

Self Insurance Tips, Traps, and Myths

Tim Cooper, Sr. VP Employee Benefits Brown & Brown Northwest



“There is much concern among employers about healthcare cost”

- Costs are out of control
- Employers are searching for methods to stabilize cost

Journal of Pension Planning & Compliance, **June 1983**



Agenda

- I. Refresher
 - Spectrum of Funding Options
 - Alternative funding advantages
- II. Tips
 - Bundled or Unbundled
 - Stop Loss
 - Referenced Based Pricing
- III. Traps
 - Contracts
 - Plan Document
 - Small Prints Fee
- IV. Myths
 - Self Insurance is a silver bullet
 - We are too small to self insure
 - All large employers should self insure
- V. Self Insurance Decision Points
- VI. Discussion/Q&A



Focus on Medical Plan Funding

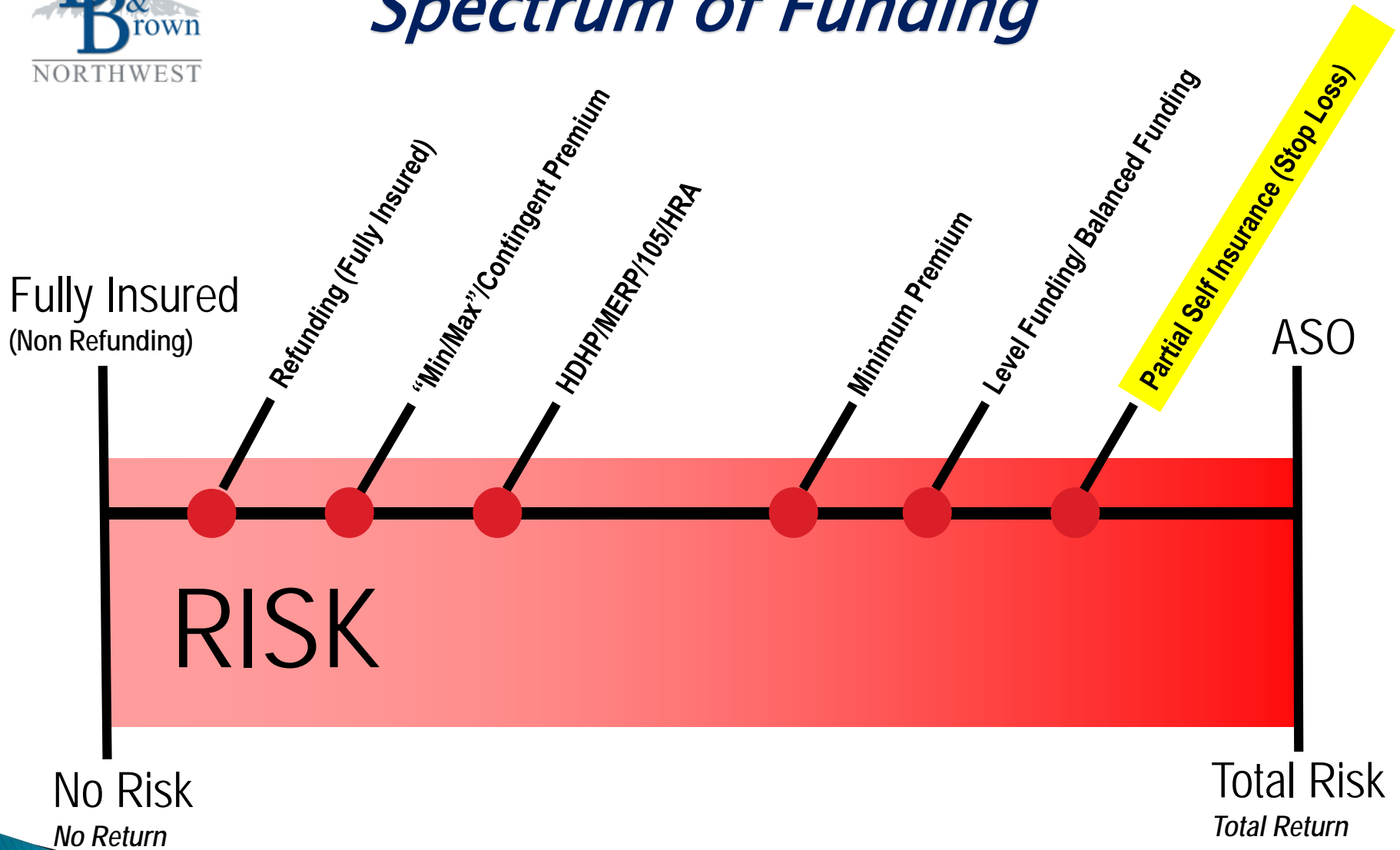
Other employee benefits to consider for self insurance

- Dental
- Vision
- Short Term Disability

Typically Not for Self Insurance

- Long Term Disability
- Life Insurance

Spectrum of Funding



Self Insurance Refresher

Overview of Funding Arrangements Fully Insured (FI) funding

- Premiums do not fluctuate (for 12 months) based on actual claims incurred by plan members
- Insurance carrier assumes claims risk
- Fixed premium includes: reserves (IBNR), administrative costs, pooling, taxes, margin and claims
- Subject to State Mandates
- Insurer defends the plan

Self-Funding: also known as partial self-insured or ASO (Administrative Services Only)

- Employer assumes chosen amount of claims risk (stop loss)
- Cost fluctuate based on actual claims paid
- Employer may hold reserves for IBNR
- Federal governance through ERISA
- Employer defends the plan
- Not subject to ACA Health Insurer Tax
- Not subject to most State Insurance Taxes

Tips– Bundled or Unbundled

One size fits all is not the right answer

Example: Bundled is better for all or Unbundled is better for all

- Each client is unique and the two options bring a set of advantages and disadvantages when compared
- Balance of additional risk associated with unbundled versus potential additional cost of bundled

Understand and focus on components separately and then in total
Focusing on the fixed dollar cost and assuming claim spend will be equal among administrators

- Network access, discounts
- Stop loss contract
- Claims payor versus claims administrator

Bundled providers will unbundle

- Stop loss
- PBM



Tips– Stop Loss

Stop Loss is not a “commodity”–Know the contract

- 12/12; 12/15; paid etc.
- IBNR/termination liability and cost
- What is covered?
- Minimum Agg., Deficits, monthly accommodation, immediate reimbursement
- Lasers allowed – “in practice” versus contract language
- Read the fine print and assumptions of the proposal
- Is there an MGU or is it a direct writer of stop loss
- Renewal calculations
- Bundled contract is dental included in Agg?
- RX in agg and specific?

Written in contract that the stop loss “mirrors” the plan document

Consider non traditional options

- Do you need an aggregate stop loss?
- Aggregating Specific Stop Loss
- Participating/refunding stop loss contracts, Captive



Tips– Summary Plan Document

Read the SPD and have ERISA attorney review the SPD

Summary plan descriptions should

- Expressly prohibit the assignment of claims and derivative actions by providers
- Ensure the plan document is clear to the delegation of authority with respect to claim review and other factual matters to the ASA
- Plan should clearly state that for subrogation the employer can recover 100% of the subrogated amount with out regard to whether the individual has been made whole

Lasering

- “Laser by premium increase”
- Size matters
- Cost versus risk

Reference based pricing

- Traditional bundled carriers have conf
- provider contracts
- There is a “cost for the savings”
- Know how service providers, TPA and consultant are compensated.
- Review and track metrics such as “balance bill” numbers and net total savings after compensation

“Shared Funding” etc. is self insurance

“Liability versus Reality”

- Is there enough variable cost to “win”?

Traps



Traps Continued

Not Understanding the fiduciary liability of self insurance

Small Print Fees: What is the true cost of admin and services?

- RX rebates
- “Shared savings fees”
- Claims/disease management fees billed as a claim
- Require quoting carriers to provide list and estimate of all fees
- Require current carriers to provide actual cost of all fees
- Know how the fees impact future cost projection
- Confirm claims amounts projected do not include in projects
- Do shared savings fees apply to stop loss?

Myths

Self Insurance is a silver bullet

- There are cash flow and other advantages to self insurance but self insurance by itself is not a reduction to health care cost

You need at least 200 employees to benefit from self insurance

Self Insured Plans are exempt from ACA market reform

Stop Loss is health insurance

You will get “burned” by self insurance

- Caveat emptor
- “bad year”

Self Insurance Decision Points

Reminder: General Advantages

- Reduce total cost
- Transparency of data
- Informed decisions in plan design, wellness etc.
- Employer can hold the reserves on IBNR
- Cash flow– only pay for actual claims
- Reap benefits of wellness, CDHP etc. rather than the carrier
- Avoid premium taxes
- Avoid ACA Health Insurer Tax (medical, dental, vision)
- Avoid state mandates
- Equal benefits to multiple state locations
- Plan design flexibility

Self Insurance Decision Points Continued

Primary Considerations of whether to Self Insure

- Employer financial stability?
- Risk tolerance?
- Does employer have a complete understanding of contract and areas of liability?
 - Does current Executive/Management group understand and support?
- Long term thought process
- Financial “risk”– does the financial analysis support expected (realistic) savings?



Self Insurance Decision Points Continued

Secondary Considerations/ Objections

- Number of employees covered
- Demographics
- Lack of Experience information?
- Industry
- Too complicated

You Should Never Self Insure If...

- If the reason for self insuring is for cash flow to maintain a business, e.g. finances are not in order
- If you are not comfortable with the additional risk associated with the maximum cost
- If you are aware of significant large ongoing claims
- You do not fully understand the concept or contract
- You are not committed for at least 3 to 5 years
- Your consultant is not experienced in self insurance
- Other???



Contract Considerations and Decisions

- Bundled or Unbundled Provider
- MGU or Direct Stop Loss
- Level of specific stop loss?
 - Immediate?
 - RX included?
- Do I need aggregate stop loss?
 - % attachment
 - Combined with lower risk coverage?
- Confirm stop loss contract 'wrap' the SPD?
 - Exceptions covered in writing
- Laser Underwriting
- Administrative Guarantees
- Claims Audit – allowed?
- Other?

Proactive, Innovative, Creative, High Energy

Thank you

