Emerging Cost Containment Trends in Group Health Insurance

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The Crichton Group

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Agenda

- **Introduction**
- **State of Employer Sponsored Healthcare**
- **Health Insurance Cost vs. Healthcare Cost**
- **Self-Funding Health Insurance Review**
- **Captive Concept Review**
- **Reference Based Pricing Review**
- **Considerations**

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- **The Crichton Group provides Risk Management and Employee Benefits consulting. Our employee benefits practice focuses on four key areas of expertise:**
  - Insurance and Benefits Consulting
  - Third party actuarial guidance and consulting through Milliman
  - Compliance
  - Human Capital Technology
- **Crichton is the largest Insurance Advisory Firm in Nashville, and one of the largest in TN.**

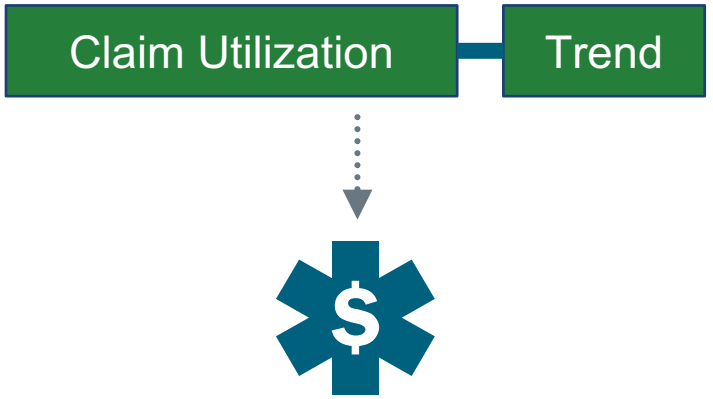
Employer Sponsored Health Insurance Landscape

- **Top drivers of healthcare spend**
  - Claims (specifically inpatient claims)
  - RX (10%, 20%, 40%)
  - Administrative spend:
    - Tax
    - Insurer margin
    - Market volatility
    - Compliance
    - Insurance rate/trend
- **Seeing a massive migration from fully-insured to self-insured arrangements**

Health Insurance Cost vs. Healthcare Cost

- Fully insured health plans are an inflexible funding arrangement
- Purchasers (i.e. Employers) of health insurance have historically focused on rates & spreadsheets

Decreasing Trend by Managing Claims is More Important



Drive Health Care Cost

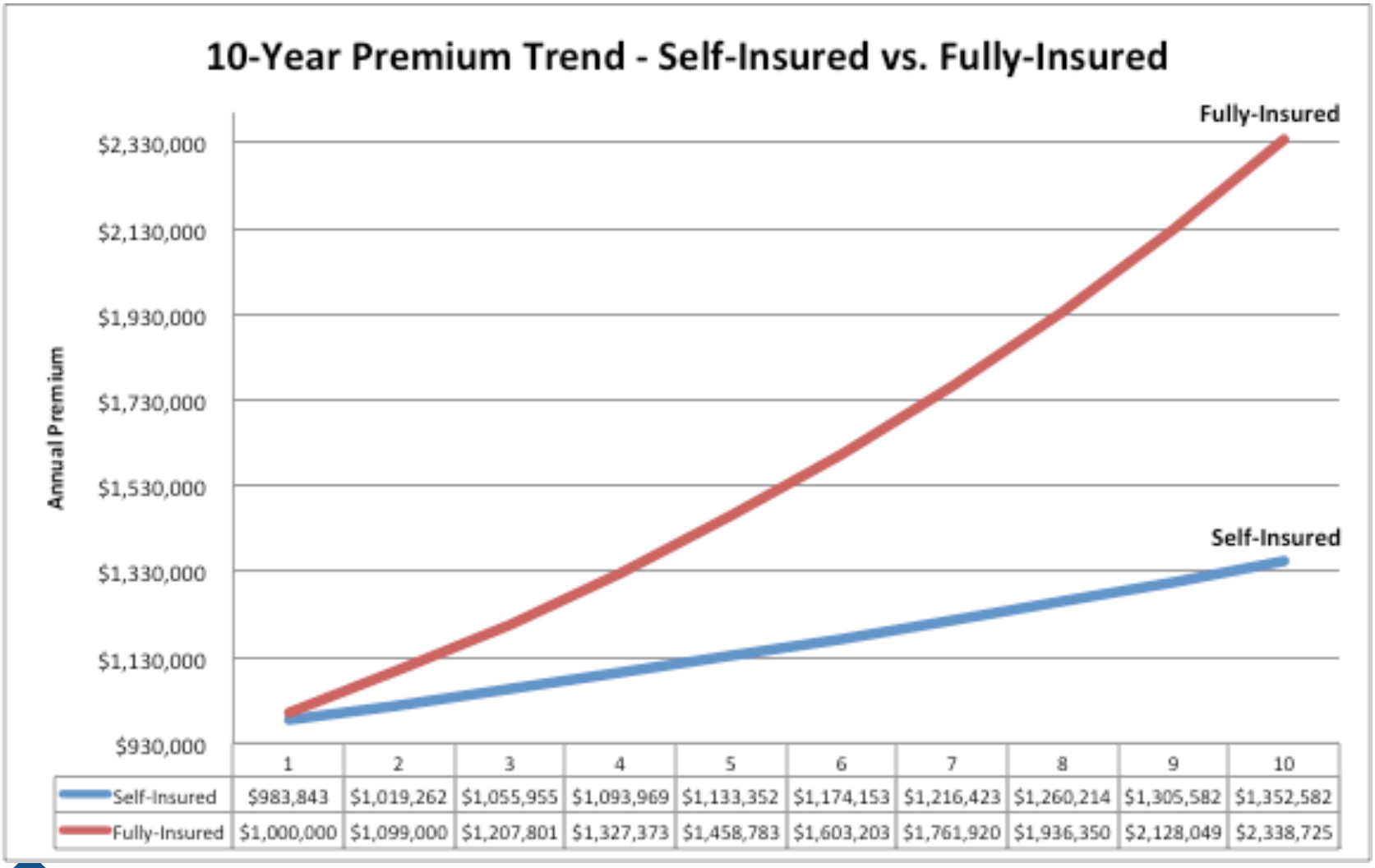
Health Insurance Cost vs. Healthcare Cost

Reduction in TREND

Exponential savings on RATES

Focus on
reducing the cost of healthcare
rather than reducing the rate of health insurance

Why the Self-Insured Migration?



	1	2	3	4	5	6	7	8	9	10
Self-Insured	$983,843	$1,019,262	$1,055,955	$1,093,969	$1,133,352	$1,174,153	$1,216,423	$1,260,214	$1,305,582	$1,352,582
Fully-Insured	$1,000,000	$1,099,000	$1,207,801	$1,327,373	$1,458,783	$1,603,203	$1,761,920	$1,936,350	$2,128,049	$2,338,725

Employer Sponsored Health Insurance Landscape

Self-funding pros:

- No state health insurance tax
- Significant reduction in Insurer margin
- More transparency
- Better long term cost control
- Increased cash flow
- Typically 7-9% lower than fully-insured spend
- Any impact in claims impacts your spend:
  - Wellness / population health data
  - Onsite clinics, etc.

Self-funding cons:

- Claims volatility
- "At-risk" up to a specified amount
- Stop-loss "lasers"
- Stop-loss market volatility
- Reserves creation/maintenance
- Need Actuarial Oversight

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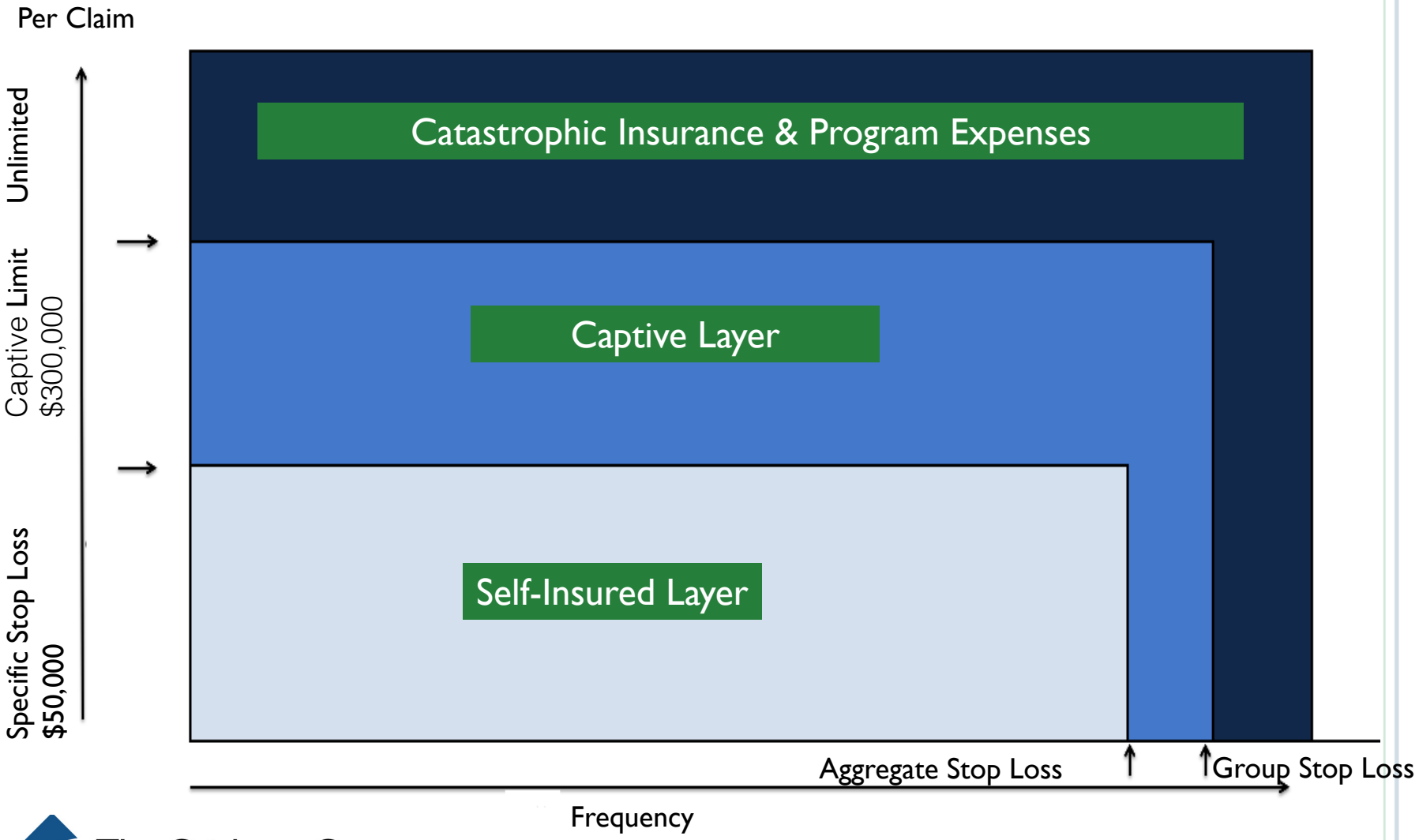
Captive Program



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Captive Indication

Category	Projected Cost	Maximum
Claims under the $300K threshold	$2,005,671	$2,571,373
Administration	$244,126	$244,126
Stop Loss Premium	$727,700	$727,700
Capital Investment	$72,770	$72,770
Total	$3,050,266	$3,615,968
% of Fully-Insured Premium	96.70%	114.63%

- 289 employees on plan – fully-insured renewal premium of $3,154,370 wi
- Projected savings of approximately $104,104

Captive Advantages

- **Backed by industry's largest health insurance captive (Pareto)**
  - 90,000 + covered lives (200+ Employer groups currently enrolled)
  - 98% retention
  - Stop Loss trend is nearly flat, at just under 3%
  - Employer/Member Owned
- **Reduce fixed costs and claim spend**
  - RX Consortium - reduces total medical claims by 3%-5%
  - Acts as multi-year shock absorber
  - Selective risk pool
  - No new laser contract
- **Create/implement/maintain multi-year strategy**
  - Pro-active approach rather than reactive
  - 3 year strategy

What is Reference Based Pricing

- **With most plans, hospitals set their own prices – and some charge a lot more than others**
- **With RBP, the plan sets the price based on a reference determined by Medicare.**
  - Providers pre-certify inpatient and outpatient procedures, confirming the price
  - Your bill is based on this price, which is almost always lower than what the hospital would have charged on a traditional plan
  - Think "wholesale" (RBP) vs "retail" (traditional insurance) price for the same procedure, at the same facility

How Reference Based Pricing Payments Compare

Your costs will be different for each procedure and each hospital, but here is an example:

Sample Procedure	Traditional PPO	Reference Based Pricing
Starting Price:	$75,000 (What the hospital wants to bill)	$15,000 (What Medicare would pay for the same procedure)
Plan Price:	$45,000 (Hospital agrees to 60% of the bill)	$22,500 (Hospital agrees to 150% of the standard Medicare price)
Coinsurance:	You pay 20%	You pay 20%
Your Bill:	$9,000	$4,500

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Things to Consider

- **Implementation – 4-6 weeks**
- **Actuarial consulting – employers should have a licensed actuary providing independent guidance on:**
  - Reserves/Premium equivalencies/IBNR
- **Managing RX spend – our biggest area of concern for our clients.**
- **Who owns the Captive (Stop Loss Carrier, Members, Third Party)?**
- **How many members are in the captive and what is the age of the Captive?**
- **How is the RBP Administrator compensated (fixed cost, % of savings)?**
- **How are claim amounts determined (pre-cert, or legal action)?**
- **Communication and Education are key!**
- **Compliance – ERISA – accurate and specific plan document language**

Questions?

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