

34TH ANNUAL ISCEBS
Employee Benefits

Symposium

Taking Another Look at Self-Funding: Reducing the Risk

Matthew Warner

Senior Vice President

Aon Hewitt

Miami, Florida

Arthur Jonokuchi

CEO

Salus Finance

Greenwich, Connecticut

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Agenda

- › **Market Overview**
- › **ACA Impact**
- › **Future of Health Care: The Road Ahead**
- › **Pros and Cons of Self-Funding**
- › **A Creative Approach To Self-Funding**
- › **Q&A**





Market Overview: Challenges, Opportunities, Evolutionary Shift





7 EVOLUTIONARY SHIFTS

in the Health Insurance Experience

- 1 **Organizational Shift (Employer):** pulling the right lever
- 2 **Benefit Team:** deliver experience vs. benefits
- 3 **Employer Shift:** agreement between employer and employee changing
- 4 **Employee Shift:** moves to the role of consumer of health care vs. employee health insurance
- 5 **Provider Shift:** directly accountable to the employee/consumer
- 6 **Health System Shift:** changing the role of the employer
- 7 **Government Shift:** moves from heavy employer compliance to personal accountability

Health and Benefit Issues: **Challenges**



Unsustainable medical costs



ACA driving major changes

- Insurance mandate for employers
- Excise tax will minimize differentiation in health



Health care system rapidly increasing in complexity

- ACOs, delivery system transformation



Population health concerns

- Obesity
- Aging workers



Growing competition for key talent



U.S. health care system undergoing a seismic shift

Health and Benefit Issues: **Opportunities**



New models like Exchanges (corporate and public) provide an opportunity to rethink the employer role and resources



Changes in the way we pay for medical services to reward providers who help people get and stay well



Data is easier to access and intelligently used



Absence, productivity, wellness and safety are increasingly important to employers



New and better approaches for connecting with employees to engage them in health

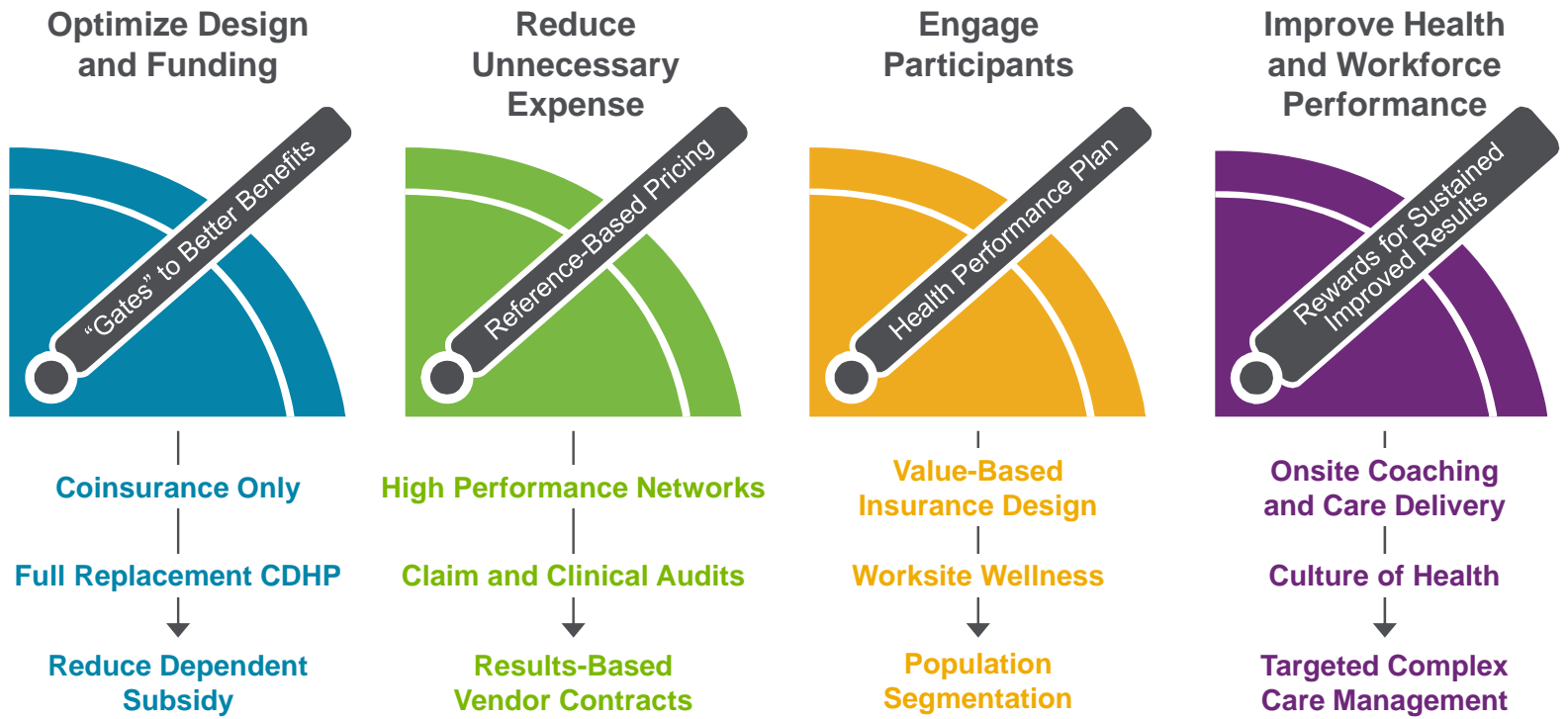


Demand for global benefit solutions is increasing

Levers To Pull



▶ What levers will be most effective for your organization?



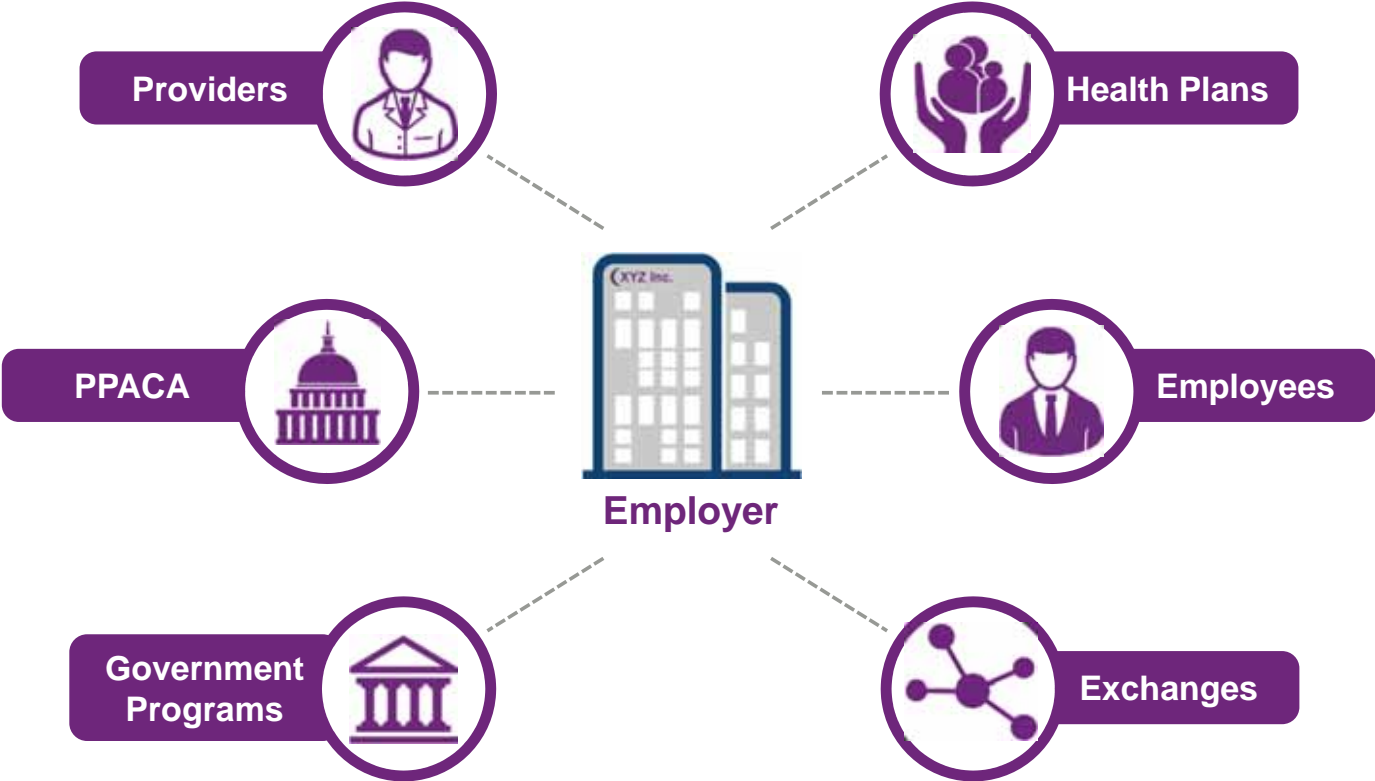


ACA Impact

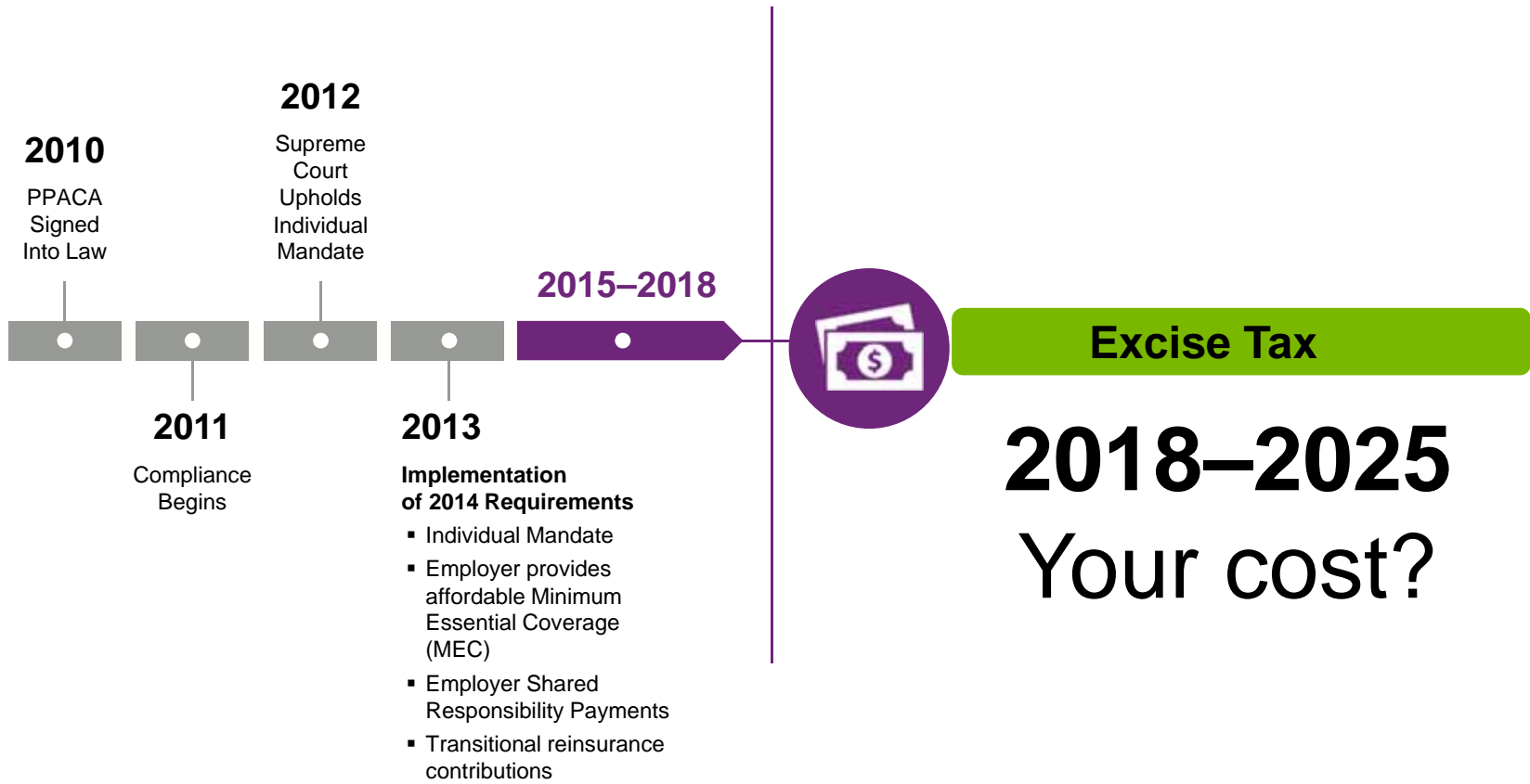




Increasingly Complex System:



High Cost Plan Excise Tax





Future of Health Care: The Road Ahead



The Road Ahead





Self-Funding

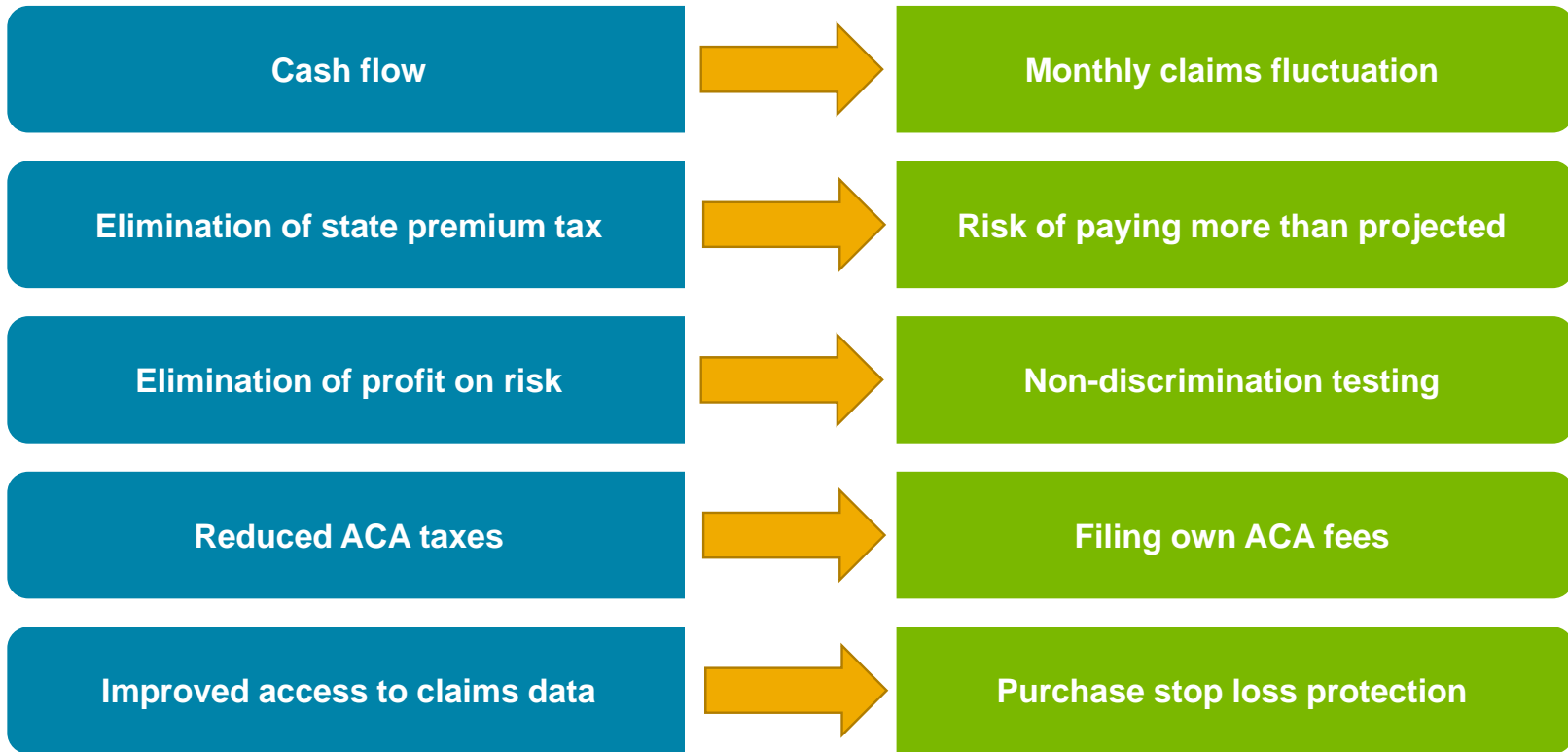




What Are the Main Differences?

Advantages

Disadvantages





Risk of Higher Annual Costs

- There is a risk that in any given year claims costs will exceed projections.
- Aggregate Stop-Loss reinsurance can limit the maximum annual claims cost to 120%-125% of projected, but there is the possibility that self-funded costs in any given plan year may exceed fully-insured costs by 20%+.

Claims Cost Fluctuation

- In a typical Self-Funded medical plan, claims expense can fluctuate significantly month-to-month for the same population. This is unlike a Fully-Insured plan which maintains the same premium per employee for the entire plan year.
- Some organizations fund higher than anticipated monthly claims costs through operating capital while others establish a reserve account to pay for unexpected claims spikes.

Health Care Reform and Funding Implications



Fully Insured

- Subject to Health Insurance Industry Fee
- PCORI and Transitional Reinsurance Fees are included in monthly premium
- Eligible for Medical Loss Ratio Rebates
- Responsible only for Section 6056 Employer Reporting
- Subject to new Non-Discrimination Testing Rules for Fully-Insured plans (penalty against the employer)

Self-Funded

- Not subject to Health Insurance Industry Fee
- Must pay directly to the IRS the PCORI Fee and register through Pay.gov and pay directly to the IRS the Transitional Reinsurance Fee
- Not eligible for Medical Loss Ratio Rebates
- Responsible for both Sections 6055 and 6056 Employer Reporting requirements
- Subject to existing non-discrimination testing requirements for self-funded plans (individual receiving benefit is taxed based on imputed income)
- Must file for Health Plan Identifier

IBNR Reserve and Administrative Oversight



In addition to developing reserves to fund monthly claims fluctuations, there is another reserve requirement for **Incurred But Not Reported (IBNR)** or terminal liability claims.

Self-Funded employers must at a minimum:

- Conduct annual non-discrimination testing
- Establish and manage banking accounts to fund claims payments
- Establish and manage IBNR and claims stabilization reserve accounts
- Accrue and pay PPACA fees annually
- Review claims activity monthly and project future claims expenses

So Now What...



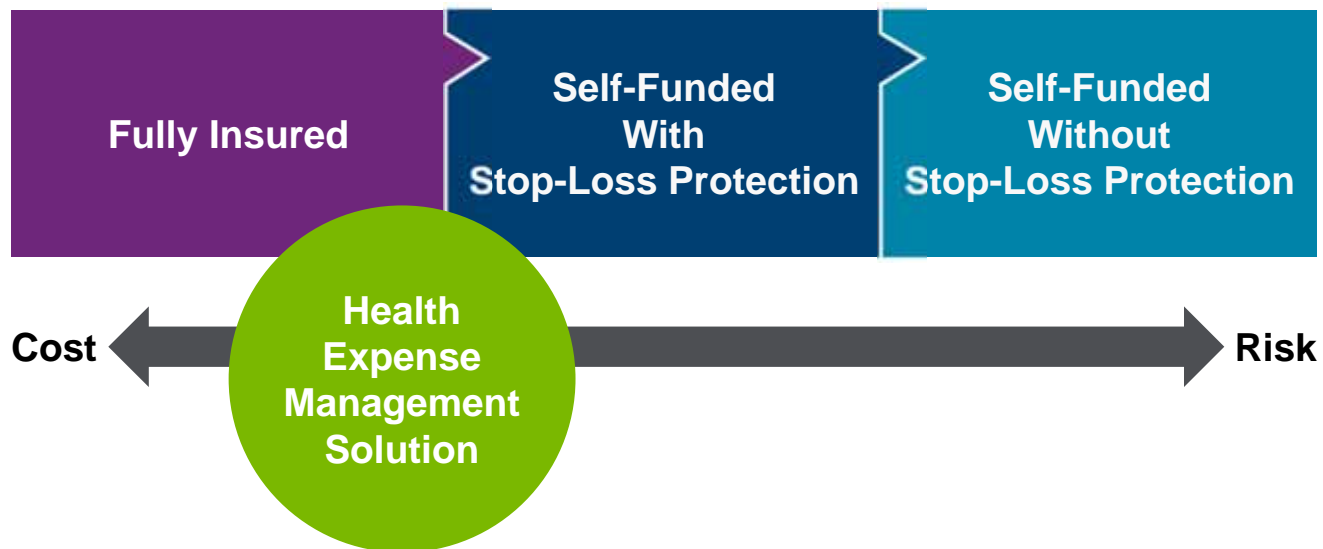
There Has To Be A Better Way!



Health Expense Management

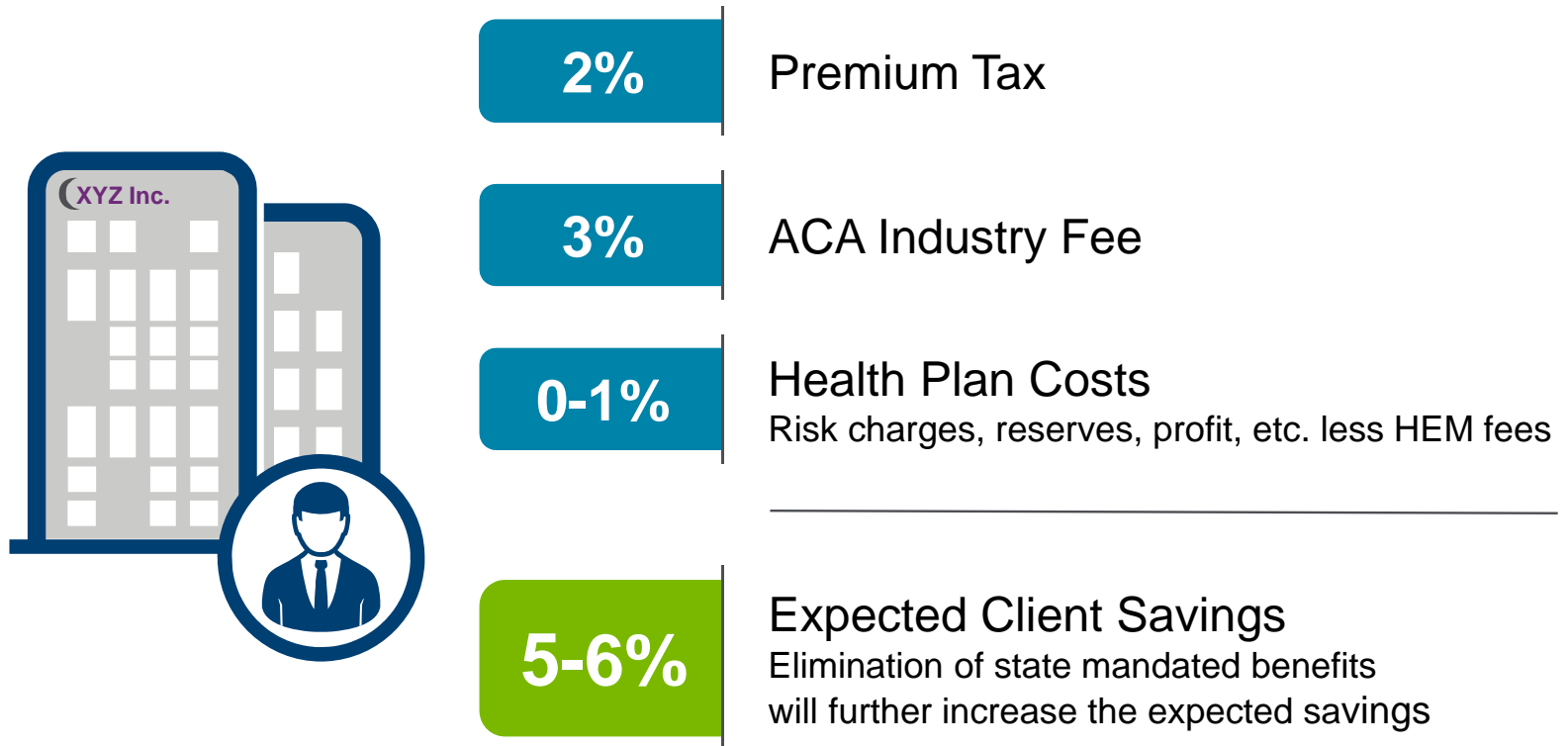


A New Funding Alternative—H.E.M



- Provides a bridge for fully insured clients to **become self-insured**
- Combines **higher deductible stop-loss** insurance and intra-year liquidity funding
- **3-year stable funding** program
- Carrier agnostic

Expected Client Savings—H.E.M.



Note: Savings shown based on a 500 employee client

Actual Client Savings—H.E.M.



Client Information	
Industry	Medical devices/computer software
Market Segment	Middle market
Number of Employees	800

We saved this client more than \$2m per year



What is my company's tolerance for risk?

What would 5-6% savings mean to my company's bottom line?

Could there be a better way?



Q and A