Moving from Fully-Insured to Self-Insured in the Post-ACA World — Opportunities, Challenges and Myths

Julie Bobak, who heads up the underwriting team at Zurich, said the stop-loss industry needs to do a better job of avoiding disconnects to self-funded products, which face restrictions in 22 states within the small-businesses market. She also predicted that private exchange growth will have a potentially greater impact on self-funding in the small group market than public exchanges.

Arthur Hall, CEO of Emerson Reid & Co., said employers think about year-to-year renewals and aren’t ready to think beyond a three-year commitment when considering whether to move from a fully-insured to self-insured platform because it’s difficult to sustain cost savings. He sees fully insured carriers becoming the most aggressive about selling self-funded solutions, though he questioned the effectiveness and cost-savings potential of their business model. Hall also believes there’s an opportunity for brokers to create more strategic niches rather than simply sell homogenized products and would like to see a certification requirement for brokers to sell stop-loss insurance.

Mary Catherine Person, president of HealthSCOPE Benefits, noted that “there’s a huge market for groups that are looking for alternatives,” offering a bullish forecast of the potential to convert fully-insured employers into self-insured plan...
sponsors. But she wonders whether brokers accustomed to commoditized, fully-insured arrangements that pay generous commissions understand the risk involved with switching to a self-funded arrangement and knowing whether there’s enough cash flow to make it work. She also warned about the emergence of predatory practices among stop-loss carriers.

Private Health Care Exchanges – Implementation for the Self-Insurance Marketplace

Larry Boress, president and CEO of the Midwest Business Group on Health, cautioned that private exchanges are untested and not a panacea to rising health care costs, noting the difficulty deciphering key differences among all the leading operators in this emerging online marketplace. The model may largely appeal to employers with many seasonal or part-time workers, he observed, adding that many of his more than 120 large employer members are steering their pre-65 retirees into this benefits delivery model and very much like this approach. Most of his members recently reported that they will adopt a wait-and-see approach about private exchanges for their actives. He went on to add: “The idea of offloading all those plan administrative costs to a private exchange and just focusing on the wellness prevention and production is very attractive.”

Benjamin Pajak, senior vice president of strategy and business development for Towers Watson’s Exchange Solutions business unit, said most self-insured employers don’t have the time or resources to accomplish what a private exchange can do in raising the bar on health plan management. Employers have several options for managing their active employee populations, according to Pajak. One is a build-your-own-benefits-plan-design approach to modifying existing health plans to become high-performing over time so that these employers avoid the 2018 excise tax on so-called Cadillac coverage, which he believes, 60% will incur. Another avenue would be to exit the health insurance market, altogether, which he cautioned as not necessarily providing any value relative to how current offerings stack up in the marketplace. A third strategy is to leverage someone else’s exchange around high-performance principles, providing each employer participant with greater financial and administrative efficiencies, including any vendor-relationship burdens. Pajak called this boxed solution the equivalent of turning over the keys to the car for full management of the plan.

Global Opportunities for Self-Insurance

Hugh Rosenbaum, a U.K.–based retired principal from Towers Watson, noted that there are 70 captives engaged in employee benefits, 30 of which are in the U.S. other than group plans. He said it’s the norm in France, though there’s very little of it done in Germany, while there aren’t any waiting times in Spain. There are tax advantages and the hope of investment income to self-insuring captives versus non-insurance government schemes, Rosenbaum added. He said there are some group captives outside the U.S., providing an opportunity for captive insurers to expand their business. One unique approach overseas involves 24 discretionary mutuals founded in common law, which he said are not considered insurance and aren’t regulated as such, nor do they guarantee that claims will be paid. He cited another unusual vehicle called a risk-purpose trust, which covers a beneficiary’s unforeseen expenses and is used for patent protections and not employee benefits.

Kathleen Waslov, SVP of Willis North America, Inc., noted that Brazil and Columbia have large pools of self-insured, prefunded medical benefits that are not insured. The primary motivation for using captives is for more immediate access to real-time data that can be aggregated, she said. Waslov also described accidental death and dismemberment policies as a big expense and volatile risk, with some captive reinsurance in the U.S. pertaining to this area. She added that providers of these services need insurance to smooth volatility and global emergency services.
Becoming a top tier Stop Loss carrier doesn’t just happen. For 35 years, our dedication to creative solutions has made us the top choice for our clients.

Not all Stop Loss carriers are created equal. Today’s businesses have unique needs that demand expert-level service. That’s been the foundation of our Stop Loss offering from the beginning. We know it’s not just the plan; it’s the team behind it.

Your business is unlike any other. It’s time for a Stop Loss carrier that’s unlike any other, too.

For more information, contact your local ING sales representative or call us at 866-566-2316.
Bob Gagliardi, SVP of captive management at AIG, said “the international market represents a huge opportunity to capitalize on the captive insurance market,” with more than 70% of global captives owned by North American companies. The Western European insurance market is mature and captives are widely used, he said, though middle market and group captives are far less common there than in the U.S. and Eastern European markets are generally less developed with few captives owned. Gagliardi also said there are 50 to 100 Latin American companies that own captives, primarily in Mexico, Brazil and Columbia and many large privately held companies have an interest in tax efficiency involving captive vehicles. While Japan has a strong domestic insurance market with relatively firm pricing, he said that just 80 mostly multinational companies own captives. He categorized the Australian market as well developed, though few major companies own captives.

Health Insurance Reforms and the Self-Insured Employer Part 2: Financial Implications, Business Practice Realities and Strategies

Scott Hass, vice president of Wells Fargo Insurance Services, said mental health benefits are the only potential blind spot among self-insured employers within the context of offering essential health benefits and sees psychotropic drugs being prescribed in a vacuum. About 99% of the most significant Rx pricing abuse involves generic drugs as the use of costly brand-name specialty scripts dwindles, he noted, though the has more to do with escalation of utilization within a particular employee population than pricing per se, he said, citing PBM use of step therapy and different types of mechanics to ensure an appropriate level of treatment.

Philip Gardham, VP of specialty markets for Companion Life Insurance Company, said “our biggest concern as a stop-loss carrier is the fact that we now have unlimited annual and lifetime maximums and the impact that has on our ability to be competitive with our pricing is a very unknown issue at this point in time.”

Joe Pascullo, chief operating officer of WebTPA, said most self-funded plans offer robust coverage that include essential health benefits required
under the Affordable Care Act (ACA). “We’ve only had one self-funded plan that would even be considered a middle plan,” he reported. Pascullo also addressed a trend toward narrower provider contracts.

Hicks Morgan, owner of the self-insured Morgan Buildings & Spas, observed that the use of specialty drugs raises the need for stop-loss insurance at more affordable levels for smaller employers. A cancer patient in a small group can complicate a policy renewal, with Morgan saying the first pressure is to raise that attachment point or laser care. While surgery used to be the primary concern in terms of driving health care costs, he noted that it has since been replaced by post-surgery treatments involving cancer drugs.

National Level Regulatory Market Update for Workers’ Compensation Self-Insurers

Tom Hebson, VP of product development and government relations for Safety National Casualty Corporation, warned that the ACA triggers considerable uncertainty with regard to workers’ comp. Key issues include the availability of adequate medical treatments and experts over the next 10 to 15 years, as well as growing utilization of the medical system with new entrants and an aging workforce, movement away from rural operations to urban operations, workforce shifts to part-time or reductions in overall payrolls, etc. One noteworthy trend he addressed is that excess comp losses can be staggering with anemic investment income returns. Among the key pieces of state legislation he examined: California Senate Bill 863, which includes changes in the medical fee schedule to the Medicare-based Resource-Based Relative Value Scale from the current official medical fee schedule, Illinois Senate Bill 2339, which requires joint self-insurance pools to provide an annual audit performed by an independent CPA, Oklahoma Senate Bill 1062, which creates an administrative dispute resolution system vs. workers’ comp civil court, and Missouri Senate Bill 1, which establishes a secondary injury fund focused on various areas.

Medicare Reference Based and/or Maximum Allowable Plan Models – Concept Meets Reality

Laura Conte, general counsel of INETICO, Inc., explained that since preventive care is a hallmark of the ACA, self-insured plans cannot include out-of-network costs related to preventive care doctor visits in the cost-sharing calculation. She also recommended that plan sponsors approach their TPAs about not charging them extra to comply with the added administrative burden.

Debi Kelbert, a claims administrator with the self-insured DART Container Corporation, said that since ACA compliance due dates “tend to sneak up on us,” it’s helpful to make a list of all vendors that need to be contacted to coordinate benefits administration and management. She noted the need to reconfigure the accumulators in claims payment systems and create file feeds with outside vendors.

Debbie Harrington, president of CAS Benefits, described the ACA as a great opportunity for TPAs to expand their business in an advisory capacity. It’s important to check that reinsurance contracts comply with the ACA or update those documents, she added. Her firm created a TPA checklist, which includes questions about whether the plan is grandfathered, has pre-existing conditions, clinical trials, experimental and investigative components, pediatric dental and vision, preventative services, a waiting period and 10 essential benefits. She said TPAs have to dig deeper to clarify what specifically is required under the clinical trials provision, which has created confusion and ambiguity.

Reporting on these workshops was provided by Bruce Shutan, a Los Angeles freelance writer who has closely covered the employee benefits industry for 25 years.