3.42
<b>Total Needed Equivalent Premium PEPM</b>							<b>\$1,004.67</b>

Current & Projected Premium Equivalent Rates	Current EES	2013 Equivalent Premium Rates	2014 Equivalent Premium Rates
<b>HMO</b>			
Single	88	\$589.98	\$598.90
EE + Spouse	23	\$1,268.44	\$1,287.61
EE + Child(ren)	55	\$1,066.66	\$1,082.78
Family	50	\$1,734.52	\$1,760.74
<b>Total/PEPM</b>	<b>216</b>	<b>\$1,048.54</b>	<b>\$1,064.39</b>
<b>PPO 250</b>			
Single	40	\$610.50	\$619.73
EE + Spouse	7	\$1,312.57	\$1,332.41
EE + Child(ren)	18	\$1,103.79	\$1,120.47
Family	19	\$1,794.88	\$1,822.01
<b>Total/PEPM</b>	<b>84</b>	<b>\$1,042.61</b>	<b>\$1,058.37</b>
<b>PPO 750</b>			
Single	69	\$535.24	\$543.33
EE + Spouse	17	\$1,150.76	\$1,168.15
EE + Child(ren)	36	\$967.71	\$982.34
Family	21	\$1,573.59	\$1,597.37
<b>Total/PEPM</b>	<b>143</b>	<b>\$869.77</b>	<b>\$882.92</b>
<b>ALL PLANS - TOTAL/PEPM</b>	<b>443</b>	<b>\$989.71</b>	<b>\$1,004.67</b>
<b>PERCENTAGE CHANGE</b>			<b>1.5%</b>



Employers that provide self-funded benefits to their employees must comply with the HIPAA privacy & security laws. Self-funded health plans include major medical plans with claims paid from employer assets and stop loss coverage, medical flexible spending account plans, employee assistance plans, wellness programs, and self-funded vision or dental coverage. Fully-insured plans are not required to comply with the majority of the HIPAA privacy provisions as long as the employer only receives eligibility information from the insurance carrier.

HIPAA Privacy

HIPAA Security

# Self-Funding Advantages



## Advantages of Self-Funding

**Administration tailored to the employer's needs** – The employer has the ability to purchase and carve our various administrative functions and services to find a vendor that best suites the needs of employees.

**Control of the plan design** – In a self-funded environment, the employer has the ability to customize the plan design. State regulations mandating costly benefits are avoided since self-funded health plans are not subject to state mandates. Self-funded plans are governed by federal laws.

**Cash flow benefits** – Money that was typically kept by the insurance companies is now kept in the employer's own bank account(s). There are no pre-payment for claims in a self-funded plan. All claim expenses are only paid when claims are received and processed.

**Lower administrative costs** – Employers always find that the administrative costs of a self-funded health plan are lower than that of its fully insured competitors.

**Reduced premium tax and ACA fees** – Employers only pay a premium tax on their stop loss insurance. Stop loss premiums typically account for only 10% of the total cost of a self-funded plan. Typically, an immediate 2-4% savings is realized.

**Collection of health plan data** – In a self-funded environment, the employer and its consultant have the ability to make well informed benefit changes based upon full reporting of claims experience.

**Elimination of carrier profit margin** – The group benefits directly from favorable claims experience, managed care programs, and other cost control measures.

**The ability to build reserves** – When claims experience is lower than projected, the plan builds reserves to help cover future costs. When there are savings in a fully insured arrangement, the insurance company keeps those funds.

# Self-Funding Disadvantages



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## Disadvantages of Self-Funding

**Increased risk** – The employer assumes a portion of the risk not covered by stop loss protection. If there is a gap in coverage, the employer is responsible for all claims allowed by the plan.

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**Can be difficult to budget** – Monthly claims will fluctuate and large claims are often not foreseen and can be catastrophic. A company wishing to be self-funded should have an adequate cash flow to support months with higher claims payments than normal. In addition, a year that brings large unexpected medical claims requires that a company has the financial resources to meet its obligations.

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**Fiduciary responsibility** – In a self-funded environment, the employer has fiduciary responsibility for all members enrolled in the plan. As such, the employer's assets are exposed to legal action against the sponsored benefit plan.

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**Increased responsibilities** – The employer must provide the services normally provided by the insurance carrier. Some of these services are handled by the TPA or other vendors, but there is almost always a cost to having an outside vendor provide a service.

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# What did we learn today?



Long Term Commitment

Employer as insurer

Flexibility of Plan Design

Cash Flow

Financially Protected

Transparency  
Freedom  
Savings on ACA and State  
Tax