Understanding the Value of Self-Insured Health Plans

SIIA—Taft-Hartley Plan Executive Forum
April 30, 2015

Discussion Overview

- The Intent and Impact of the ACA
- Taft-Hartley Health Plan Sponsor Goals for Health and Welfare Benefits
- Advantages of Self Insured Benefits
- A 2020 Vision of the US Health Insurance market place
- Long term Medical Plan Cost Containment Strategies
Recapping Objectives of the Affordable Care Act (ACA)

- The intent of the law:
  - Reduce the uninsured population
  - Guarantee coverage
  - Eliminate benefit limits
  - Improve quality of care through transparency, electronic records, wellness, etc.
  - Create public health exchanges (a.k.a. Marketplaces)
  - Regulate insurers

*The goal to reduce the numbers of uninsured is a worthy cause, but the ACA will create new problems:*

- “Keep the coverage you have”?
- “Will not add one dime to the Federal Deficit”?
- Reduce overall health care costs and spending?
- Compete with private sector unions and employers?

Understanding the Economic Objectives of ACA

1. **Lower the Rate of Uninsured**
   - Guarantee coverage
   - Expand Access
   - Offer financial subsidies

2. **Tax Revenue Goals**
   - Reduce the trillion dollars in tax free compensation in health expenditures
   - Increase tax revenue from diffuse sources to expand coverage and access

3. **Increase Real Wage Growth**
   - Rising wages fuels consumer spending, GDP growth lowers unemployment
   - Higher wages increased tax revenue base
ACA Enrollment – Recent Results

- Over 11 million lives enrolled in public marketplaces as of March, 2015.
  - A portion of these lives had prior coverage
  - Does not include Medicaid expansion covered lives (est. over 10 million lives)
  - Uninsured rate dropped from 17% to about 12% (still over 25 million uninsured)

- States with the lowest uninsured rates (2014 results):
  - Delaware 3.3%, Massachusetts 4.9%, Hawaii 6.9%
- States with the highest uninsured populations:
  - Texas 24%, Mississippi 21%, Georgia 20%

- 87% of enrollees receiving premium tax credits (HHS)
- $364 - Average monthly premium before federal premium subsidies (HHS)
- $101 = Average monthly premium after federal premium subsidies (HHS)
- Nearly 9 of 10 consumers enrolled in Bronze (22%) or Silver (67%) plans (HHS)
- 55% of health plan choices offered included a Broad Provider Network (NY Times 4/13/15)
- 68% selected narrow or “ultra-narrow” provider networks, yet 42% surveyed knew they picked a narrow network choice (Mckinsey, 2014)

Direct Implications of ACA on Group Plan Sponsors

- Several New Taxes and Fees Introduced:
  - Health Insurer Fees (approximately 2.5% to 3% of premiums)
  - Transitional Reinsurance Fees (through 2016)
  - Patient Centered Outcomes Research Fees (through 2019)
  - 40% High Cost Excise Tax (begins in 2018)
  - Individual Medicare tax increase on earning over $200,000

- New Mandated Benefits:
  - Cover dependents to age 26
  - No Dollar Limits on Essential Health Benefits (e.g. hospital, physician, drugs, etc)
  - True OOP Limits required
  - 100% coverage of preventive care for non-grandfathered plans
  - Minimum affordability and actuarial value tests

- ACA increasing plan sponsor operational/compliance costs for same level of medical benefits offered
Characteristics of Fully Insured Coverage on the Public Marketplace

- More out-of-pocket costs to consumers buying coverage on public exchanges:
  - (Median plan selected has $2,000 deductible)
- HMO only options
- Off-the-shelf choices and service
- Narrow Rx Formularies
- Non claim (retention levels) expenses 15% to 20% of premiums
- One-year contracts from insurers leading to year-to-year uncertainty of insurers, plan options
- Substantial rate increases for some plans
- Lack of competitiveness in some states (NCSL*)
  - Some states have at least 10 insurers (NY, CA),
  - Others have 2 or 3 insurers to select from (VT, AL, AK)

* National Conference of State Legislatures 3/15

Current State and Goals of Multiemployer Health Plans

- Vast majority of Taft-Hartley continue to offer medical plans
- Over 92% of Segal’s book of business is self-insured
- Members prefer insurance from their employer or union (78%) over public sources (2013 Segal)
- However, changes in benefits are beginning to emerge for even bargained groups
- Remember the goals of most health plan trustees
  1. Benefits are bargained to provide members with highly valued and responsive health care benefits
  2. Medical Benefits are a key element of the long term relationship between Union and member
  3. Many industries have developed unique work rules that require custom benefit solutions
  4. Multiemployer Health Funds are not driven by profits or stockholder value. One aligned mission

“Health and Welfare Benefits are a key part of the Union Brand”
Emerging Impact of ACA on Group Plan Sponsors

➢ Public Marketplaces Create New Options for Employers and Individuals:
  • Competes with the economic value provided by employers and union plans
  • Subsidies and limited age rating create new threats/opportunities
  • Endorsed and promoted by the Federal Government

➢ Some Plans Already Feeling the Impact:
  • Eliminate coverage for part-time members
  • Eliminate coverage for working spouses
  • Growing numbers of employers are using guarantees and subsidies to convert retiree coverage to a defined contribution platform
  • Once a defined contribution approach, private and public exchanges become more attractive for retirees, expect more shift to individual market for retirees

➢ The ACA Excise Tax could accelerate greater changes

Advantages of Self Insuring

1. Lower Administrative Cost
2. Avoid State and Federal Premium Tax
3. Ability to Create Dedicated Member Support Services
4. Ability to Customize Plan Features
5. Greater Long Term Stability

Will fully insured, individual health policies will be as valuable and responsive as what large plan sponsors have developed over the last 40 years?
Advantages of Self Insuring

1. **Lower Administrative Cost**
   - Average Administrative expense as a percent of total Health Fund Plan Cost = 7% (Segal Self -insured Multiemployer Clients)
   - Median Public Exchange Insurer Non-Claims expense as a percent of premium = 16% (CMS data for individual coverage)
   - Self-insured plans allocate more dollars to actual member claim liabilities and less to insurers in the form of risk charges or profit margins.

2. **Avoid State and Federal Premium Tax**
   - Self-Insured Plans avoid both state and federal premium taxes. Some states levy taxes of 2% or more on medical premiums. ACA adds new Health Insurer Fees on insured plans only, adding another 2.5% to 3% of insured premiums. The ACA fees increase with the rate of premium rate growth.
   - Bottom line – the cost to insure adds at least 4% to 5% to premium rates for the typical insured policyholders
Advantages of Self Insuring

3 Ability to Create Dedicated Member Support Services

• Most Taft-Hartley plans establish dedicated Health Fund staff to support member needs or negotiate dedicated customer service teams or services on behalf of the membership. This includes meeting service performance guarantees to answer phone calls quickly and meet low abandonment rates for calls.

• Another often overlooked advantage of self-insured plans is that it enables the trustees to separate vendor decisions. Typically insurers require an all in purchasing decision on networks, plan design, medical management firms, wellness firms, data mining and reporting services, etc. Self-insured plans with enough buying power can contract with vendors that are best in class and independent from the insurance company.

Advantages of Self Insuring

4 Ability to Customize Plan Features

• Many industries have varied workforces, eligibility rules, hour banks, special enrollments and seasonal work needs. These needs translate into custom benefit designs and plan rules that require special attention. Self-insuring benefits allows Taft Hartley plan sponsors to devote the resources they need to address the custom plans.

• Self-insurance also allows plan sponsors to exclude or include treatments (e.g. birth control) that may or may not be mandated by state insurance regulators. This is another example of how self-insurance provides greater flexibility and control to plan trustees.
Advantages of Self Insuring

Greater Long Term Stability

- Self-insured, Taft-Hartley Health plans enjoy greater long term stability when the plans are properly managed. Segal has observed lower long term cost trend rates for self-insured groups. Clients have avoided the destabilization in year to year rate adjustments from bad underwriting (e.g., insurers trying to make up for lost profits on past book of business underwriting results). Self-insured plans are not subjected to adverse insurance market pressures that sometimes result in insurers leaving markets or discontinuation of certain benefit packages.

Segal Survey of Multiemployer Plans (2013)

Segal Surveyed 150 Health Funds in 2013

- **65%** think it is very important to participants that their benefits come from their employer or their union

- **56%** say that their participants will not be comfortable receiving their benefits through the Public Marketplaces, compared to just **6%** who would be very comfortable getting benefits through the Marketplaces

The most common reasons for this discomfort are:

- Prefer insurance from their employer or union (**78%**)
- Employer/union more trustworthy (**66%**)
- Less access to providers (**59%**)

The top three most attractive benefits offered to participants are medical benefits (most important), followed by prescription drug benefits and then dental benefits
Private or State Exchanges

How comfortable would your participants be having their health insurance coverage provided through a public or private Exchange (not their employer or union) if their coverage and costs are the same as they are now?

- Very comfortable: 5.90%
- Somewhat Comfortable: 14.70%
- Not comfortable: 55.90%
- Not sure: 23.50%

Private or State Exchanges

With the availability of private or state Exchanges, what is the probability the plan will continue to sponsor health benefits for:

- Full-Time:
  - Very likely: 74.20%
  - Likely: 28.60%
  - Somewhat likely: 64.50%
  - Not likely: 43.80%
  - Don't know: 16.80%

- Part-Time:
  - Very likely: 74.20%
  - Likely: 28.60%
  - Somewhat likely: 64.50%
  - Not likely: 43.80%
  - Don't know: 16.80%

- Dependents:
  - Very likely: 74.20%
  - Likely: 28.60%
  - Somewhat likely: 64.50%
  - Not likely: 43.80%
  - Don't know: 16.80%

- Retirees:
  - Very likely: 74.20%
  - Likely: 28.60%
  - Somewhat likely: 64.50%
  - Not likely: 43.80%
  - Don't know: 16.80%
Private Insurance Market Remains Resilient

- Employer and multiemployer groups cover more than 57% of population, down from 59% prior to ACA passing (US Census Bureau)
- CBO estimates modest reduction in employer based enrollment by 2024

Private Insurance Market Remains Resilient

2020 View of Health Benefits

- ACA will serve as a catalyst for change for select industries and socio-economic groups. A two-tier system of coverage begins to emerge:

1. The Fully Insured Public Market Place:
   - European style system for Medicaid and Public Market enrollees
   - Off-the-shelf plan choices
   - Greater out-of-pocket costs for workers with better than median incomes
   - Non-dedicated customer service
   - Longer waits, less access to “Premier Providers” who opt out

2. The Self Insured, Custom Large Group Market
   - Higher value plans
   - Dedicated member support
   - Custom designs and programs to fit the industry and union objectives
Group Plans will continue to:

1. Maintain a major administrative savings advantage over insurers, especially self-funded larger group plans:
   - Avoid premium taxes
   - Avoid carrier risk charges and profits
   - Enjoy economies of scale

2. Offer benefit choices that are tailored to the needs of their workforce

3. Provide dedicated and customized member support services

4. Offer more stable health plan choices that are less susceptible to changes in private sector insurer changes (exit market) or public sector financing

5. Innovate with coverage and delivery model:
   - On-site clinics
   - Direct contract with key providers
   - Lease networks, carve-outs
   - Create custom wellness incentives linked to health accounts and years of service

Self-insured group plan strategies

Some Example Strategies to lower future costs:

- Continue to apply innovative cost containment solutions
  - Leverage on-site clinics, carve outs, risk share, custom employee contribution strategies, telemedicine, medical management, etc.

- Consider opt out bonus/incentives for spouses who have access to other coverage elsewhere

- Create more choices for employees with buy ups and buy downs
  - (e.g., Plan pays 100% of the cost of silver plan, members can buy up for gold or platinum)

- Redesign plans to look more like the “Barbell Plans”
  - Offer 100% coverage for prevention and primary care clinics and health savings account money, then face a deductible for middle range costs (donut hole concept) to avoid excise tax (e.g., $1500 deductible), with enhanced coverage (90%) after deductible is met. Good coverage on both ends of the spectrum with the deductible in the middle.

- Enhance/Expand ancillary benefit offerings (dental, vision, life insurance, disability insurance) especially for part-time members
Self-Insured Group Plan Strategies \textit{continued}

- A slow migration of retiree health benefit structure. Separate retiree health plan choices and coverage from active members:
  - Convert to separate DC platforms (e.g., fixed retiree health premium assistance accounts)
  - Avoids some ACA mandates and taxes on retiree-only plans
  - Greater use of public exchanges for pre-Medicare retirees to leverage ACA age rating rules and premium subsidies for early retirees

- May move seasonal and part time workers to the public exchanges for coverage

- Offer supplemental coverage to ineligible members to fill gaps in coverage or provider access for those with narrow coverage on public exchanges (e.g., 100% COB for cancer care coverage or centers of excellence coverage)

- Install concierge/advisory services to support high touch employee demands

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Taft-Hartley Health Plans Will Adapt

- Most members highly value their bargained group health benefits:
  - Members value richer coverage, wider networks, dedicated services

- Most Large Taft-Hartley plans will continue to enjoy cost advantages under a self-insured funding arrangement with higher value for the benefit dollar spent.

- Leadership will want to study how market forces will create new economic opportunities. New approaches will require some trading medical benefits for higher wages for select groups of the population
  - Seasonal, or Part Time employees
  - Current and Future Retirees

- Public policy could change over time and modify ACA.

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“\textit{The rumors of my death are greatly exaggerated.}”

—Mark Twain
It is going to be hard for adult dependents to get tax credits, though. If the multiemployer plan doesn't charge for self-only coverage (or charges very little), and the plan's coverage meets 60% test, eligible family member can't get the premium subsidies.

Joanne Hustead, 11/3/2014
### Excise Tax on High-Cost Plans: IRC Section 4980I

<table>
<thead>
<tr>
<th>Effective in 2018</th>
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<tbody>
<tr>
<td>• 40% tax on excess over threshold</td>
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<tr>
<td>• Based on total cost of coverage – employer plus employee premium share</td>
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<table>
<thead>
<tr>
<th>Cost threshold for tax (indexed after 2018)</th>
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<tr>
<td>• $10,200 Single, $27,500 Family</td>
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<tr>
<td>• Increased by $1,650 Single, $3,450 Family:</td>
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<tr>
<td>• For retired individuals age 55 or older and not eligible for Medicare</td>
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<tr>
<td>• If majority of employees covered by the plan are:</td>
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<tr>
<td>» Engaged in a high-risk profession (list in statute), or</td>
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<tr>
<td>» Employed to repair/install electrical or telecommunications lines</td>
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<tr>
<td>• Multiemployer plans use family threshold</td>
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### Who Pays the Excise tax?

- Insurer for insured plan
- Plan administrator for self-insured group health plan, Health FSA or an HRA
- Where the employer acts as plan administrator to a self-insured group health plan, a Health FSA or an HRA, the excise tax is paid by the employer
- Where an employer contributes to an HSA or an Archer MSA, the employer pays
Excise Tax Forecasting
Sample Output

Client ABC Projections of the ACA Excise Tax Plan Name XYZ
Multiemployer Basis, 2-Tier Rating
FAMILY COVERAGE
Assuming 8% Cost Trend

Family Costs are Expected to Exceed the Threshold beginning in 2018

The 2014 family cost of $21,600 ($1,800 per month) is based on Segal average COBRA rates for multiemployer plans.

Excise Tax Forecasting
Sample Output

Client ABC Projections of the ACA Excise Tax Plan Name XYZ
Multiemployer Basis, 2-Tier Rating
FAMILY COVERAGE
Assuming 5% Cost Trend

Family Costs are Expected to Exceed the Threshold beginning in 2021

The 2014 family cost of $21,600 ($1,800 per month) is based on Segal average COBRA rates for multiemployer plans.
Questions?