SELF-FUNDING UNDER THE ACA

AN EMPLOYERS GUIDE TO HEALTH INSURANCE SAVINGS

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The Cost of Employee Benefits

Escalating health care costs in recent years have made it increasingly difficult for employers to provide health insurance benefits to their employees at reasonable cost. With the additional burdens being placed on employers under the ACA (Patient Protection and Affordable Care Act), employers must seek alternative ways and means to keep their benefit programs under control.

Some have opted to drastically reduce benefits, others have chosen to change insurance carriers frequently, utilizing whichever company that happens to have competitive rates at that time. Both of these options can have a negative impact on employees, and is certainly only a short term solution to cost control.

For most fully insured employers they never really know their true cost of insurance either. It is frustrating that employers rarely ever or never get to see what their actual claims experience is during a given year, especially when they know they have low claims utilization. In many cases this employer is heavily subsidizing an insurance risk pool whose loss ratio is much higher than his own. Why have more employers not considered self-funding?

I think this is because there seems to be a lack of knowledge about self-funding works among employers and brokers alike. Additionally, insurance carriers have been slow to develop self-funded products for the under 100 employee market segment that are manageable.

That is until now.

We believe that a long-term solution to managing benefit costs and providing quality benefits involves getting all the facts about your own claims experience.

We believe that traditional fully insured group plans require employers to over-insure their employee benefits

Feasibility of Self-funding

When a fully insured carrier charges high premiums they establish a reserve fund, benefit from the use of your reserve funds and profit further from the low claims utilization of your group. As an alternative, why not share in the financing of your plan to the extent that it is feasible from an experience standpoint?

Self-funding means sharing the surplus, but it also means sharing the risk. You, as the buyer, however, have the privilege of sharing only in the risk that your own circumstances dictate. Risks can be categorized as:

Predictable Losses

- Those losses that occur frequently, but are relatively insignificant in size and are predictable based on the group's makeup of age, sex and plan benefits

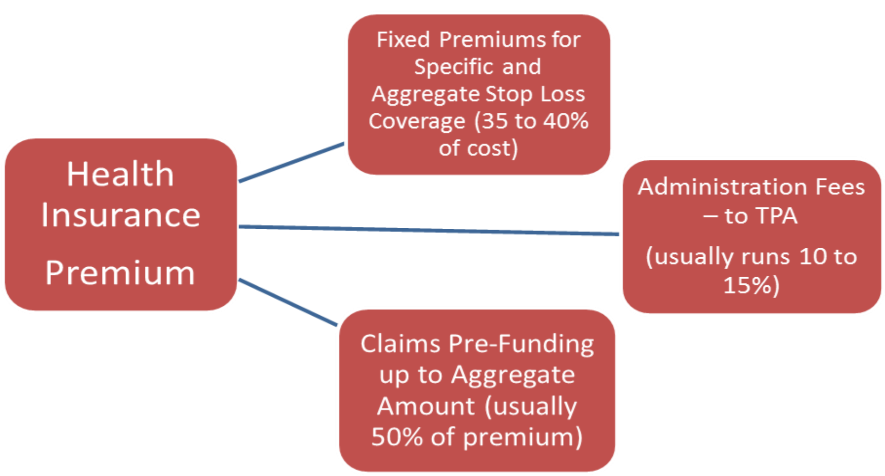
Unpredictable Losses

- Those claims that occur infrequently, but are catastrophic in terms of size

The Cost Efficiency of Self-funding

The most efficient purchase of insurance is to insure for unpredictable losses, not predictable losses. No matter how high the cost of medical care, statistics indicate that adverse claims experience normally result in extensive claims by a limited number of individuals. Consequently, it is wise to purchase insurance to protect again this risk. The amount of insurance necessary is dependent upon the size of the group. Under the new carrier portfolios, it is feasible to have a self-funded plan with as few as 10 employees.

By purchasing insurance only for unpredictable or catastrophic claims, you greatly reduce high premium costs and thereby create cash savings to fund predictable claims. A breakdown of health insurance premiums under self-funding looks like this:



The Claims Pre-Funding is the ***surplus fund***. Companies that have relatively low utilization will retain the unused funds – just like the fully insured carriers have been doing for years.

The Stop-loss coverage comes in two forms: Specific and Aggregate.

SPECIFIC STOP-LOSS PROTECTION - This provides a maximum dollar amount of all covered claims that a benefit plan would pay on any one individual during a plan year. The stop-loss carrier reimburses the plan for claims paid in excess of the specific stop-loss.

AGGREGATE STOP-LOSS PROTECTION - This is protection coverage to limit the total liability on all participants on a small plan year basis, thereby allowing the plan to budget for a maximum annual liability.

THIRD PARTY ADMINISTRATOR - A third Party Administrator is a licensed administrator providing all of the administrative services previously rendered by your insurance carrier.

- Under self-funding, employers put money into a trust fund (regulated by ERISA) to pay employees' medical claims. This option comes instead of paying an insurance company a fixed, negotiated fee to pay the claims. The trust fund keeps any profits on behalf of workers to offset future expenses.
- To make sure they don't end up paying too much for catastrophic losses, such as if several workers required extremely costly heart transplants, self-insured firms also buy re-insurance, allowing them to set in advance the maximum losses they face (Aggregate Stop-Loss).

The Advantages of Self-funding

- **REDUCED FIXED COSTS -** A Third Party Administrator will administer your plan with less overhead expense than an insurance carrier.
- **LOW CLAIMS UTILIZATION -** Most group insurance plans have no provision for refunding overpayment of premium, effective coordination or subrogation of benefits.
- **REDUCED PREMIUM TAXES UNDER THE ACA –** Self-funded plans enjoy substantially lower taxes than fully insured plans under the ACA (2% versus 10 to 12%)
- **INTEREST OR RESERVES -** Your company retains the claim reserves traditionally held by insurance companies.

How does the ACA Affect Self-funded Plans?

The main impact of the ACA on self-funded (ERISA)* plans include the following changes:

- Employer Mandate – The Pay or Play penalties for 50+ employer groups have been delayed until 2016, but 100+ FTE groups must be compliant in 2015
- Employer Reporting – All large employers (50+) should track monthly eligibility updates in 2015
- New Reinsurance Fee and comparative effectiveness fee and in 2018 the Cadillac Tax
- Must provide the SBC (Summary of Benefits and Coverage)
- Prohibits lifetime and annual limits
- Limits waiting periods to 90 days
- Auto-enrollment for 200 plus employer groups

* ERISA – Employee Retirement Income Security Act of 1974. This is the governing law of self-funded plans

There are a number of advantages under the ACA for self-funded plans including:

- Self-funded plans are not tied to community rating for determining premiums compared to fully-insured plans (a BIG Pricing advantage!!!)
- Review of premium increases by the Department of Health and Human Services under the ACA doesn't apply to self-funding. Premium increases are most often based on claims experience and the Exchange/SHOP Marketplaces will incur substantial claims
- Self-funded plans include the EHB (Essential Health Benefits) mandates under the ACA, but can design benefits without government regulation
- Self-funded plans avoid the adverse selection insured plans frequently encounter

Self-funded Plans are likely to be in a better position to manage future uncertainty because they escape greater regulation that the health insurance industry faces.

Benefits Selling August 2013

Self-Funding vs. Fully-Insured Group Plans – The Taxes

There are five new employer taxes in 2014 under the ACA for fully-insured plans, plus the premium tax. Self-funded plans only have two new taxes and no premium tax, so the savings between these types of plans can be dramatic.

Fees/Taxes	Fully Insured	Self-funded
Health Insurance Tax	Annual premium x .02	none
Reinsurance Assessment Fee	# of participants X $63	# of participants X $63
PCORI Fee	# of plan participants X $1	# of plan participants X $1
Exchange User Fee	Annual premium X .035 (paid monthly)	none
Risk Adjustment Fee	# of plan participants X $.96	none
Premium Tax	2% of premium	none

What does Affordable Coverage Mean?

If you offer a qualified group health plan it must also be affordable for your employees, or they may be able to go to the Public Marketplace and secure subsidies. Employer sponsored plans must cover a minimum of 50% of the cost of the lowest option single premium, AND, the employee share of the premium cannot exceed 9.5% of their W2 income. An employer is not responsible for dependent coverage under this provision.

Self-Funded Client Testimonial

When our company's health plan rates increased over 40% last year, I turned to Doug Helser to help us find a better solution. My objectives included getting the rates down and still maintaining a quality benefit plan for our associates. Doug accomplished both a literally saved our company over $50,000 in premiums off the renewal!

Not only that, but as a Certified PPACA Professional, Doug has us on track to be Health Care Reform compliant with an automated program that integrates with our payroll so we avoid all potential penalties imposed on large employers under the Affordable Care Act. Additionally, he has us in a partially self-funded program that actually returns premium to us if our claims are not excessive. Here's the really good news – our renewal this year was under 5% and we retained over $54,000 in our claim reserve fund. Combined with our first year premiums, we realized a $114,000 savings in one year!

If your company has experienced high premiums and you are looking for better solutions to traditional carrier options, I encourage you to reach out to Doug Helser of Simplifi Benefits Agency to see what he can do for your company. I know contacting Doug Helser of Simplifi Benefits Agency was a good call for our company and expect it will be for yours too.

Gary Rozanczyk, Owner of SGR Restaurants, LLC

Our Administration Services

Polaris Benefit Administrators is a Third Party Administrator (TPA) dedicated solely to the administration of self-funded employee benefit plans. Affiliate companies include a large national pharmacy network providing prescription card and mail order services.

Our mission is to provide timely and cost effective services to our clients in order to achieve their health benefit objectives.

In addition to the Health self-funded plan administration Polaris provides the following services:

- IRS Code Section 125 Plan design and administration including Flexible Spending (FSA), Child and Dependent Care, Transportation and Parking Plans
- Premium Only Plans and the new 'Simple' ACA Compliant Cafeteria Plan
- Health Reimbursement Plan (HRA) administration including Defined Contribution and Section 105 Medical Reimbursement Plans
- ERISA, COBRA, FMLA Administration
- Disability, Dental Self-funding administration
- Pharmacy Benefit Management
- PPO Pricing
- Combined Billing Fulfillment
- ACA Compliance required notifications and eligibility testing

Want more information on how self-funding may benefit your company? Contact Doug at 614-635-8678