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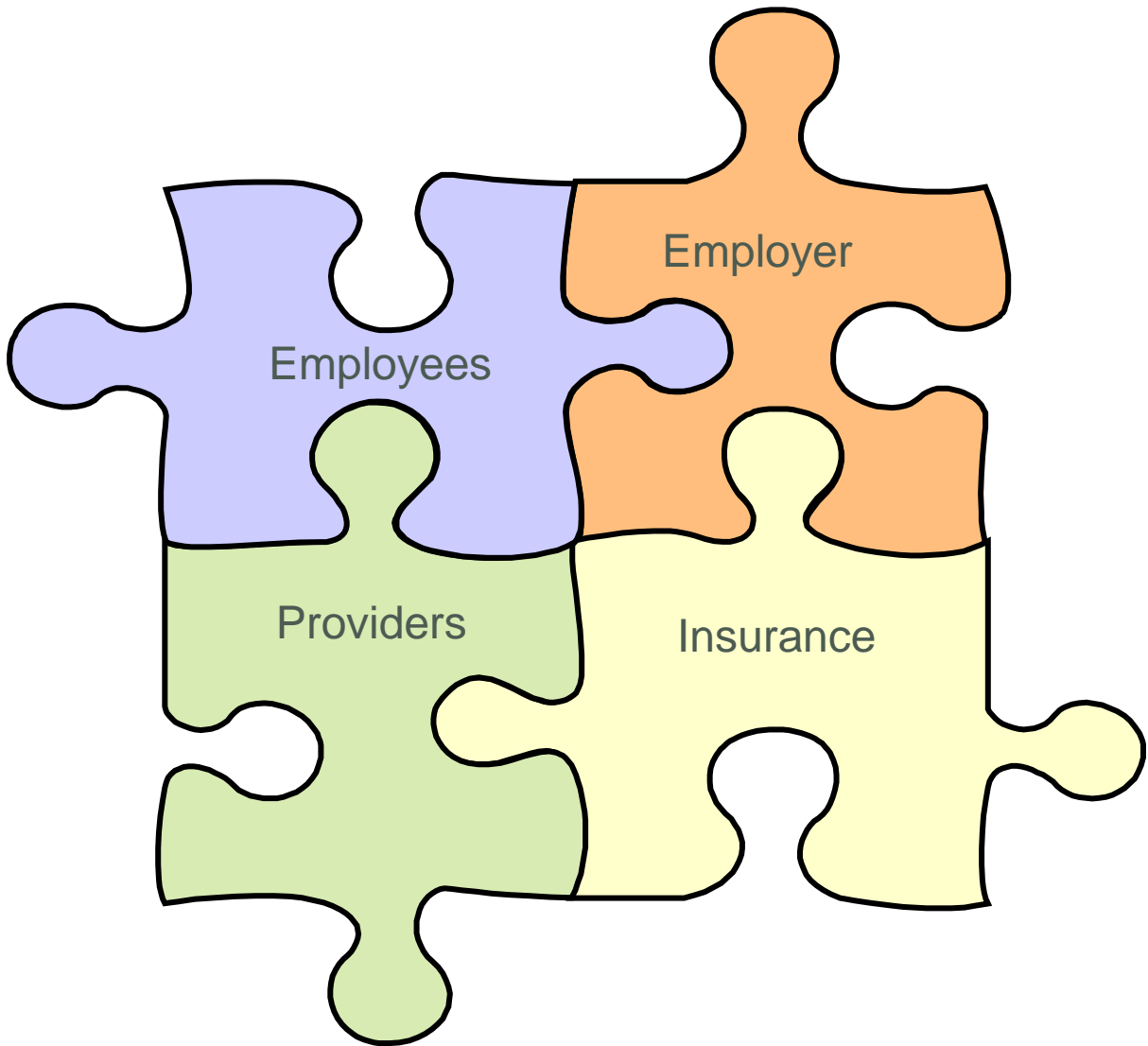
Financial Concepts, Inc.

Top 10 things insurance companies don't want local governments to know

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*Presenters:
Ryan Miller, Senior Account Executive
NFP P&C.*

Big Picture



All Interrelated

Purpose of Today's Seminar

- ***Important:*** We all know that benefits are a tax efficient vehicle for compensating employees - **insurance carriers help make this possible.**
- Our job as a consultant is to facilitate successful client/carrier working relationships - **resulting in:**
 - The assurance and confidence that you have negotiated the most competitive premiums that meet your specific plan design needs.
- The purpose of this seminar is to help local governments better understand how the insurance renewal process works, as well as insurance contract negotiation, strategies and options.

Top 10 List of Things to Know

1. **What to look for in a medical renewal**
2. **When to shop**
3. **Self-funding considerations**
4. **Negotiating strategies**
5. **Off-menu medical plan designs**
6. **The medical market for AZ local governments**
7. **Things to look for in a dental contract**
8. **Things to look for in a life and disability contract**
9. **The dental, life and disability market for AZ local governments**
10. **Required Formal RFPs**



#1

**What to look for in a
medical renewal**

Understanding key terms

Member Months	406		
		<u>\$\$\$</u>	<u>PMPM</u>
Revenue		\$ 112,958	\$ 278.22
Claims		\$ 76,951	\$ 189.53
IBNR		\$ 7,534	\$ 18.56
Large Claim Credit @	\$80,000	\$ -	\$ -
Net Claims		\$ 84,485	\$ 208.09
Annual Trend	8.43%		
Months To Trend	14.5		10.28%
Trended Claims		\$ 93,174	\$ 229.49
Pooling Charge @	\$80,000	\$ 12,672	\$ 31.21
Women's Preventive Health Services	0.00%	\$ -	\$ -
Projected Rating period Claims		\$ 105,846	\$ 260.70
NON-MEDICAL			
Administrative	4.00%		\$ 12.13
MCHA	3.00%		\$ 9.09
Reserves	2.00%		\$ 6.06
Conversion Charge	0.00%		\$ -
Medicaid Surcharge	0.00%		\$ -
HMO Tax	0.00%		\$ -
State Premium Tax	2.00%		\$ 6.06
Broker Compensation	3.00%	Flat	\$ 9.09
Total Non-Medical	14.00%		\$ 42.44
Group Specific Revenue Need		\$ 123,076	\$ 303.14
Current Revenue			\$ 278.80
Group Specific Increase			8.73%
Group Credibility			7.50%
Community Rate Increase			8.43%
Formula Rate Increase			8.45%
Plus Federal Health Ins Tax & Temporary Reinsurance Fee			4.00%
Plus Autism Mandate			2.00%
Needed Rate Increase			14.45%
Actual Increase			14.45%
Client has rate cap of 13% plus changes to State/Federal Taxes			

Understanding Key Terms

- **Pooling Point** - A safeguard against extremely large renewal increases. The level at which claims are pooled-out and not counted in your group's claims.
- **Pooling Charge** – The cost of having a pooling point.
- **Annual Trend** – The expected increase in claim costs for the following year.
- **Community Rate** – The carrier's average rate or annual trend for a similar plan.
- **Credibility Factor** – The % weight assigned to your group's calculated renewal rate vs. the carrier's community rate.



#2

When to shop

When to shop

- **Small Group** (Less than 50 employees)
 - Check rates every year
 - Fully insured rates no longer vary based on health history applications or claims experience, i.e. **0% Credibility Factor**
 - If you expect your group to have relatively lower claims than the average group, consider getting a quote from a Service Cooperative - where renewal rates will continue to reflect your group's specific claims experience.
 - And vice versa; if expecting higher than average claims, may want to consider options outside of the Service Cooperative.
- **Large Group** (More than 50 employees)
 - Shop when things are going well
 - Loss ratios below 75%, or
 - High claimants recently left the plan or have lower projected claims
 - Favorable market conditions



#3

Self-funding considerations

Self funding considerations

Generally, employers with over 100* employees consider self funding:

- Short Term Disability Insurance
- Dental Insurance
- **Medical Insurance**

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Fully Insured vs. Self Funded

Fully Insured

Vs.

Self Funded

Canned Plan & Subject to PPACA

Plan Design

Flexible & Customizable

Retained by the medical plan.

Cash Flow

Maintain premium structure but reserves held by employer.

All premiums subject to tax

Taxes

Only stop loss premium subject to tax.

All covered claims paid by premium.

Claim Coverage

Employer paid. Stop loss covers high claims.

Held by insurance company

Plan Reserves

Held by employer

Understanding Key Terms

- **Specific Stop Loss (SSL)**: Protection based on individual members' claims
- **Aggregate Stop Loss (ASL)**: Protection based on the entire groups claims
- **Expected Claims (Non-Pooled Claims)**: Total claims the stop loss carrier expects the group to incur that won't be subject to SSL protection
- **Attachment Point (Margin)**: Typically 125%; the percent of expected claims the group is liable for. Group will pay claims up to 125% of expected.



#4

Negotiating strategies

Negotiating strategies

A strategic process for creating a competitive bidding environment:

- Start early
- Work with a Broker/Consultant who has experience with the local government market
- Consider all carrier/pool options
- Market a common plan design (if possible)
- Openly share information and objectives with all bidders to encourage all to put their best offer on the table
- Compare proposals apples-to-apples, when possible
- Narrow down to 2-3 finalists
- Review differences in benefit designs, networks, formulary lists, etc.
- Seek best rates on current plan design, first, then look at alts and multi-year rate caps as needed

This process gives you the assurance and confidence that you have negotiated the most competitive premiums that meet your specific plan design needs.

Multi-year rate cap strategy / idea

- Discuss options with your carrier for earning a lower medical renewal by achieving specific wellness participation goals
 - Online education courses
 - Health Assessments
 - Preventive screening
- Many organizations are now tying premium and/or benefit differentials to participation in wellness activities
 - Participation based
 - Results based (biometric screenings, etc.)



#5

Off-menu medical plan designs

Off-menu medical plan designs

- Purchase a plan from the insurance carrier and supplement it with a Health Reimbursement Arrangement (HRA).
- The most common strategies usually involve HSA/HRA stacking, for example:
 - Purchase \$3,000/\$6,000-100% HSA Qualified Plan
 - Establish HRA to reimburse employees for deductible expenses they incur over \$2,000/\$4,000
 - Save on monthly premiums for everyone
 - HRA only reimburses eligible expenses incurred up to a max of \$1,000 per single contract and \$2,000 per family contract.
- Disease management strategy / idea:
 - Purchase \$3,000/\$6,000-100% HRA Plan
 - Establish HRA to reimburse employees all or a portion of incurred costs related to managing a chronic illness.
 - Small groups are often limited in plan options, so this provides flexibility to design benefits to influence behavior.



#6
**The medical market
for AZ local
governments**

The medical market for AZ local governments

- **Insurance Carriers**

- Blue Cross Blue Shield of Arizona
- Aetna
- UHC
- Cigna
- Healthnet of Arizona
- Humana



#7

**Things to look for in a
dental contract**

Things to look for in a dental contract

- Coverage of the most common dental services, besides preventive/cleanings, such as:
 - Fillings
 - Sealants
 - Extractions
 - Endodontic / Periodontics
 - Oral Surgery
 - Orthodontics (lifetime maximum?)
- What goes towards the annual maximum benefit?
 - Exclude preventive services for more available dollars – New Strategy / Idea

Things to look for in a dental contract

- New ACA-Required Pediatric Dental Coverage for Small Groups
- If double covered, employees are possibly paying over \$200/month for family dental coverage!
 - HealthPartners and PreferredOne build the cost into their rates, so no way to strip it out.
 - Medica and Blue Cross will let you strip it out, if you have other ACA-compliant dental.
 - If you are in the Service Cooperative, large or small group, you do not have to have it.



#8

**Things to look for in a
life and disability
contract**

Things to look for in a life and disability contract

- Imputing income for employer paid life amounts over \$50k for employee, or over \$2k for spouse/dependent
- Voluntary age-banded life rates straddling IRS Table I
- Portability of life insurance
- Maximum long-term disability benefit to SSNRA vs. Age 65
- Disability benefit offsets for: PERA, Social Security, Workers' Compensation, Sick Time, Vacation Time, PTO, etc.
- Return to work earnings at 60% or 80%
- Payment of FICA Tax on taxable disability benefits
- Gross-up for Tax Free Disability Benefits (negotiable)
- Multi-year rate guarantees (negotiable)

Things to look for in a life and disability contract

- Short Term Disability requires Total Disability instead of Residual/Partial Disability
- Disability policy earnings definition excludes overtime, commissions or bonuses
- Defines disability as Loss of Duties AND Earnings vs. Loss of Duties OR Earnings
- Disability policy limitations, such as 24 month limitation for self-reported illness, substance abuse, mental illness, etc.

Things to look for in a life and disability contract

Top 5 diagnoses for which people have filed long-term disability claims:

1. Muscle, Back and Joint Disorders (e.g. Arthritis, Back Pain, Osteoporosis)
2. Nervous System and Sense Disorders (e.g. Multiple Sclerosis, Epilepsy, Paralysis, Alzheimer's, Eye and Ear Disorders)
3. Cardiovascular/Circulatory Diseases (e.g. Heart Attack, Stroke, Hypertension)
4. Cancer and Tumors (e.g. Breast Cancer, Prostate Cancer, Lymphoma, Leukemia)
5. Accidents, Injuries and Poisonings (e.g. Fractures, Burns, Allergic Reactions)

(Tie)

Mental Illness and Behavioral Disorders (e.g. Depression, Substance Abuse, Anxiety)

Council for Disability Awareness, 2013 Long-Term Disability Claims Review (2013); Council for Disability Awareness, Common Terms and Examples of Disability Claims Diagnoses (2011).



#9

**The dental, life and
disability market for
AZ local governments**

The dental, life and disability market for AZ local governments

Insurance Carriers

- Aetna
- Ameritas
- Assurant
- Cigna
- Delta Dental
- Guardian
- Hartford
- HealthPartners
- ING
- Lincoln Financial
- MetLife
- Mutual of Omaha
- Principal
- Prudential
- Reliance Standard
- Standard
- SunLife
- United Healthcare
- Unicare
- Unum



#10

Required Formal RFPs

Required Formal RFPs

- Arizona carriers require for local governments with 25 or more employees to conduct Request for Proposals (RFPs) on all of their Health & Welfare benefits insurance lines at least once every 5 years
- RFPs must be:
 - In writing
 - Posted in a newspaper or trade journal at least 21 days before the final date for submitting proposals
- The group must prepare a written rationale for its decision before entering into a contract with a carrier.
- Some insurance “pools” conduct Formal RFPs on behalf of the member groups.
- Important Note: Must also do a Formal RFP if you are making a change in insurance carriers



Summary

Summary

- Insurance carriers play a vital role
- Insurance carriers, by nature of their role, have more information than employers
- Employers with a strong knowledge base of the insurance renewal process, contracts, and insurance carrier options are better equipped to stay ahead of the game

Questions



Thank you

Ryan Miller
Account Executive
480-947-3556
Ryan.miller@nfp.com



17100 N. 67th Avenue, Suite 700
Glendale, AZ 85308
480-947-3556

*Feel free to contact us for a complimentary
benefits/insurance review.*