Evaluating Prospective Insurance Funding Arrangements

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Your connection to knowledge, resources and networking

Association of Legal Administrators

Agenda

- How to evaluate prospective insurer and funding methodologies for various size firms
- Pros and cons of various insurance strategies
- Renewal / Underwriting Considerations
- How to evaluate and determine the best arrangement for your firm

Available Strategies

- Fully Insured
- Self Insured
- Hybrid Insured
- Minimum Premium
- Professional Employer Organizations
- Private Exchanges

Fully Insured

- 50 or fewer Eligible Employees
  - Community Rated
  - Rating Bands
- 51 to ≈ 150 Eligible Employees
  - Book (Manual) Rated
  - Block Rated
- 150 to ≈ 300 Eligible Employees
  - Experience / Book (Manual) Rated
  - Experience / Block Rated
- 300+ Eligible Employees
  - Experience Rated
    - Retrospectively Rated
    - Prospectively Rated

Self Insured

- 50 or fewer Eligible Employees
  - Very limited availability
- 51 to ≈ 100 Eligible Employees
  - Limited availability
  - Not generally suggested unless stringent stop loss provisions are placed
    - Carriers are developing products and strategies for this market
- 100 to ≈ 300 Eligible Employees
  - Increasing availability
  - Becoming viable alternative to fully insured
- 300+
  - Available and possibly recommended
  - Pay TPA Fees, stop loss premiums, network access fees and claims

Self Insured

- Employer contracts with a Third Party Administrator (TPA) and Network
  - TPA adjudicates claims based on Network's negotiated discounts
    - Potentially secondary and tertiary networks to enhance discounts
  - Employer is responsible to pay claims
    - Employer funds bank account bi-monthly
    - TPA pays claims from this account
    - Bank account remains open for many months after termination of contract
- Cash Flow
  - Light cash obligation when transferring from Fully Insured to Self Insured
  - Increased cash flow required when transitioning from Self Insured to Fully Insured

Self Insured

- Employer purchases Stop Loss Insurance to mitigate large claims
  - Individual Stop Loss (ISL) – maximum amount each member may incur prior to ISL carrier paying claims, i.e., $75,000
  - Aggregate Stop Loss (ASL) – maximum amount the entire group may incur prior to ASL carrier paying claims
    - An Attachment Point is calculated on a per contract per month basis
      - » Total Expected annual claims divided by the number of enrolled employees
    - ASL begins to pay after a multiplier of the Aggregate Attachment Point is incurred, typically represented as a percentage, i.e., 120%, 125%.
    - ASL contract declares basis for claims valuation period, i.e., 12/12, 15/12, etc.
    - Important to consider whether to include Rx in ASL

Hybrid

Fully / Self Insured

- Fully Insured with a Health Reimbursement Arrangement (HRA)
  - Different than a Health Savings Account (HSA)
  - Employer contracts with a Third Party Administrator (TPA) to adjudicate claims within the HRA
  - Employer either funds a bank account held by the TPA or the TPA draws from an employer's established bank account
  - Account must remain open for at least 60 days after the termination of the contract (cash flow)
  - Additional Administrative costs are typically between $5 - $12 per subscriber per month
  - TPA usually maintains compliance

Hybrid

Fully / Self Insured

- 50 or fewer Eligible Employees
  - Premium change based on benefit differential between in force and prospective plan designs
- 51 to ≈ 150 Eligible Employees
  - Premium reduction based on benefit differential and expected utilization
- 150 to ≈ 300 Eligible Employees
  - Premium reduction based on benefit differential and expected utilization
  - Utilization changes should have greater effect on renewals
  - Wellness / educational initiatives should reinforce plan structure
- 300+ Eligible Employees
  - Premium reduction based on benefit differential and expected utilization
  - Utilization changes should have greater effect on renewals
  - Wellness / educational initiatives should reinforce plan structure

Hybrid

Fully / Self Insured

Benefit	Current	Prospective
Office Visit	$25 / $40	$25 / $40
Deductible	N/A	$1,000 / $2,000
Coinsurance	N/A	10%
Out of Pocket Maximum	$1,000 / $2,000	$2,500 / $$5,000
Diagnostic X-Ray / Lab	No Charge / Copay	No Charge / Deductible
Inpatient Services	Covered in Full	Deductible & Coinsurance
Rx	$10 / $25 / $50	$10 / $25 / $50

Minimum Premium

- 50 or fewer Eligible Employees
  - Not Available
- 51 – 100 Eligible Employees (typically)
  - Not Available
- 100 – 300 Eligible Employees (typically)
  - Not Available
- 300+ Eligible Employees (typically)
  - Varies by carrier

Minimum Premium

- Very few carriers offer this arrangement
  - Historically limited to employers with 300+ Eligible Employees
  - Technically considered Fully Insured, however, has similarities to Self Insured
    - Maximum claim liability estimated by carrier at the beginning of the year
    - If employer realizes lower claims than maximum liability, employer may share in the savings
    - If employer exceeds maximum claim liability, carrier absorbs losses

Professional Employer Organization (PEO)

- 50 or fewer Eligible Employees
  - Highly desirable
  - Certain industries usually excluded, i.e. staffing
- 51 to ≈ 100 Eligible Employees (typically)
  - May consider alternative structure
- 100 to ≈ 300 Eligible Employees (typically)
  - “Traditional” HR model may be more cost effective
- 300+ Eligible Employees (typically)
  - Employer typically has robust, full service HR Department making PEOs less cost effective and necessary

PEO

- Employer enters into a Co-Employment relationship with PEO
  - Employer retains control of employees
  - Employees are paid under the PEO's FEIN
    - Direct Deposit / Checks may be branded with the Employer's name
    - K1s may be handled differently by each PEO
      - » Some may not allow K1s unless they take compensation via W2
  - Employer may use as many or as few of the PEO's services, except:
    - Payroll, Worker's Compensation and usually State Unemployment must be held by the PEO
    - Employer may choose to adopt PEO's best practices, insurances, and procedures, or maintain their own
    - PEO will provide an Employee Handbook
      - » May be able to customize and / or add Firm specific information

PEO

- If effective date is other than January 1, FICA may re-set
- Health Insurance
  - May be able to offer more robust, comprehensive plans
  - May be able to offer multiple options
  - Plans generally renew on the same date, regardless of your effective date with PEO
- Banking is similar to existing structure
  - Payroll, taxes, etc., drawn from existing account
- HR Department should be able to better focus on HR functions
  - Better compliance
  - Established on-boarding / termination procedures
  - Access to legal advice

PEO

- PEOs may have various Health Insurance rating pools
  - May offer a lower than needed initial Health Insurance premium which will likely revert to the norm upon renewal
- Typically excel within a specific type of industry
  - Ensure you are entering a PEO with co-employers in the same / similar industry
  - May not want to be the only white collar entity in the PEO
- Conflicts
  - Does PEO’s legal council conflict with your firm?
  - Not aware of any conflicts created by co-employing with other firms

Private Exchanges
Availability

- Available to most size groups, however, may or may not be underwritten upon entry
- Not a funding strategy, but rather an Employer / Employee Contribution Strategy
- “Private Exchanges” are typically IRS Qualified Cafeteria Plans
  - Employer contributes specific dollar amount towards Employees’ coverages
  - Employee chooses coverages he / she desires
  - Employee may contribute the difference between the Employer contribution and required premiums or forgo coverage
- Private Exchanges usually require selecting the sponsoring organization as your Broker of Record

Private Exchanges
Considerations

- Are you increasing costs
  - Is the Employer contributing towards the cost of Employees that previously waived out?
  - Are insurance premiums higher because all plans are now contributory and expected enrollment may vary more than expected
  - Are their additional administrative costs / duties involved
- Are there more / better plan options
  - Can Employer offer multiple plan designs not previously available
  - Can Employer gain access to plan designs not previously available

Renewal / Underwriting Considerations
Fully Insured

- Base Claim Rate / Paid Claims
  - Ensured the paid claim period is accurate and representative of your experience
- Completion Factor (to convert paid to incurred)
  - Represented either as a factor or;
  - Paid claims – Change in Reserves
- Pooling Charge
  - Factor charged for excluding claims above a specified amount
- Retention Charge
  - Factor insurer charges fully insured clients for the portion of their total risk they retain / cede to reinsurers

Renewal / Underwriting Considerations
Fully Insured

- Standard Industry Classification
  - Law Firm factor is typically between 1.00 and 1.20
- Trend
  - Amount claims are expected to increase in the following evaluation period based on expected costs and utilization increases
  - Calculated from the midpoint of the claim evaluation period to the midpoint of the contract year, typically resulting in a larger than expected factor
    - Example for January 1, 2015 – December 31, 2015 Plan Year, assuming 10% trend
    - Claims Evaluation Period October 1, 2013 to September 31, 2014
      - Midpoint is April 1, 2014
    - Renewal Plan Midpoint is July 1, 2015
      - April 1, 2014 to July 1, 2015 is 15 months
      - 1.10^(15/12) = 12.65% trend

Renewal / Underwriting Considerations

- ACA Fees
  - PCORI; $1 - $2 per subscriber
  - Transitional Reinsurance Fee;
    - 2014 - $63 / year
    - 2015 - $44 / Year
    - 2016 – Unknown
  - Health Insurance Provider Fee
    - 2014 - $8,000,000,000
    - 2015/2016 - $11,300,000,000
    - 2017 - $13,900,000,000
    - 2018 - $14,300,000,000
    - 2019+ - based on premium growth

Renewal / Underwriting Considerations
Fully Insured

Paid Claims	$1,500,000
Completion Factor to incurred Claims	1.07
Incurred Claims	$1,605,000
Total Number of Subscribers	100
Number of Claim Months	12
Subscriber Months	1200
Inurred Claim Cost Per Employee per Month (PEPM)	$1,337.50
Pooling Charge ($75,000)	4.25%
Adjusted PEPM	$1,394.34
Retention Charge	3.04%
Adjusted PEPM	$1,436.73
Trend	10.00%
Effective Trend (April 1 - July 1)	12.65%
Adjusted PEPM	$1,618.51
SIC	1.05
Final Adjusted PEPM	$1,699.44
Transitional Reinsurance Fee per Subscriber per Year	$63
Health Insurance Provider Fee	3.80%
Required PEPM	$1,829.41

Renewal / Underwriting Considerations
Self Insured

- Individual Stop Loss Attachment Point (ISL)
  - Claims in excess of the ISL during the plan year are paid by the reinsurer
  - Typically chosen as a dollar amount, i.e., $75,000, $100,000
- Aggregate Stop Loss Attachment Point (ASL)
  - Claims in excess of the ASL during the plan year are paid by the reinsurer
  - Aggregate Attachment Point is developed as an expected claim cost for the entire group
    - ASL typically covers claims at a percentage above the Aggregate Attachment Point, i.e., 120%, called the Risk Corridor
- Risk Laser
  - Identifies a potential high claimant in order to exclude their aggregate claims from stop loss coverages
- Rx
  - Include or Exclude from Aggregate Stop Loss coverage?

Renewal / Underwriting Considerations
Self Insured

- Stop Loss Premiums
  - Individual Stop Loss Premiums
  - Aggregate Stop Loss Premiums
  - Terminal Liability
- Administrative Fees
  - PEPM charged by the TPA
  - Network Access Fees
- Secondary / Tertiary Networks Fees
  - Derive savings by utilizing additional networks

Renewal / Underwriting Considerations
Self Insured

- Leveraged Trend Calculation – Stop Loss Premiums
  - Stop Loss renewal calculation includes trend for two components
    - Stop Loss trend
    - Underlying medical trend

Stop Loss Rate		$35.00				
Reinsurance Trend		12%				
Adjusted Stop Loss Rate		$39.20				
Medical Trend		10%				
Adjusted Stop Loss Rate		$43.12				
Total Increase		23.20%				

Self Insured

Cash Flow Example

Entering Self Insured

Month	Premium	Claims	Total
Dec	$200,000	$0	$200,000
January	$20,000	$35,000	$55,000
February	$20,000	$90,000	$110,000
March	$20,000	$135,000	$155,000
April	$20,000	$165,000	$185,000
May	$20,000	$165,000	$185,000

Self Insured

Cash Flow Example

Exiting Self Insured

Month	Premium	Claims	Total
Dec	$15,000	$165,000	$180,000
January	$210,000	$165,000	$375,000
February	$210,000	$155,000	$365,000
March	$210,000	$55,000	$265,000
April	$200,000	$0	$200,000
May	$200,000	$0	$200,000

How To Evaluate What is Best For Your Firm

- How many eligible employees?
  - What category are we in, i.e., 50 or fewer, 51 – 100, etc.
  - How many participate
  - How many opt out due to coverage elsewhere
- Are we using benefits to Recruit, Retain and Reward (R^3)
  - Are our Health Plans competitive
  - Are our employee / employer contributions fair

How To Evaluate What is Best For Your Firm

- What are our demographics?
  - Do we have a younger or older population
  - Do we think we are in better or worse health than the typical group our size
  - Are we geographically concentrated, or do we have multiple offices
- Can we commit to a strategy for multiple years
  - Usually takes between 2 – 5 years before truly knowing if a strategy is effective
  - Self Insurance should be committed to for no less than four years, longer is better

How To Evaluate What is Best For Your Firm
Low / No Cost Incentives

- Higher level Account Service Representative
  - How many years with the company
  - How many accounts do they service
  - How many people on the team
    - Need to determine which is better for you, more or fewer
  - Access to upper management
  - Specialized for your industry
  - Concierge level services

How To Evaluate What is Best For Your Firm
Wellness

- Carriers may offer Wellness Fund and / or programs
- Health Risk Assessments
- Gym Reimbursements
- Value Added Programs
  - Weight Watchers
  - Gym Memberships
  - Healthy Babies
  - Health Fairs
  - Case Management
  - Tobacco Cessation

How To Evaluate What is Best For Your Firm

The biggest question:

What will upper level management, Partners, Shareholders, etc., support?

Will they enroll in the strategy?

Will they fund the strategy?

Thank You

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