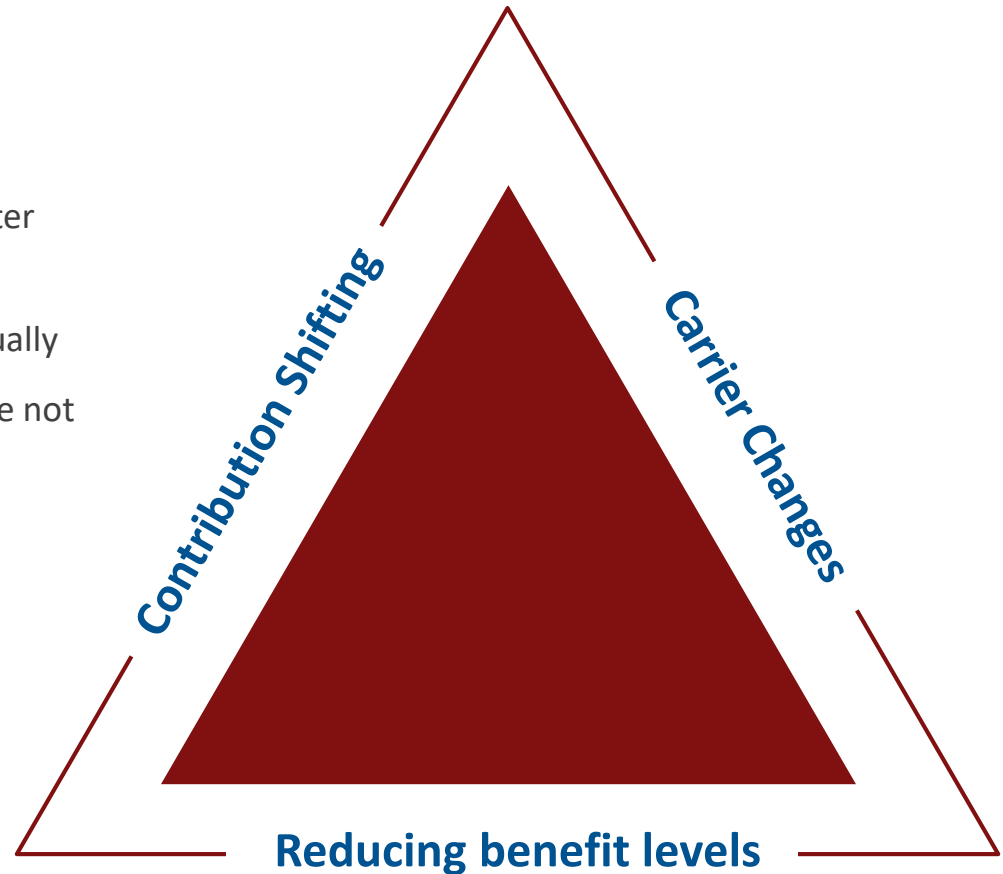


AN INTRODUCTION TO HYBRID HRA'S

PRESENTED BY: JACK HERBERT, RHU

AVOID THE “TRIANGLE OF DEATH”

- Health benefits are 2nd largest expense, after payroll, for most U.S. companies
- Costs continue to increase by 10-15% annually
- These traditional “solutions” eventually are not an option



THE “HYBRID HRA” OR “WRAP” PLAN

An innovative solution



An innovative plan design approach that consistently saves 10-25%, while maintaining or improving benefit levels



Reduces renewal increases in subsequent years



Works with all major insurance carriers



Ideal for companies that have between 20 and 500 employees and are currently covered under a “fully insured” policy



THE “HYBRID HRA” OR “WRAP” PLAN

How it works

THE CONCEPT:

Rather than wasting premium dollars on unused coverage, employers are free to use those dollars on employee claims *only if the claims actually occur*.

HOW IT WORKS:

- HCG assists employer in purchasing a plan with much higher deductibles and coinsurance than it would otherwise consider.
- Employer receives large premium discount, because plans with high deductibles and coinsurance cost considerably less.
- Employer then uses a portion of the premium savings to provide benefits to employees, for charges applied to the carrier high deductible and coinsurance, if and when the benefits are actually used.
- These claims payments are administered by a third party administrator.
- Employer can cover some or all of the carrier high deductible and coinsurance. Benefits can be tailored to the employer’s exact specifications.

THE RESULT:

Significant cost savings, while maintaining or improving benefit levels.

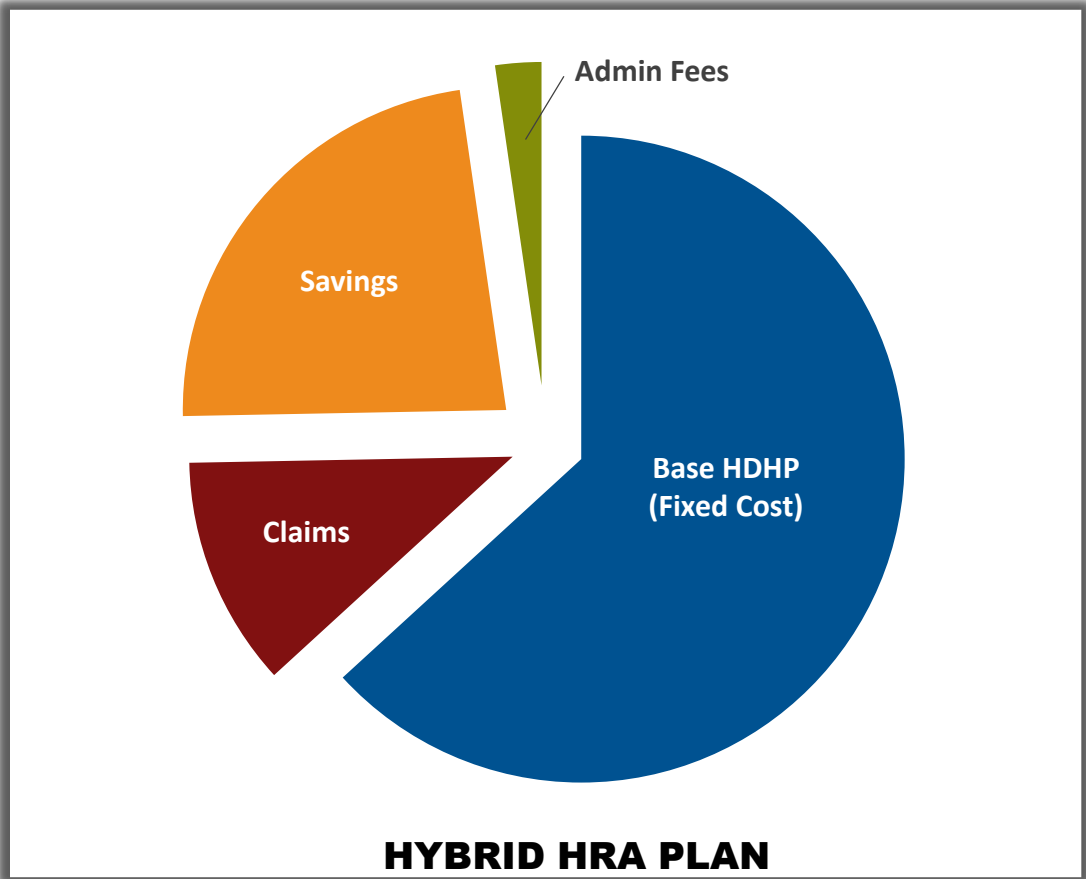
TYPICAL HYBRID HRA COST STRUCTURE

Hybrid HRA plan vs. traditional, fully-insured plan

ANNUAL MEDICAL COST



TRADITIONAL PLAN



HYBRID HRA PLAN

“THE CLAIMS CURVE”

Why Hybrid HRA plans work

20% of claims \Rightarrow **0.5%** of patients

50% of claims \Rightarrow **3%** of patients

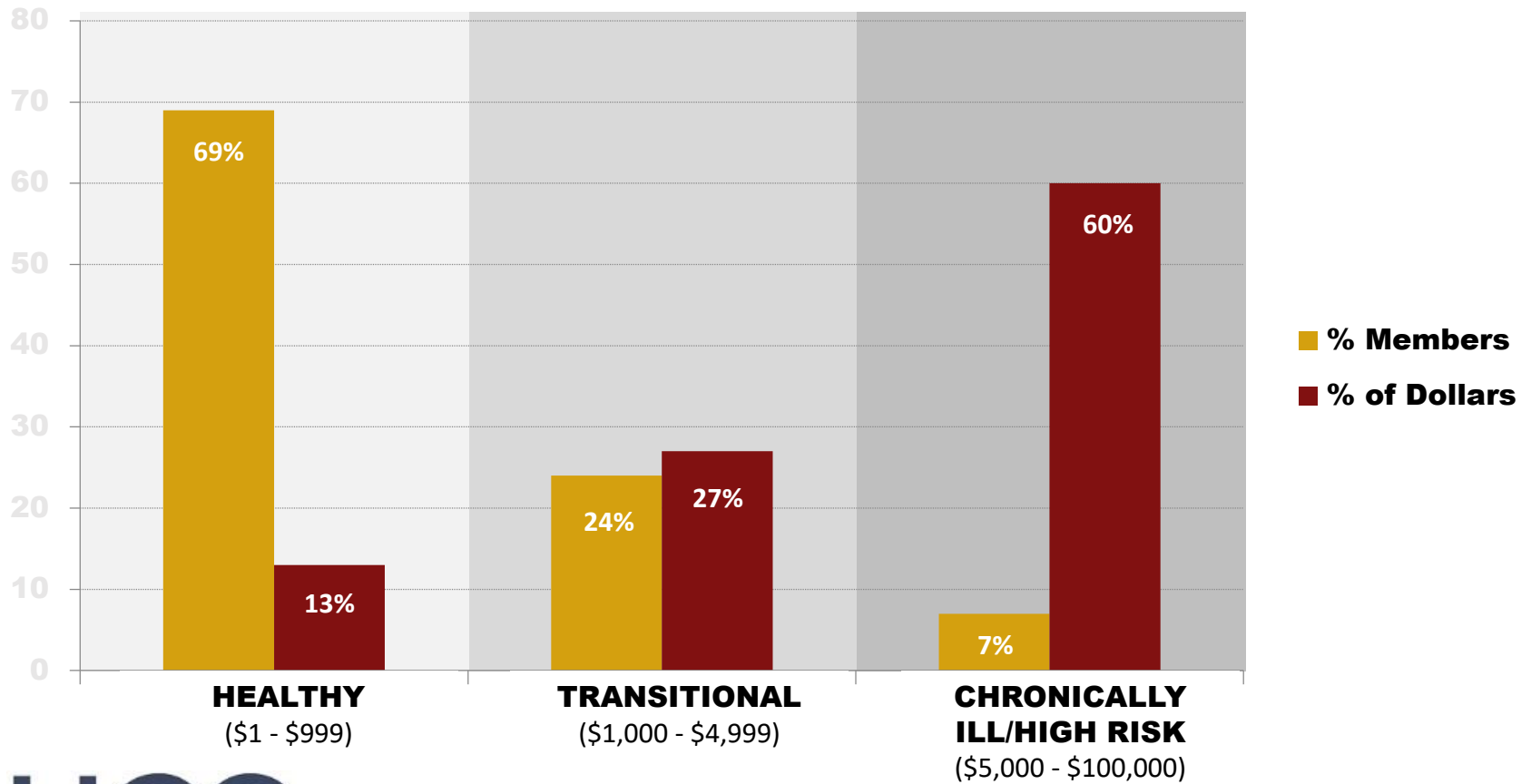
87% of claims \Rightarrow **31%** of patients*

* These are the members who will use up a significant amount, if not all, of their deductibles. It is important to remember, however, that the employer is not responsible for paying 100% of these members' claims via the HRA. The employer only pays the portion it is responsible for underneath the deductible, per the plan design.

69% of patients \Rightarrow **13%** of claims**

** These are the members who will drive the large savings delivered via the HRA.

MEMBER HEALTH CARE EXPENDITURE



WHY HYBRID HRA PLANS WORK

Hybrid HRA plans help employers take advantage of “The Claims Curve”:

- The overwhelming majority of your population won’t use their health plan or use it so little that it is of no significance.
- A small group of members seldom use the plan benefit except for the occasional office visit, Rx, minor injuries or some other incidental treatment.
- A very small percentage of members will use a great deal of health care for a chronic condition, an accident, a pregnancy, etc.

This group of “high utilizers” may have very large, “catastrophic” claims, but they will not have a large impact on the potential savings of a Hybrid HRA plan.

This is because the carrier is responsible for claims which exceed the deductible (typically \$1,000 to \$5,000). Therefore, assuming a \$5,000 carrier deductible, whether a claim is \$5,000, \$50,000 or \$500,000, the cost to the employer is just \$5,000.

WHY HYBRID HRA PLANS WORK

Further evidence: Insurance carrier studies

Anthem. 

In 2004, Blue Cross of California released data stating that **68% of people in CA spend less than \$150 per year on medical services.**

 **KAISER PERMANENTE.**

In 2008, The Kaiser Foundation released a study stating that **85% of Americans spend less than \$1,000 per year on medical services.**

USI'S NATIONWIDE CLIENT CLAIMS DATA

6/13 – 5/14

MEMBER DISTRIBUTION	NUMBER OF MEMBERS	AVG. COST PER MEMBER	DISTRIBUTION: ACTUAL	DISTRIBUTION: NORM
1%	5,710	\$157,164.85	33.5%	30.5%
2-5%	22,842	\$32,411.93	27.7%	27.7%
6-15%	57,104	\$10,296.51	22.0%	22.7%
16-30%	85,655	\$3,435.31	11.0%	12.1%
31-60%	171,311	\$856.47	5.5%	6.4%
61-100%	228,415	\$42.95	0.4%	0.6%

LOWER RENEWALS

HRA plans enjoy lower renewal increases than traditional plans for two reasons

Studies show that insurance carrier High Deductible Health Plan products receive lower renewal increases than “first dollar” plans.*

CDHP trend = 2.7%

Traditional plan trend = 6.7%



The actual renewal increase on a wrap plan is always lower than the carrier renewal increase because the insurance carrier premium is only a portion of a wrap plan’s total cost.

Traditional, Fully-Insured plan:

\$1M premium * 12% carrier renewal = \$120k increase

HRA plan:

\$750k premium + \$250k claims & admin = \$1M total cost

\$750k premium * 12% carrier renewal = \$90k increase

*Aetna 8th Annual Health Fund Study

THE COST OF STICKING WITH YOUR CURRENT STRATEGY

ASSUMING BOTH PLAN OPTIONS RECEIVE 10% RENEWAL EACH YEAR FOR NEXT 5 YEARS:

	Year 1	Year 2	Year 3	Year 4	Year 5
Traditional Plan					
Total Cost	\$ 1,500,000	\$ 1,650,000	\$ 1,815,000	\$ 1,996,500	\$ 2,196,150
Wrap Plan					
Premium	\$ 1,100,000	\$ 1,210,000	\$ 1,331,000	\$ 1,464,100	\$ 1,610,510
Claims	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000
Admin Fee	\$ 55,000	\$ 55,000	\$ 55,000	\$ 55,000	\$ 55,000
Total Cost	\$ 1,245,000	\$ 1,355,000	\$ 1,476,000	\$ 1,609,100	\$ 1,755,510
Wrap Savings vs. Traditional	\$ 255,000	\$ 295,000	\$ 339,000	\$ 387,400	\$ 440,640
Percentage Savings	17%	18%	19%	19%	20%
Cumulative Savings	\$ 255,000	\$ 550,000	\$ 889,000	\$ 1,276,400	\$ 1,717,040

HOW A CLAIM IS PAID

- 1** Member goes to a Contracted Provider and shows both the Insurance Carrier ID card and the TPA ID card. Member pays the applicable copay, if required.
- 2** Provider sends a claim to the Insurance Carrier.
- 3** Insurance Carrier processes the claim using contracted rates, applies the balance to the deductible, and creates an “EOB” (Explanation of Benefits) for the member. EOB will be posted on the member portal of carrier website and mailed to the member.
- 4** TPA goes to the Insurance Carrier website and retrieves the EOB for processing.
- 5** TPA recalculates claim to Employer’s specifications, prints and sends check to Provider. The TPA EOB is then mailed to the member.
- 6** Provider mails statement to member showing payments made by plan and any balance owed by member, who then pays the amount due, if any.

CASE STUDY

The McGraw Group



The Situation:

- 200 employee CA-based insurance company facing 42% renewal increase from current insurance carrier approaches Jack weeks away from renewal.
- Most alternative carriers declined to quote the group.
- Total cost upon renewal will be \$2.5 million.
- No creative solutions coming from current broker.

Our Solution:

- Jack identified a carrier with which the company had a positive experience in the past.
- Working with this carrier, Jack created a “Wrap” plan design to maintain benefit levels while mitigating most of the impending renewal increase.
- \$2.1 million in projected total cost.

CASE STUDY

The McGraw Group



The Result:

Year 1:

- \$400k, or 16%, in savings versus renewal.
- \$2.1 million in actual total cost.
- Maintained or improved Medical benefits for all employees.
- Maintained Dental and Life benefits for all employees
- Improved Vision benefits for all employees.
- Custom-designed company-wide Wellness program (first in company's history).

Year 2:

- Insurance carrier initially issued a 12.5% renewal increase.
- Through negotiation and a revised "Wrap" plan design, Jack created a plan which mitigated the entire carrier renewal increase.
- *Plan highlights:*
 - *"Flat" renewal. Projected annual cost of \$2.1 M.*
 - *Held McGraw's benefit cost constant for two years without reducing any benefit levels for employees.*
 - *Maintained medical, dental, vision and life benefits for all employees and expanded the company-wide wellness program.*

CASE STUDY

Goodwin Company



The Situation:

- 125 employee contract manufacturer specializing in the production and distribution of liquid products, with facilities located in Los Angeles, CA and Atlanta, GA, approaches Jack two months before renewal.
- CA and GA workforces are covered under separate medical plans. CA plan facing 3% renewal increase. GA plan facing 20% renewal increase.
- GA workforce has been unhappy with current carrier/network for years. No creative solutions coming from current broker.
- Jack is tasked with the following job: Move GA group to a top tier carrier/network and mitigate entire renewal increase on both plans.

CASE STUDY

Goodwin Company



Our Solution:

- Jack identified top tier medical carriers with attractive pricing in their High Deductible Health Plan portfolio. Considered consolidating the plans with one national carrier, but it made more financial sense to keep the plans separate.
- The new CA carrier offered a comparable network to the current network (100% network utilization match). The GA carrier offered a dramatic improvement from the current limited network.
- Working with these carriers, Jack created “Wrap” plans for CA and GA which improve benefits and offer projected savings of 21% and 25%, respectively.
- Jack “bundled” ancillary lines for additional savings while maintaining dental and vision benefits for all employees.

The Result:

- On a consolidated basis, 23% in savings versus former medical plan.
- Improved medical benefits for all employees; maintained dental and vision benefits for all employees.
- Reduced or maintained premium contributions for all employees.

CASE STUDY

Tower Communities, LLC

The Situation:

- CA-based national real estate investment company contacts Jack two months before renewal.
- Unsatisfied with current carrier.
- Currently offering relatively “rich” medical and dental benefits
- Interested in considering creative plan design strategies which enable the company to save money without cutting benefits.

Our Solution:

- Identified a strong national medical carrier with a larger network than the current carrier’s.
- Working with this carrier, created a “Wrapped” medical plan design.
- Negotiated a “rate freeze” on the dental plan.

The Result:

- 38% increase in savings versus former medical plan.
- 0% increase in cost on the dental plan.
- Eliminated employee premium contributions for all employees.
- Maintained medical benefits for all employees.
- Maintained dental benefits for all employees.

CLIENT TESTIMONIALS



I have worked with Jack for several years. He and his firm provide excellent service in the area of employee benefit planning. He offers outstanding service, is extremely knowledgeable, responsive, and really cares about his client relationships. *(Top qualities: Great Results, Expert, High Integrity)*

Aly Yantes, Global Director of Human Resources
ReSearch Pharmaceutical Services, Inc.
(1300 U.S. employees)



Jack has done a fantastic job evaluating health care plans and providing recommendations which have enabled our small law firm to maintain a high level of benefits while reducing premiums dramatically. Jack's insights have literally enabled us to continue providing full health care benefits to our entire staff. Jack is accessible, professional, and I have, and will continue to recommend him to others." *(Top qualities: (Great Results, Personable, Expert)*

Gino Zonghetti, Partner
Kenny, Stearns & Zonghetti

CLIENT TESTIMONIALS



Jack does an exceptional job of negotiating on behalf of his clients and the end results always exceed expectations. You will not be disappointed!

**Brian W. Drake, Senior Sales Consultant
Assurant Employee Benefits**



Jack has been of tremendous assistance to my organization in helping us to stave off increased costs of providing benefits to our employees utilizing a true "out of the box" solution." *(Top qualities: Personable, Expert, Creative)*

**Jim Jackson, HR Director
RPS, Inc.**