

Self-Funding: Tailoring Your Plan and Controlling Your Costs

The Alliance Learning Circles Event

Presented by:

Catherine L. Knuth, FSA, MAAA
Consulting Actuary

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Agenda

- **Brief Overview of Self-Funding**
- **Tailoring Your Plan and Managing Your Costs**



The Attraction of Self - Funding

- Magnitude of Employer Health Plan Costs
- Rate of Increase in Health Plan Costs
- Importance of Benefits in Employee Attraction and Retention
- Levers to Pull
 - Benefits
 - Employee Contributions
 - Cost and Utilization Management
 - Funding

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Pros and Cons of Self-Funding

Advantages and Disadvantages of Medical Plan Self-Insurance	
Self-Insurance Pros	Self-Insurance Cons
<ul style="list-style-type: none"> ▪ Employer pays its own way under self-insured: <ul style="list-style-type: none"> – No subsidy of other employers – Fully-insured plan premium rates are based on employer's expected claims, so, ultimately, long-term expected claim costs same as self-insured 	<ul style="list-style-type: none"> ▪ Could be significant annual fluctuations in claims <ul style="list-style-type: none"> – See claim fluctuations probabilities in next slide
<ul style="list-style-type: none"> ▪ More flexibility in plan design and provider networks <ul style="list-style-type: none"> – ERISA jurisdiction; not regulated by State Insurance Department – No state-mandated benefits (e.g., chiropractor) 	<ul style="list-style-type: none"> ▪ Stop-loss insurance helps protect against claim fluctuations, but . . . <ul style="list-style-type: none"> – Stop-loss insurance is expensive – Stop-loss insurance coverage may not be readily available for less than 200 employees
<ul style="list-style-type: none"> ▪ Lower administration fees <ul style="list-style-type: none"> – No insurer profit / risk charge – Avoid premium tax in some situations – Less insurer overhead 	<ul style="list-style-type: none"> ▪ Some proprietary insurer networks (e.g., Blue Cross) may not be available through every administrator

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Year-to-Year Claims Fluctuation – Illustration

Sample Employer Estimated Probabilities of Actual Medical Claims Exceeding Expected Claims		
Actual Results Scenario 2009 Actual Exceeds Expected:	Probability	Loss Amount in Excess of Expected (Assuming \$3,800,000 Expected)
By any % (Loss of \$0 +)	46%	\$530,000
By 5% or more (Loss of \$100,000 +)	37%	\$670,000
By 10% or more (Loss of \$380,000 +)	27%	\$810,000
By 15% or more (Loss of \$570,000 +)	18%	\$870,000
By 20% or more (Loss of \$760,000 +)	12%	\$1,110,000
By 25% or more (Loss of \$950,000 +)	7%	\$1,290,000

Based on Milliman statistical modeling of Sample Employer 2009 expected medical / fit claims of \$3,800,000 and 691 employees using Milliman actuarial research.

* For example, Sample Employer has about a 37% chance of actual claims exceeding its budget by 5% (or more). In this event, the estimated claims would be about \$670,000 over budget.

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Cost Savings in Self-Funded Plans

- Premium Tax – Immediate
- Insurer Profit Margin – Immediate
- Claim Costs
 - Cash Flow
 - Investment Income
 - Reinsurance/Stop-Loss Protection

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Self-Funded Plans – Tailoring Your Plan and Controlling Your Costs

- Benefit Design
- Provider Network
- Claims Processing and Customer Service
- Cost and Utilization Management
- Wellness Programs

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Benefit Design Flexibility

- State Mandates
- Industry-Relevant Coverage
- Exceptions and Amendments

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Benefit Design – State Mandates

- ERISA Pre-Emption: state mandates don't apply to self-funded plans
- In 2009, 34 Wisconsin Mandates
 - 21 Benefits Mandates
 - 6 Provider Mandate
 - 7 Covered Persons Mandates
- Late 2009 and 2010 Added:
 - Autism Spectrum Disorders
 - Cochlear Implants and Hearing Aids
 - Dependent Coverage to Age 27

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Benefit Design – Wisconsin Benefit Mandates - Examples

- AIDS/HIV Testing/Vaccine
- Alcoholism/Substance Abuse
- Ambulatory Surgery
- Anti-Psychotic and Psychotropic Drugs
- Blood Lead Poison Testing
- Breast Reconstruction
- Cleft Palate
- Clinical Trials
- Dental Anesthesia
- Diabetic Supplies and Self-Management
- Emergency Services
- Home Health
- Kidney Disease
- Mammograms
- TMJ
- Well Child Care

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Benefit Design – Wisconsin Provider Mandates

- Chiropractors
- Dentists
- Licensed Health Professionals
- Nurse Practitioners
- Optometrists
- Psychologists

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Benefit Design – Wisconsin Covered Person Mandates

- Adopted Children
- Continuation Coverage – Employees and Dependents
- Conversion to Non-Group Coverage
- Grandchildren
- Disabled Dependents
- Newborns

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Provider Network Considerations

- Unit Costs / Discounts
- Provider Quality and Efficiency
- Employee Disruption
- Out-of-Network Claims
- Large Carrier Networks
 - Deeper Discounts
 - Broader Networks
 - Higher Administrative/Network Access Fees
- Run the Numbers!

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Claims Processing and Customer Service

- Benefits Flexibility
- Provider Network Interface
- Experience Data – Format, Detail and Frequency
- Performance History and Guarantees
- Fees

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Cost and Utilization Management

- Services
 - Utilization Management
 - Pre-Authorization
 - Case Management
 - Disease Management
- Qualifications
- Fees
- Return on Investment/Performance Guarantees

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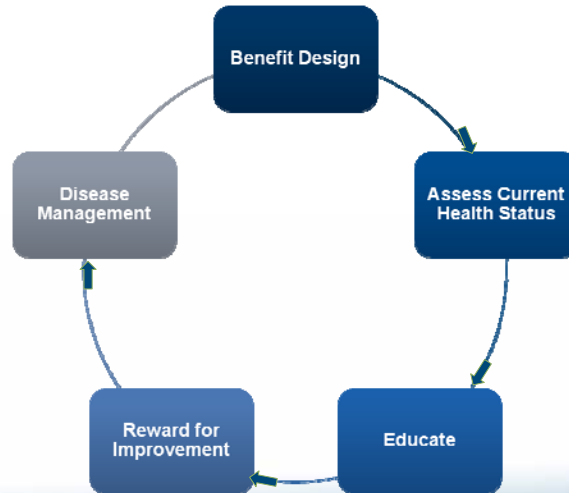
Wellness Programs

- Comprehensive Approach:
 - Benefit Design
 - Wellness Program
 - Utilization Management
- Goal: Improve health of employees and their families
- Result
 - Long-term decrease in health plan costs
 - Increased employee productivity
 - Increased employee morale

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Wellness Programs – Key Components



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Careful Implementation of Wellness Programs is KEY

- Avoid Cost Re-Allocation
- Employee Resistance
- Return on Investment
- HIPAA Considerations

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