

Medical Plan Funding

Basics of Fully Insured and Self Funding



BANYAN
CONSULTING

A Division of First Niagara Risk Management, Inc.

Agenda

Agenda

Basics of Health Plan Underwriting

Types of Medical Plan Funding

Key Points of Fully Insured

Key Points of Self Funding

Stop Loss Coverage

How to determine if Self Funding is right for you





Health Plan Underwriting

Key Pieces of Information





Key Pieces of Information

1. Number of Employees Eligible?
2. Number of Employees Enrolled?

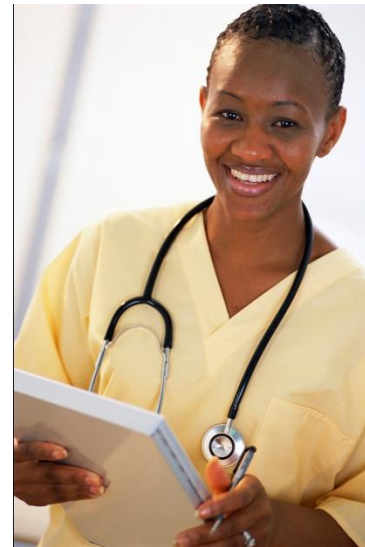
- Small groups (under 100) usually fully insured
- May have limited plan options
- May have “participation” requirements



Key Pieces of Information

3. Type of Industry?

- Important to assess risks





Key Pieces of Information

4. Types of Plans?

PPO

HMO

High Deductible HSA

Multiple Options



Key Pieces of Information

5. Type of Funding?
 - Fully Insured or Self Funded?



Fully Insured

Fully Insured Plan -- The employer pays the entire premium and, in return, transfers the risk and responsibility for claims payments to the insurance company.



Self Funded

Self-Funding: An arrangement under which all or some of the risk associated with providing coverage is not covered by an insurance contract.





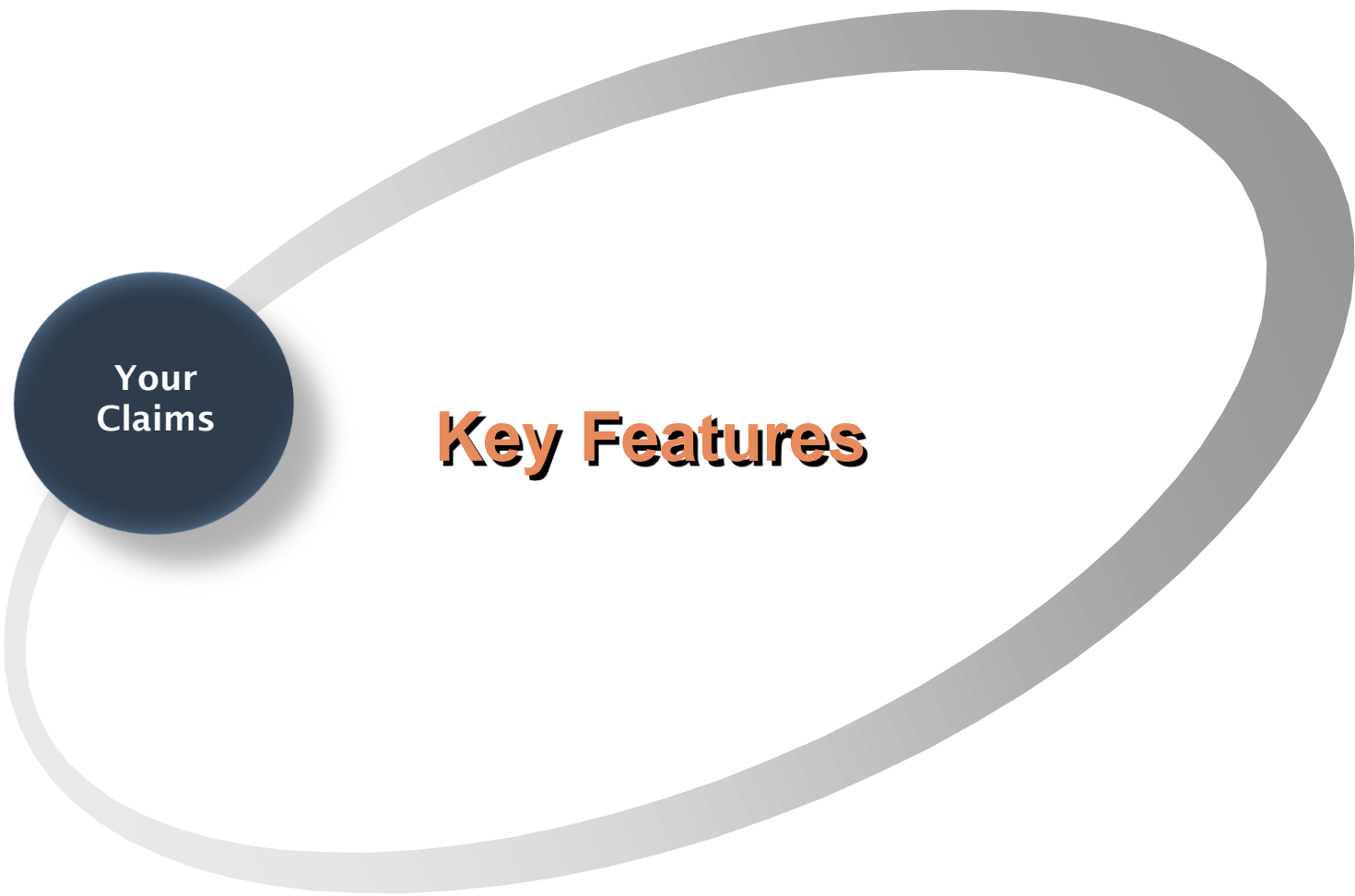
Fully Insured Plans

Community / Demographic Rated	Experience Rated
Generally Fewer Than 100 Employees Enrolled	Generally Over 100 Employees Enrolled
Rates based on demographics (age, gender, SIC)	Rates take claims into consideration
Limited “canned” plan designs	More flexibility to make changes



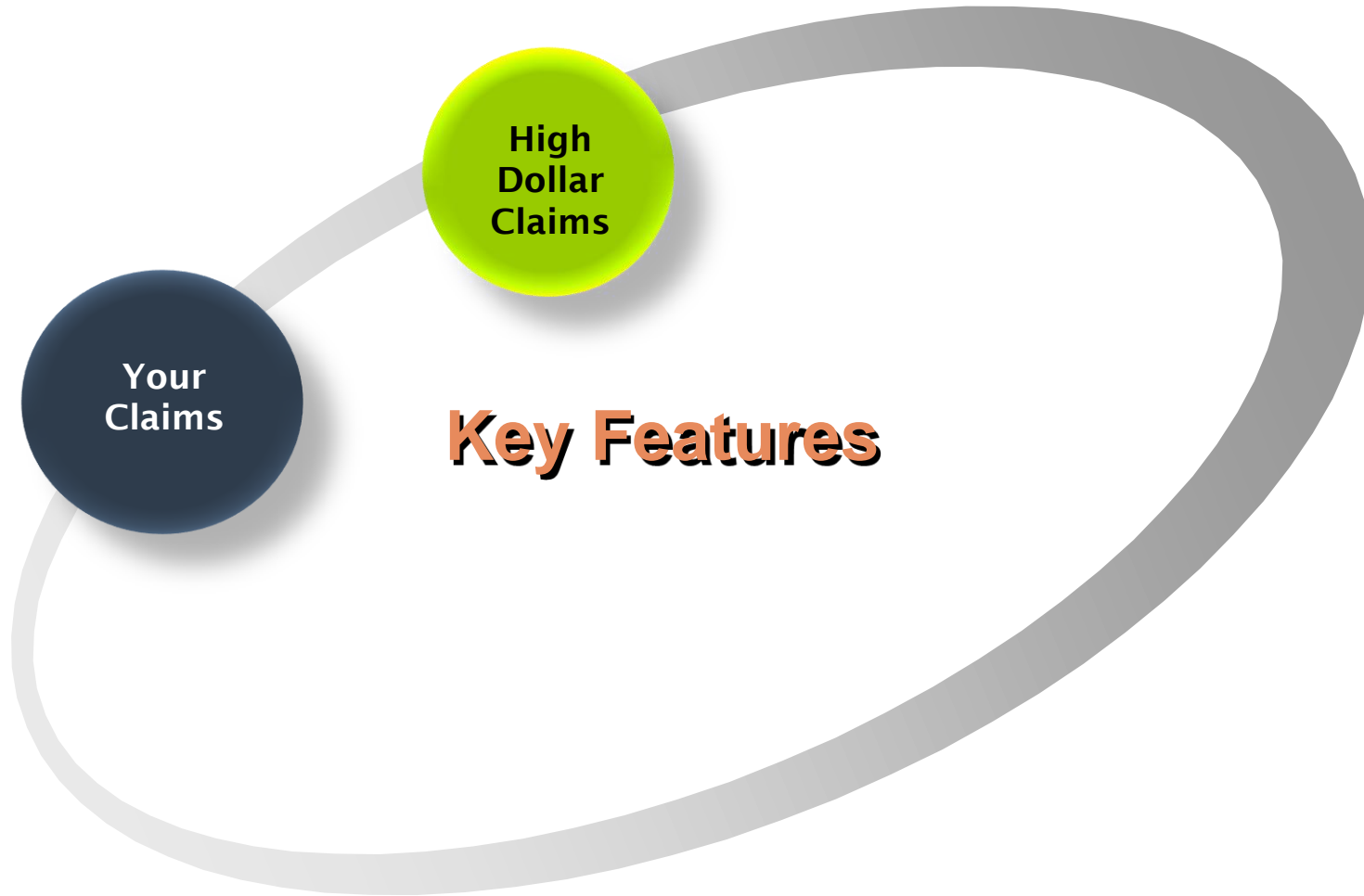


Experience Rated Plans



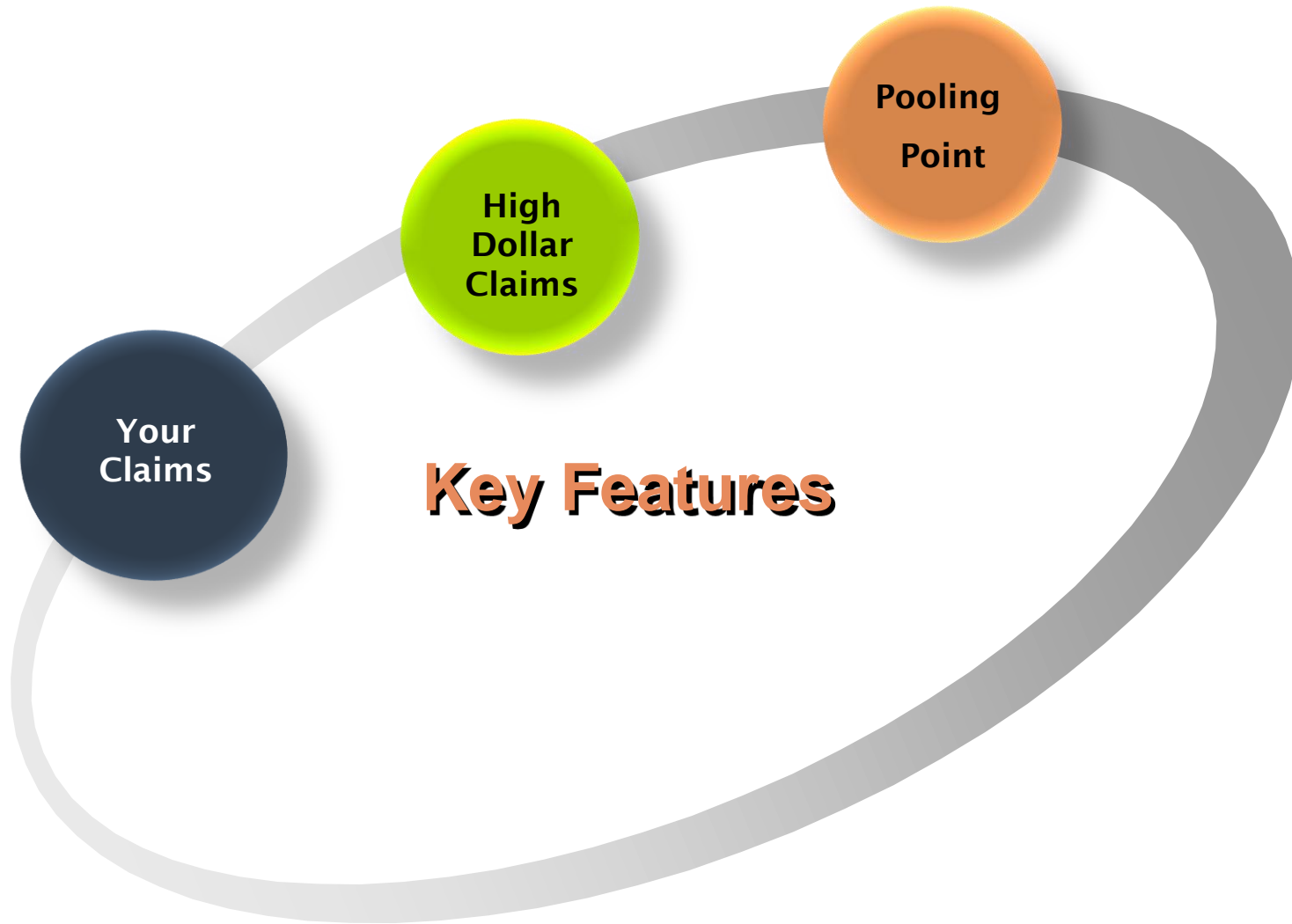


Experience Rated Plans



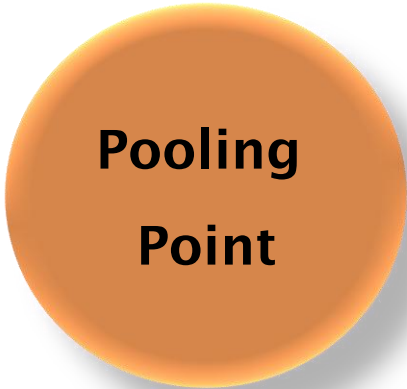


Experience Rated Plans





Experience Rated Plans



**Pooling
Point**

Pooling (as applied to large claims) --

Claims over a “pooling point” are not counted in the renewal calculation.

Employers are not singled out and unfairly assessed with abnormally large rate increase.

Combines carrier’s large claims in order to spread risk.

Generally a charge (pooling charge) is applied as a percentage of claims.



Pooling Sample

HMO

Rating Type: Prospective

Base Experience Period: 12/01/2009 through 11/30/2010

Contract Period: 06/01/2011 through 05/31/2012

Incurred Claims	\$1,240,908
Pooling Charge	\$70,146
Pooled Claims	(\$374)
Incurred with Pooling	\$1,310,680



Pooling Sample

HMO

Rating Type: Prospective

Base Experience Period: 12/01/2007 through 11/30/2008

Contract Period: 06/01/2009 through 05/31/2010

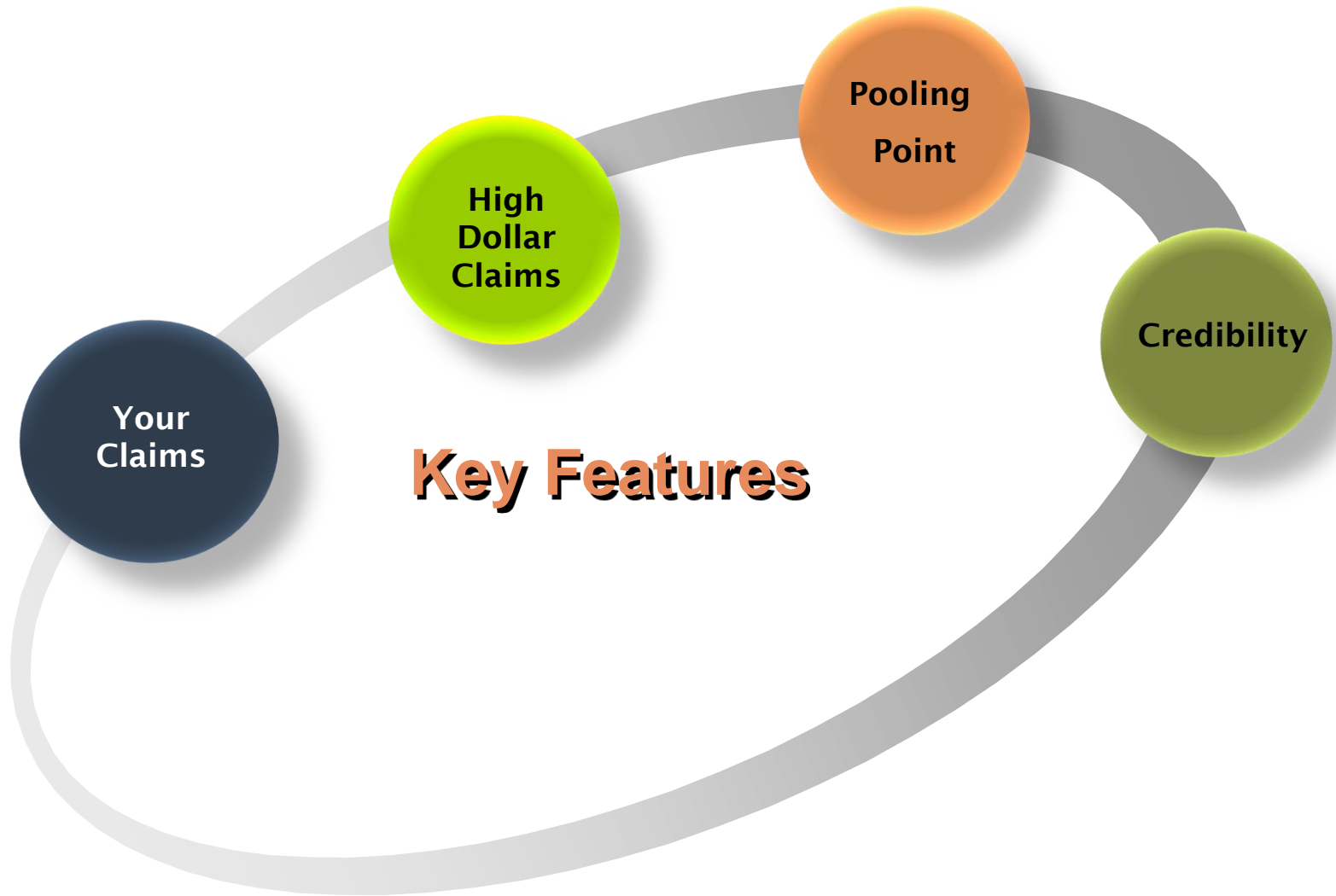
Incurred Claims	\$1,566,425
Pooling Charge	\$90,234
Pooled Claims	(\$430,797)
Incurred with Pooling	\$1,225,862

Significant benefit from pooling point in this renewal.





Experience Rated Plans





Experience Rated Plans



Credibility

Credibility -- Percentage determined by the insurance carrier as to the “believability” of the group claims experience being reviewed.

Group actual claims experience is blended with manual claim cost factors to develop projected claims. Generally groups over 600 lives are considered fully credible.



Credibility Calculation

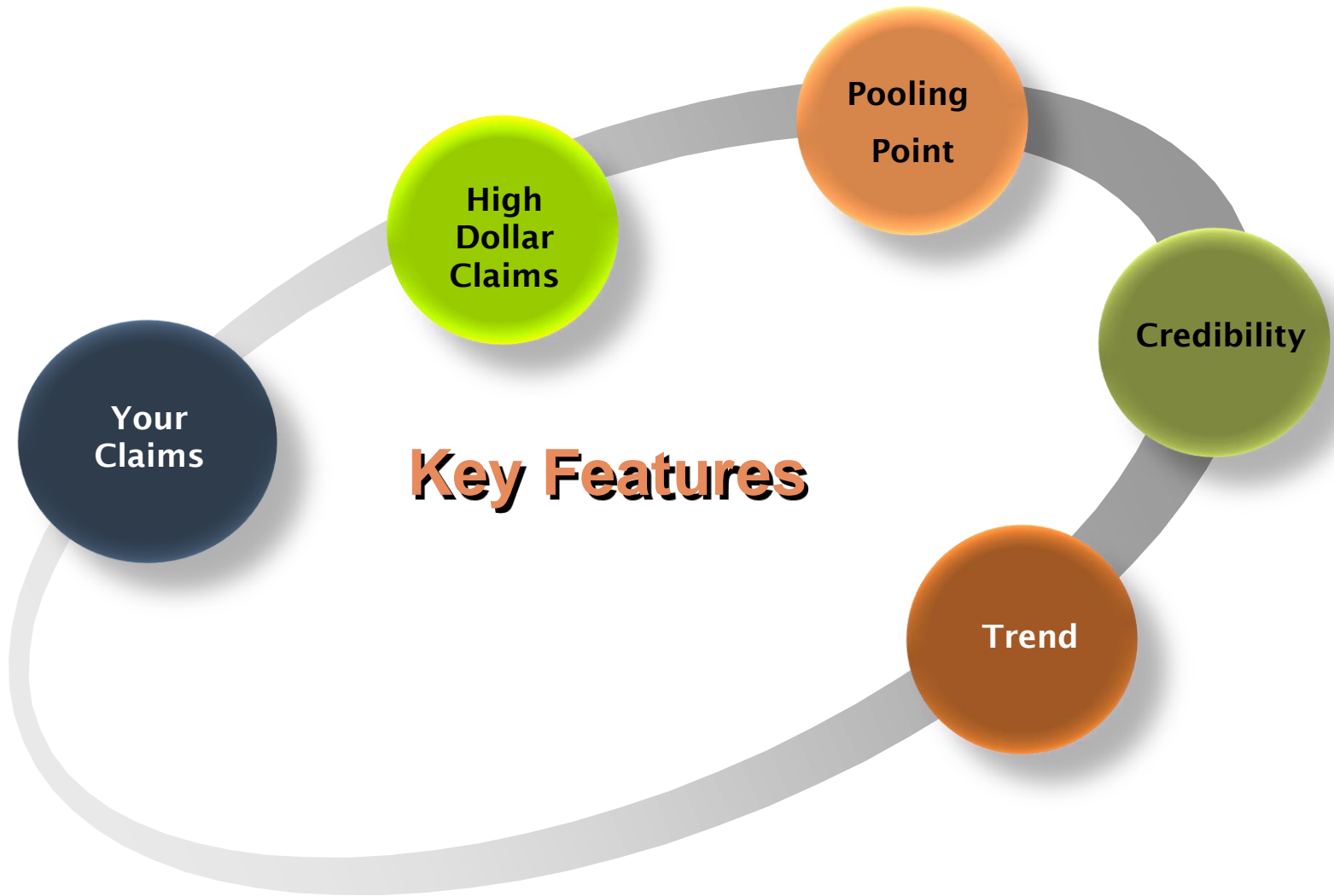
Adjusted Claims	\$3,017,908	← Group's Claims
Credibility Percent	62.18%	
Highmark Manual Claims	\$2,803,431	← Carrier Estimate
Credibility Adjusted Claims	\$2,936,788	

Group	Carrier
\$3,017,908	\$2,803,431
62.18%	37.82%
\$1,876,458	\$1,060,330
\$2,936,788	





Experience Rated Plans





Experience Rated Plans



Trend

Trend -- The percentage of increase used by an insurance company to reflect the projected rise in health care costs.

Factors Include:

Medical Inflation

Increased Utilization

Medical Technology

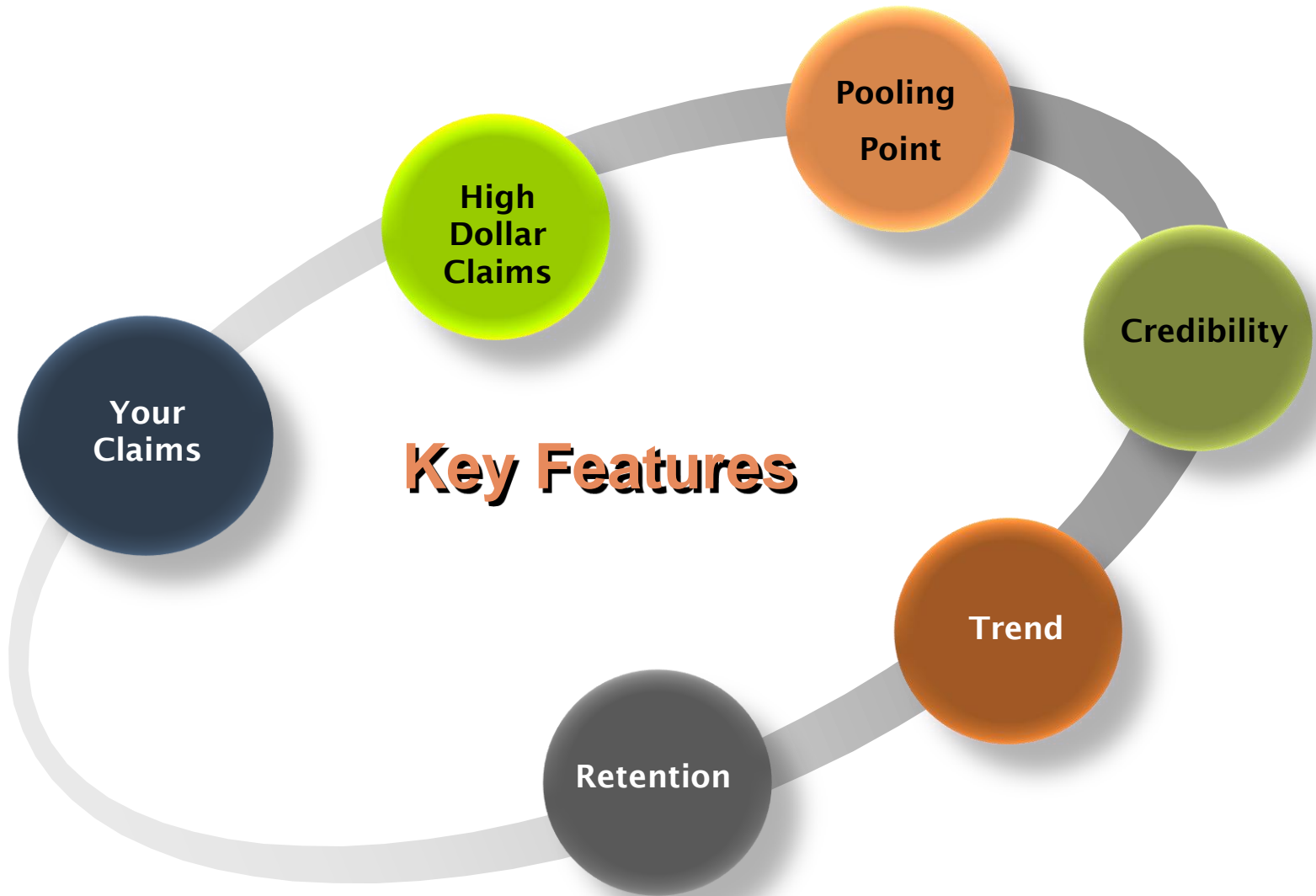
Demographics (aging workforce)

Region





Experience Rated Plans



Experience Rated Plans



Retention

Retention -- The portion of the insurance premium which is allocated for:

Expenses

Administration

Enrollment, claim adjudications, legal, actuarial, contracting and regulatory.

Broker compensation

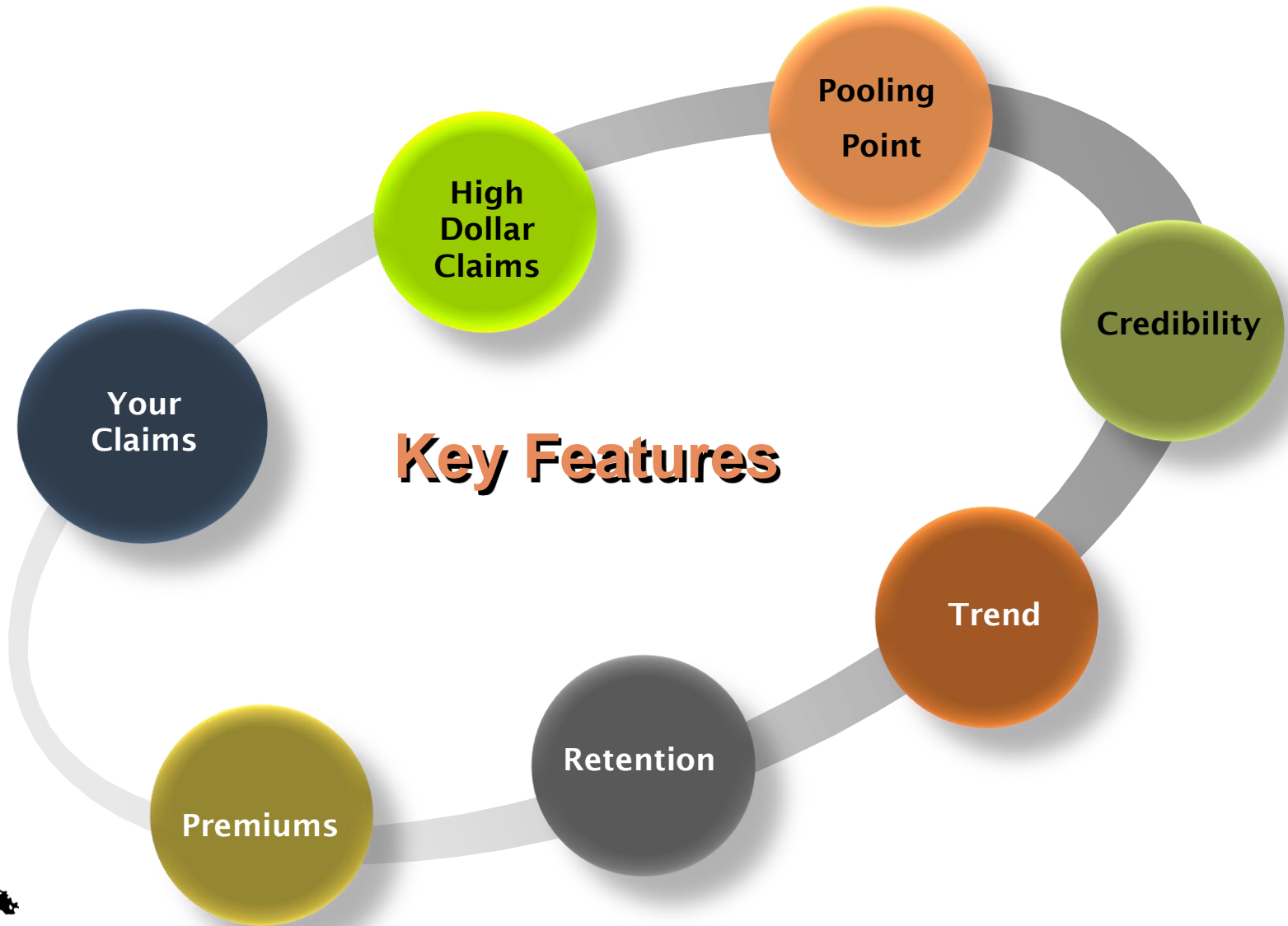
Risk charges; and

Profit 





Experience Rated Plans





Self Funded Plans

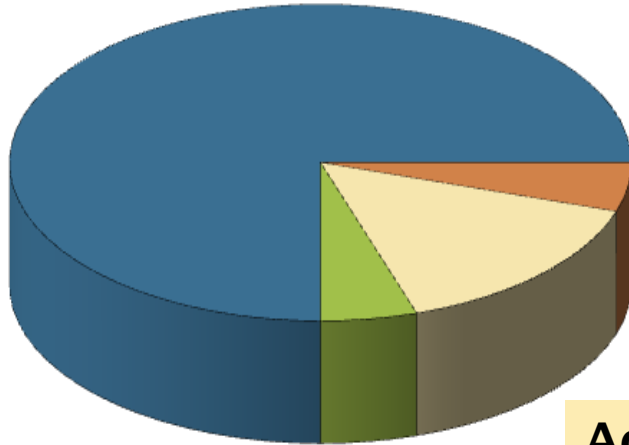
- The employer assumes the financial risk for providing health care benefits to their employees.
- Self-funded employers pay for claims as they are paid versus paying a fixed premium to an insurance carrier.



Components of Self-Funding

- TPAs rent PPO networks and pass on savings to the client.
- Carriers generally have proprietary networks.

Claims



Reinsurance Premium

- Purchased to insure against catastrophic losses.

Reserves

- Adequate reserves should be maintained in the event of termination.
- Typically held by client.

Admin Expense

- TPAs provide unbundled pricing for services.
- Carriers provide bundled pricing including case management and wellness.





Why Self Fund?

- Customization versus a canned product.
- Risk charges, insurance company reserves and most premium taxes are eliminated.
- The employer maintains control over the health plan reserves, and receives interest income on their money.
- The employer does not have to pre-pay for coverage, thereby providing for improved cash flow.
- Not subject to state health insurance regulations/benefit mandates.
- Ability to obtain detailed claims data.





Self Funded Plans

Is self funding right for everyone?

NO.

- Self-funded employer assumes the risk of health care claim costs for its employees.
- Must have the financial resources (cash flow) to meet this obligation.
- There are companies with as few as 25 employees that do maintain viable self-funded health plans, but we most often see employers with over 100 lives (unless in a captive arrangement).





Self Funded Plans

How do self funded employers use Reinsurance / Stop Loss to protect themselves from unpredictable or catastrophic claims?

- Large employers have sufficient financial reserves to cover virtually any amount of health care costs.
- Most self-funded employers purchase what is known as stop-loss insurance to protect against claims above a specified dollar level.
- 2 main types of coverage available in a stop loss policy:
 - Specific coverage
 - Aggregate coverage.



Specific
Stop Loss

Specific: (Check one)	Lives	Current
Specific Deductible (per Covered Individual)		\$150,000
Lifetime Maximum Specific Benefit		\$1,850,000
Covered Benefits		Med, Rx Card
Specific Premium		
Single Rate	483	\$20.83
Family Rate	738	\$53.74
Total Lives	1,221	
Illustrative Specific Composite Rate		
Estimated Contract Specific Premium		\$596,652
Contract Basis		12/15

Aggregate
Stop Loss

Aggregate: (Include? <input type="checkbox"/> Yes <input type="checkbox"/> No)		
Covered Benefits		Med, Rx Card
Policy Year Maximum		\$2,000,000
Aggregate Factors		
Single Medical, Rx Card Factor	483	\$543.59
Family Medical, Rx Card Factor	738	\$1,304.64
Estimated Contract Attachment Point	1,221	\$14,704,539
Contract Minimum Attachment Point (95%)		\$13,969,313
Aggregate Corridor		125%
Contract Basis		12/15
Aggregate Premium		
Composite Rate	1,221	\$2.96
Estimated Contract Aggregate Premium	1,221	\$43,370



Self Funded Plans

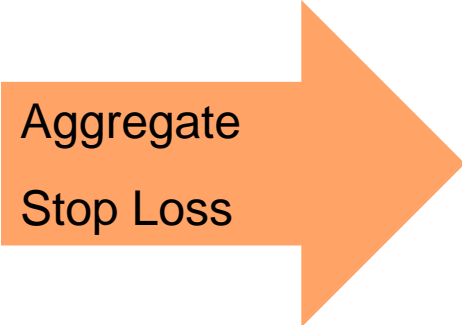
Specific Stop Loss

- Provides protection for the employer against a high claim on any one individual.
- Protection against the severity of a **single claim** rather than abnormal frequency of claims in total.
- Specific stop-loss is also known as individual stop-loss.

Specific: (Check one)	Lives	Current
Specific Deductible (per Covered Individual)		\$150,000
Lifetime Maximum Specific Benefit		\$1,850,000
Covered Benefits		Med, Rx Card
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Single Rate	483	\$20.83
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Aggregate
Stop Loss



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Aggregate Premium		
Composite Rate	1,221	\$2.96
Estimated Contract Aggregate Premium	1,221	\$43,370



Self Funded Plans

Aggregate Stop Loss

- Ceiling on the dollar amount of eligible expenses that an employer would pay, **in total**, during a contract period, otherwise known as an attachment point.
- The carrier reimburses the employer for claims exceeding the attachment point. In general, attachment points are set at 125% of expected claims.

Aggregate: (Include? <input type="checkbox"/> Yes <input type="checkbox"/> No)		
Covered Benefits		Med, Rx Card
Policy Year Maximum		\$2,000,000
Aggregate Factors		
Single Medical, Rx Card Factor	483	\$543.59
Family Medical, Rx Card Factor	738	\$1,304.64
Estimated Contract Attachment Point	1,221	\$14,704,539
Contract Minimum Attachment Point (95%)		\$13,969,313
Aggregate Corridor		125%
Contract Basis		12/15
Aggregate Premium		
Composite Rate	1,221	\$2.96
Estimated Contract Aggregate Premium	1,221	\$43,370



Stop Loss Key Features

- Specific Deductible:

Amount of liability the employer takes on per person initially.

Specific: (Check one)	Lives	Current
Specific Deductible (per Covered Individual)		\$150,000
Lifetime Maximum Specific Benefit		\$1,850,000
Covered Benefits		Med, Rx Card
Specific Premium		
Single Rate	483	\$20.83
Family Rate	738	\$53.74
Total Lives	1,221	
Illustrative Specific Composite Rate		
Estimated Contract Specific Premium		\$596,652
Contract Basis		12/15



Stop Loss Key Features

•Lifetime
Maximum Specific
Benefit:

Total coverage
per individual
based on this
quote.

Specific: (Check one)	Lives	Current
Specific Deductible (per Covered Individual)		\$150,000
Lifetime Maximum Specific Benefit		\$1,850,000
Covered Benefits		Med, Rx Card
Specific Premium		
Single Rate	483	\$20.83
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Total Lives	1,221	
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Contract Basis		12/15



Stop Loss Key Features

- Covered Benefits:

Benefits whose claims count toward the coverage.

Specific: (Check one)	Lives	Current
Specific Deductible (per Covered Individual)		\$150,000
Lifetime Maximum Specific Benefit		\$1,850,000
Covered Benefits		Med, Rx Card
Specific Premium		
Single Rate	483	\$20.83
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Total Lives	1,221	
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Estimated Contract Specific Premium		\$596,652
Contract Basis		12/15



Stop Loss Key Features

•Contract Basis:

Generally expressed with two numbers:

Ex: 12/12, or 12/15

Parameters of which claims are covered in the policy.



Incurred / Paid

Specific: (Check one)	Lives	Current
Specific Deductible (per Covered Individual)		\$150,000
Lifetime Maximum Specific Benefit		\$1,850,000
Covered Benefits		Med, Rx Card
Specific Premium		
Single Rate	483	\$20.83
Family Rate	738	\$53.74
Total Lives	1,221	
Illustrative Specific Composite Rate		
Estimated Contract Specific Premium		\$596,652
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Key Points

- Stop Loss is coverage for the employer, not the employee.
- Stop Loss is a REIMBURSEMENT contract.   check
- Stop loss carriers may have policy language that excludes (or caps) reimbursement for certain claims.
- A “laser” is a separate specific stop loss deductible placed on an individual, it is set higher than the policy deductible





How Do We Analyze Going Self Funded?

- Feasibility study reviews several key areas:
 - Historical trend line of costs.
 - Retrospective review IF you had been self-funded.
 - Project future costs at varying trend levels to satisfy the “what-if” questions.
 - Provides self-funded break-even point against fully insured renewal premium.



Step 1 – Historical Review

Historical Claim Review

(7/1 thru 6/30)	Claims	Employees	Per EE Claim Cost	Change
2006	\$2,183,990	322	\$6,791	
2007	\$2,178,656	319	\$6,837	0.67%
2008	\$2,948,842	327	\$9,029	32.07%
2009	\$2,508,086	307	\$8,174	-9.47%
2010 (annualized)	\$2,553,532	297	\$8,609	5.32%



Step 2 – Retrospective Review

Retrospective Self-funded Analysis

Plan Year (7/1 thru 6/30)	Annual Claim Cost Per Employee	Paid Claims	Self- Funded Projected Costs ¹	Fully- Insured Premium	(Savings)/Cost versus Fully Insured Premium
2006	\$6,791	\$2,183,990	\$2,479,508	\$2,554,281	(\$74,773)
2007	\$6,837	\$2,178,656	\$2,474,174	\$2,481,493	(\$7,319)
2008	\$9,029	\$2,948,842	\$3,244,360	\$2,781,902	\$462,458
2009	\$8,174	\$2,508,086	\$2,803,604	\$3,136,391	(\$332,787)
2010 (annualized)	\$8,609	\$2,553,532	\$2,849,050	\$3,598,790	(\$749,740)

¹ Includes all associated costs (claims, admin. expense and stop loss insurance). Claims have been reduced for high dollar claimants over \$125,000.

Stop Loss is based on a 12/12 contract basis at a \$125,000 specific deductible level.



Step 3 – Prospective Analysis

Prospective Self-Funded Analysis (Based on current enrollment 295)

Plan Year (7/1 thru 6/30)	Annual Claim Cost Per Employee	Paid Claims	Self- Funded Projected Costs ¹	Fully- Insured Premium	(Savings)/Cost versus Fully Insured Premium
Current Claim Cost +15%	\$9,901	\$2,920,720	\$3,214,248	\$3,741,552	(\$527,304)
Current Claim Cost +25%	\$10,762	\$3,174,696	\$3,468,224	\$3,741,552	(\$273,328)
Current Claim Cost +30%	\$11,192	\$3,301,684	\$3,595,212	\$3,741,552	(\$146,340)
2011 Breakeven Trend percent over 2010 Per EE cost	\$11,688	\$3,448,024	\$3,741,552	\$3,741,552	35.76%
2011 Renewal ²				\$3,741,552	

¹ Includes all associated costs (claims, admin. expense and stop loss insurance). Claims have been reduced for high dollar claimants over \$125,000.
Stop Loss is based on a 12/12 contract basis at a \$125,000 specific deductible level.

² Based on Highmark Blue Shield Final Renewal.



Additional Questions?





Definitions

- **Actuary:** A mathematician working for a health insurance company responsible for determining what premiums to charge based in large part on claims paid verses amounts of premium generated. Their job is to make sure a block of business is priced to be profitable.
- **Administrative Services Only (ASO)** -- A type of contract with an insurance company or a third-party administrator that provides administrative services. It does not provide coverage for risk of insurance protection. The usual expenses covered include claims processing, plan design advice and printing benefit booklets.
- **Adverse Selection** -- The tendency of persons with poorer-than-average health expectations (higher risk) to apply for or continue insurance coverage to a greater extent than persons with average or better-than-average health expectations (lesser risk).





Definitions

- **Aggregate Attachment Point (limit)** -- Maximum amount of total losses for which a plan sponsor (employer) is liable for any one-plan year.
- **BEP** -- Base Experience Period – is the completed twelve-month period of incurred claims data that includes 2 or 3 months of run-out data after the last month of the BEP. The BEP cycle will depend on the renewal release date.
- **Claims Incurred** -- is the utilization for which liability has been accepted by the plan but has not necessarily been completely satisfied. An incurred date is the date of claim service.





Definitions

- **Credibility** -- Percentage determined by the insurance carrier as to the “believability” of the group claims experience being reviewed. Group actual claims experience is blended with manual claim cost factors to develop projected claims. Generally groups over 600 lives are considered fully credible.
- **Fully Insured Plan** -- The employer pays the entire premium and, in return, transfers the risk and responsibility for claims payments to the insurance company.
- **Incurred But Not Reported (IBNR)** -- Claims which have been incurred by the insured but have not been submitted to the plan or insurance company for reimbursement (also known as lagged claims).
- **Margin** -- Underwriting term for profit, generally included with the retention (administrative expense).





Definitions

- **Paid Claims** -- The total claims payment made by the plan or insurance company. Does not include any employee cost sharing.
- **Pooling (as applied to large claims)** --
 - Combines carriers large claims in order to spread risk.
 - Employers are not singled out and unfairly assessed with abnormally large rate increase.
 - Generally a charge (pooling charge) is applied as a percentage of claims.
 - This charge could range from 4% to 10% depending on carrier and pooling level.
 - Pooling charges are higher for smaller groups due to lower pooling level.
 - Claims above the pooling level are removed from the experience rating.
 - Generally not applied to fully insured groups over 1,000 employee lives.





Definitions

- **Premium Tax:** A state tax on insurance premiums.
- **Prospective Review** -- Data-gathering technique that uses projected figures or current data to determine future costs or services.
- **Self-Funding:** An arrangement under which all or some of the risk associated with providing coverage is not covered by an insurance contract.
- **Reinsurance** -- The transfer of part of the insurance risk to another insurer or insurers--self-funded plans generally buy specific and/or aggregate stop-loss coverage to cover losses in excess of certain limits (also known as excess loss or stop loss coverage). Insurance carriers also transfer risk through reinsurance contracts based on their block of business.





Definitions

- **Reserves** -- Monies set aside to assure adequate funds to cover future claims. Both insurance companies and self-funded employers must "reserve" in order to preserve cash flow and protect solvency.
- **Retention** -- The portion of the insurance premium which is allocated for:
 - Expenses
 - Administration
 - Enrollment, claim adjudications, legal, actuarial, contracting and regulatory.
 - Broker commissions
 - Risk charges; and
 - Profit
 - A credit is applied for investment income - money is gained on reserves.





Definitions

- **Risk:** The chance of loss, the degree of probability of loss or the amount of possible loss to the insuring company. For an individual, risk represents such probabilities as:
 - The likelihood of surgical complications
 - Medications' side effects
 - Exposure to infection
 - The chance of suffering a medical problem because of a lifestyle or other choice.





Definitions

- **Trend Factor** -- The percentage of increase used by an insurance company to reflect the projected rise in health care costs.
- For example – if a blood test costs \$100 today, and annual trend is 12% - that same test will cost \$112 next year. Calculation factors include:
 - Inflation
 - Utilization
 - Medical technology
 - Geographic area
 - Demographics (aging workforce)
 - Adverse selection
 - Product line
- Depending of the carrier, medical trends in Central PA are averaging 8% to 10%. RX trends range from 8.5% to 10%.





Definitions

- **Trend, Continued** -- Why is annual trend applied for 19 or 20 months?
 - BEP claims are brought up to a current cost level.
 - Example
 - The renewal period is 01/01/09 through 12/31/09.
 - The BEP is 05/01/07 through 04/30/08 - this means the underwriting is reviewing claims incurred 05/01/07 through 04/30/08 to determine costs for 01/01/09 through 12/31/09.
 - Trend is applied from the middle of the BEP to the middle of the renewal year:
 - BEP - 05/01/07 through 04/30/08 - half of this is 6 months
 - Plan year is 01/01/09 through 12/31/09 - half of this is 6 months
 - Apply the months in between of 05/01/08 to 12/31/08 - which is 8 months.
 - Apply trend for the 6 months of the BEP, the 6 months of the plan year and the 4 months in the middle - $6 + 6 + 8 = 20$ months





Definitions

- **Third-Party Administrator (TPA):** An outside person or firm provides specific administrative duties (including premium accounting, claims review and payment, arranges for utilization review and stop-loss coverage) for a self-funded plan.

