# WAYS TO FINANCE HEALTH CARE EXPENSES

Presented by:
David Cardwell, Sr
Sr Benefit Advisor

# TODAY'S TOPICS

- Introductions
- Current Health Insurance Landscape
- Different Ways to Pay for Health Care Expenses
- Fundamentals of Self-Funding Health Plans
- Insurance vs Wellness (Employee Engagement)


# CURRENT HEALTH INSURANCE LANDSCAPE

- Cost continue to rise
- Benefits continue to dwindle
- Less and Less carriers in the marketplace
- Employer / Employee frustration
- ObamaCare / TrumpCare / WhoCares??
- …no end in sight

# POP QUIZ…

# THEN COMES YOUR HEALTH INSURANCE RENEWAL

- Shop all 4 or 5 carriers…. then change?
- Shop for higher deductibles, copays or coinsurance to lower premium?
- Raise the employee's payroll deductions!
- ALL good news to the employees…right?!
- Small group market – can you even justify the increase to your employees?

# THE FINANCING CONTINUUM: FULLY INSURED TO SELF FUNDED

| Fully Insured Traditional Plan | Fully Insured HDHP with HSA/HRA/FSA GAP Plans | Self-Funding Small Group (5-100 employees) | Self-Funding Small Group (100+ employees) |
|---|---|---|---|
| Employee Benefits $2000 Deductible then 100% | Employee Benefits $2000 Deductible then 100% | Employee Benefits $2000 Deductible then 100% | Employee Benefits $2000 Deductible then 100% |
| 100% F/I Premium Fixed Cost | 25% Claims Fund | 50% Claims Fund | 75% Claims Fund |
| | 75% F/I Premium Fixed Cost | 50% S/L Premium & Admin. Fees Fixed Costs | 25% S/L Premium & Admin. Fees Fixed Costs |
| Plan A $1,000,000 Premium | Plan B $250,000 Claim Fund $750,000 Premium | Plan C $500,000 Claims Fund $500,000 Premium | Plan D $750,000 Claims Fund $250,000 Premium |

# WAYS TO FINANCE HEALTH EXPENSES

**Traditional fully insured plans:**

100% of the premium goes to the insurance company

The insurance company assumes most of the risk.

Employees have out of pocket expenses,

(i.e. deductibles, copays or coinsurance)

# WAYS TO FINANCE HEALTH EXPENSES

**Fully Insured High Deductible Plans: (Part 1)**

80% of premium goes to insurance company

The insurance company assumes most the risk after a high deductible and high out of pocket expenses

20% can be financed with (HRA/FSA/HSA) or…

Insured with GAP, Hospital Indemnity/Accident Plans or MERPs.

# WAYS TO FINANCE HEALTH EXPENSES

**Fully Insured High Deductible Plans: (Part 2)**

There are many ways to use the 20% premium savings to finance high out of pocket expenses.

The “A” list: FSA, HRA (MERP), HSA : All income tax free money

FSA, Employes money converted to employers

HRA, Employers money

HSA, Employees money

GAP, Hospital Indemnity/Accident Plans or MERPs (Part 3)

# WAYS TO FINANCE HEALTH EXPENSES

**Fully Insured High Deductible Plans: (Part 3)**

There are many ways to use the 20% premium savings to finance high out of pocket expenses.

GAP, Hospital Indemnity/Accident Plans or MERPs (fixed expenses)

Can be employer or employee paid or shared

Income tax and payroll tax “FREE”!

# WAYS TO FINANCE HEALTH EXPENSES

**Self Insured Plans: (Part 1)**

The employers assumes the risk with a higher deductible

Then purchases stop loss insurance to assume the risk and reimburse the plan if the deductibles are met

Employers can hire fully-insured companies or TPAs to process, manage and pay the claims on behalf of the employer

# WHY SELF-FUNDING?

- As the cost of health care continues to escalate more and more Employers are looking for cost effective solutions.
- Self-funding offers employers a practical alternative to traditional insurance. It allows employers to directly fund their actual claim costs while limiting their risk with the purchase of stop-loss insurance.
- Stop-loss insurance protects the Plan against individual catastrophic claims (specific stop-loss) or their total annual claim expenses (aggregate stop-loss).

# WAYS TO FINANCE HEALTH EXPENSES

**Self Insured Plans: (Part 2)**

There basically two types of self-funding arrangements

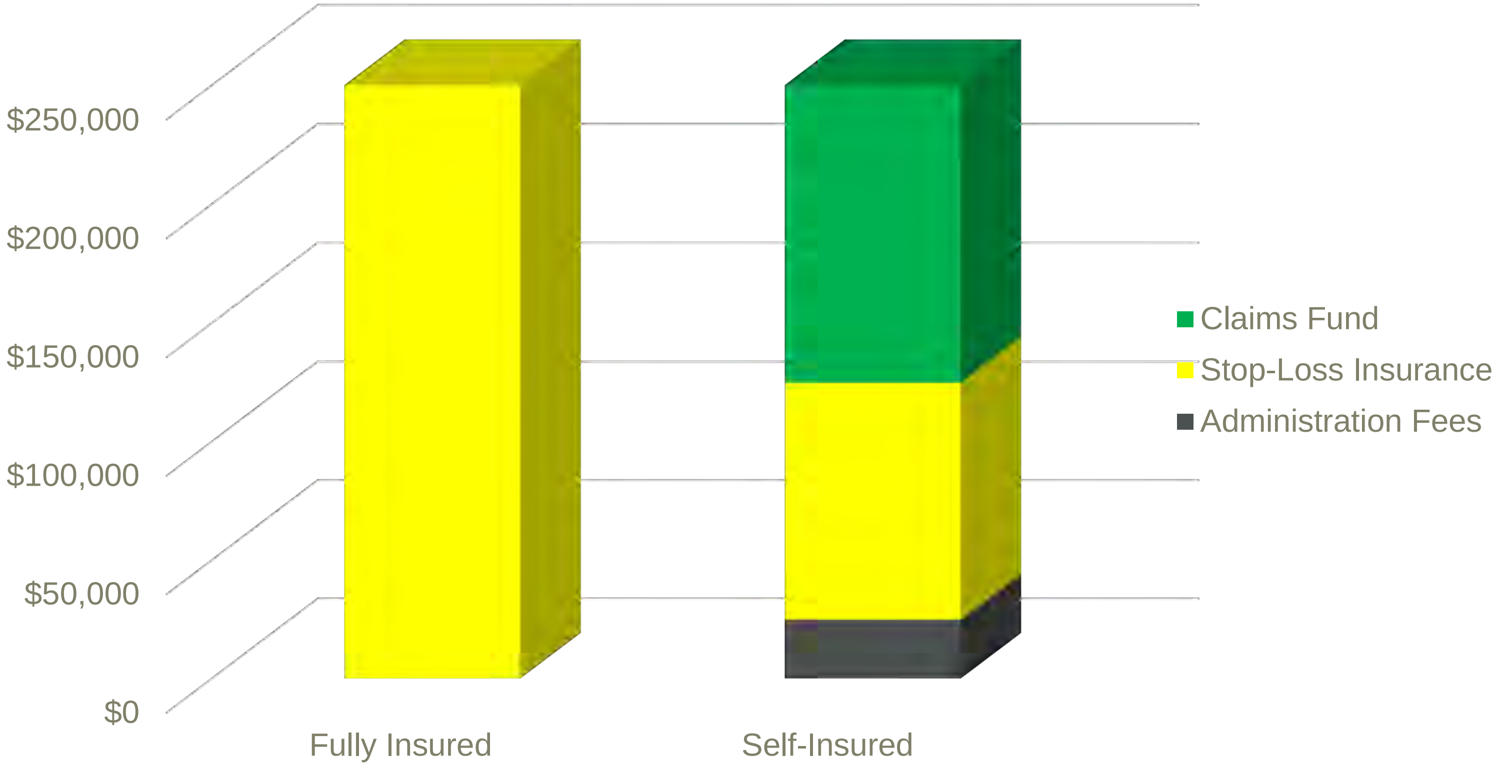
**Traditional Self-Insured** is: “pay as you go” for claims

**Level Funded** is: “prefunding the claims” in advance

# WHY CONSIDER SELF-FUNDING?

- Do you think your annual claims are lower than your annual premium?
- Do you want to see where the claim dollars are going to at least justify any increase?
- Do you want to share in the rewards when you have good claim years?
- Do you want to see an alternative to the same old…same old?

# COMPARISON OF FINANCIAL COMPONENTS OF FULLY-INSURED VS. SELF-FUNDED HEALTH PLAN




**Claims Fund:** This fund is the equity in your plan that is used to pay for expected claims not covered by your Stop-Loss insurance

**Stop-Loss Insurance:** This is the insurance part of the plan that reimburses the plan for claims after deductible

**Administration Fees:**
Cost of managing the plan

***Fully-Insured*** **= The Insurance Company assumes *all the risk*.**
***Self-Funded*** **= The Employer assumes *some of the risk*.**

# WHY CONSIDER SELF-FUNDING YOUR HEALTH PLAN?

27% 40% 26% 7%

**67% of your employees use less than $1,000 per year in medical expenses**

**93% of your employees use less than $3,000 per year in medical expenses**

| $ 0 | < $ 1,000 | < $ 3,000 | Catastrophic |
|---|---|---|---|

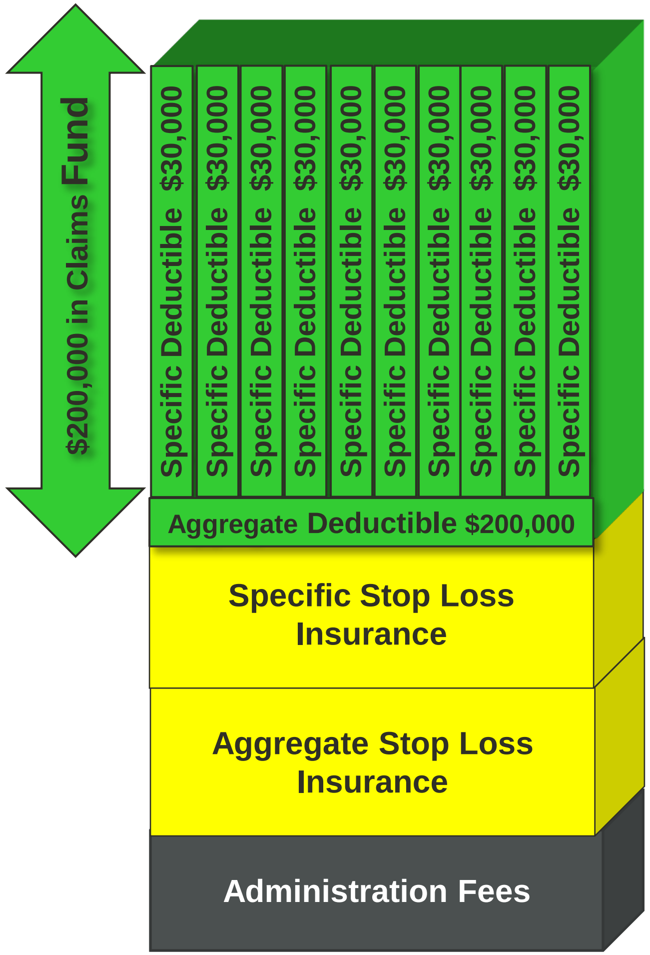
# SPECIFIC & AGGREGATE STOP LOSS WORKING TOGETHER

Employer with 50 employees
$30,000 Specific Deductible
$200,000 Aggregate Deductible
$200,000 in Claims Fund

When an individual meets the Specific deductible of $30,000, Insurance reimburses the balance of the claims

When the group's claims collectively meets the Aggregate deductible of $200,000, the insurance reimburses the balance of the claims

Any claims over the Specific deductible do not count toward the Aggregate deductible. This increases your odds of not using the entire claims fund.




**Claims Fund:** This fund is the equity in your plan that is used to pay for expected claims not covered by your Stop-Loss insurance

**Stop-Loss Insurance:** This is the insurance part of the plan that reimburses the plan for claims after deductible

**Administration Fees:** Cost of managing the plan

# DO THE MATH?

- Group has $200,000 in claims fund with $30,000 specific deductible and then has $300,000 in claims…how much money do they get back?
- High Claimant 1 has $60,000
- High Claimant 2 has $80,000
- High Claimant 3 has $100,000
- All others have $60,000
- What is the Refund?? Show of hands…
- $50,000!

# SELF-FUNDED UNDERWRITING MODELS

- One size does not fit all! Unique products for different size groups
- Self-funding options for groups as small as 10 employees! (States permitting)
- Typical Market segments: Level Funded & Traditional Self Funded
  - Level Funded: Fully-Insured to Self-funded
    - Small employers – 10 to 100 employees (No group claims information available)
    - Mid-Market – 100 – 500 employees (Detailed claims experience)
  - Traditional  Self-funded: Currently Self-funded
    - Large employers 100+ employees

# SELF-FUNDED UNDERWRITING MODELS

**Small group Level Funding (typically 10 - 100 ees) (Contd.)**

- Offers low individual Specific deductible levels to protect your Aggregate claim funds (may have a Spec. claim and still get an Aggregate claim refund at the end of the contract period!).
- Pre-packaged benefit plan options to streamline the administration.
- 4-Tier “Maximum Premium Equivalent” rates are  billed to level out cash flow requirements, like a fully-insured plan. (Level Funded)

# SELF-FUNDED UNDERWRITING MODELS

**Mid-Market Level Funding (typically 100 - 500 ees)**

- Detailed claims experience
- Customized benefit plan options
- 4-Tier "Maximum Premium Equivalent" rates are billed to level out cash flow requirements, like a fully-insured plan. (Level Funded)

# SELF-FUNDED UNDERWRITING MODELS

## Large  Group Traditional Self-funding 100+

- Two years of renewals
- Two years of detailed claims reports
- High claimant reports with prognosis
- Current summary of benefits or customize
- “Pay as you go” claims ( use of cash flow  throughout the year)
- Completely customize “best in class” vendors
- Strategic cost containment measures

# WHO ARE GOOD PROSPECTS FOR SMALL GROUP SELF-FUNDING?

- Employers that are fully-insured looking for creative, cost effective solutions
  - vs. the same old story
- Financially stable
- Low turnover
- Average age under 50
- Generally healthy
- Meet with business Owner and/or CFO in addition to HR
- Stable carrier history
- Employers that are willing to meet prior to renewal

# THE NEXT GENERATION OF EMPLOYEE BENEFITS


Presented by:
David Cardwell, Sr
Benefit Consultant

# THE FINANCING CONTINUUM: FULLY INSURED TO SELF FUNDED

| Fully Insured Traditional Plan | Fully Insured HDHP with HSA/HRA/FSA GAP Plans | Self-Funding Small Group (5-100 employees) | Self-Funding Small Group (100+ employees) |
|---|---|---|---|
| Employee Benefits $2000 Deductible then 100% | Employee Benefits $2000 Deductible then 100% | Employee Benefits $2000 Deductible then 100% | Employee Benefits $2000 Deductible then 100% |
| | 25% Claims Fund | 50% Claims Fund | 75% Claims Fund |
| 100% F/I Premium Fixed Cost | 75% F/I Premium Fixed Cost | 50% S/L Premium & Admin. Fees Fixed Costs | 25% S/L Premium & Admin. Fees Fixed Costs |
| Plan A $1,000,000 Premium | Plan B $250,000 Claim Fund $750,000 Premium | Plan C $500,000 Claims Fund $500,000 Premium | Plan D $750,000 Claims Fund $250,000 Premium |

# INSURANCE VS WELLNESS

100% of us know that daily diet and exercise lead to a healthier and more productive life!

Heathier employees are lower claim cost and more productive in the workplace.

Lower claims means lower premium

The “key” to corporate wellness is “engagement” …

# WELLNESS IN THE WORKPLACE

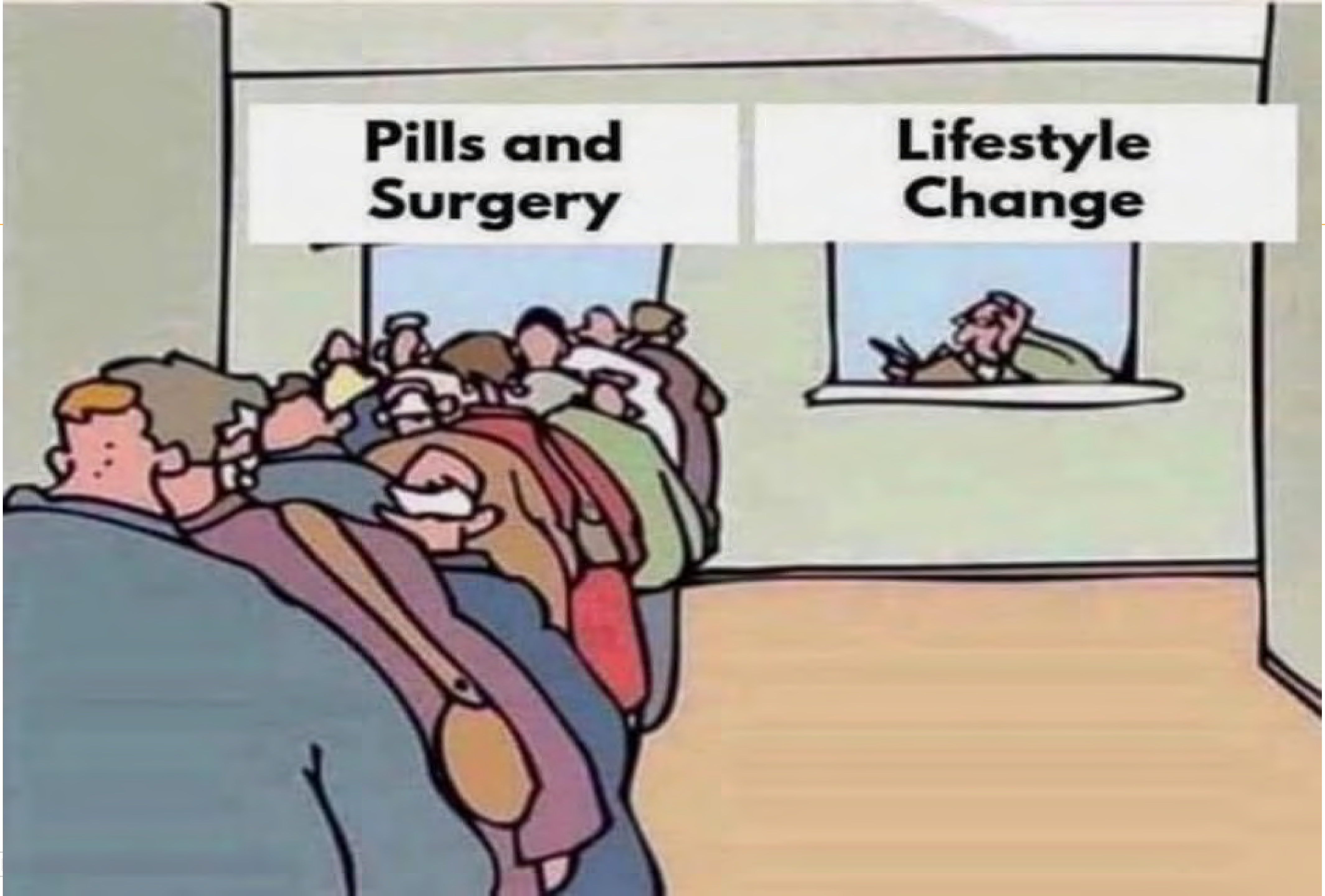
- Programs that contain fitness & population health management components reduce healthcare costs by 20% to 55%
- Preventable illness makes up 70% of all claims due to lifestyle.
- Reducing ONE health risk factor can increase a person's productivity on the job by 9% and reduce absenteeism by 2%

## Workforce Prevalence and Lost Productivity Impact of Selected Chronic Health Conditions

| Condition | % of employees With condition | Avg. monthly hours lost for employees with a condition: Due to Absence | Due to Presenteeism | Total | Annual Impact (FTE days) in a 1,000 person workforce |
|---|---|---|---|---|---|
| Allergies | 34.0% | 1.1 | 1.3 | 2.4 | 1,326.0 |
| Arthritis | 16.2% | 4.1 | 3.1 | 7.2 | 1,895.4 |
| Asthma | 7.9% | 2.6 | 1.6 | 4.2 | 539.2 |
| Congestive heart failure | 0.3% | 25.7 | 12.9 | 38.6 | 188.2 |
| Chronic obstructive Pulmonary disorder (COPD) | 0.2% | 18.7 | 6.0 | 24.7 | 80.3 |
| Coronary heart disease | 2.0% | 12.2 | 1.3 | 13.5 | 438.8 |
| Depression | 11.2% | 5.6 | 10.8 | 16.4 | 2,948.8 |
| Diabetes | 4.7% | 4.4 | 0.7 | 5.1 | 389.5 |
| Gastro esophageal reflux disease (GERD) | 12.6% | 3.8 | 3.6 | 7.4 | 1,515.2 |
| Irritable bowel | 5.5% | 3.9 | 4.9 | 8.8 | 786.5 |
| Migraine | 7.2% | 4.9 | 3.0 | 7.9 | 924.3 |

*Notes: Adopted from Loeppke et al, 2009, Tables 3 and 4 (phase 2) (46). The sample reflects outcomes for 34,622 employees drawn from 10 employers. Lost hours reflect the marginal lost productive hours – both absence and presenteeism – in a 28-day period for a person with the condition compared to a person without the condition. All health conditions are self-reported.*

*Annual impact is the product of prevalence and total lost monthly hours, assuming 1,000 employees who work eight hours per day for thirteen 28-day periods per year. As some employees will have more than one of the conditions listed, the annual impacts for each condition should not be summed to obtain total workforce lost productivity for these conditions.*


Pills and Surgery
Lifestyle Change

# INSURE WELLNESS

What if I told you that there is an insurance plan that engaged 100% of your covered employees!

What if I told you the wellness part of the plan pays for the insurance so that the employees have better coverage!

Using income tax savings and wellness claims payments that lowers premium and increases benefits!

Insure Wellness is the program that is the next generation of benefits.

# INSURE WELLNESS

Change is sometimes challenging, so….

No need to change insurance companies

No need to change brokers

Find out how you can add this program to your current insurance plans or review other strategies!

Find out if any or all of the different strategies discussed today are right for you!

# FOR MORE INFORMATION, CONTACT US @

David Cardwell, Sr
dcardwellsr@ehadvantage.com
800.277.0788 x701