A Winding Road to Self-Insurance

Two Small to Midsize Employers Hedge Their Bets in Transitioning Away from Fully Insured Plans and Stop-Loss Captive in Quest to Control Costs

Written by Bruce Shutan

What does an environmental education facility that caters to inner-city youth nestled along the Chesapeake Bay and Baltimore's largest commercial real estate firm have in common?

Apart from being about 70 miles apart mostly along Interstate

95 and sharing the same benefits adviser, these two small and midsize employers charted the same course to save on employee health care costs. After years of fully insured plans, they briefly transitioned to a medical stop-loss captive program before embracing self-insurance for the long haul – despite being told their groups were too small to pursue that route.

Along the way, there was a sense about hedging their bets. A famous quote by actor Wesley Snipes in "Passenger 57" was invoked to describe the crossroads faced by NorthBay, which runs group retreats and other school-funded programs for sixth graders as well as other elementary and middle school students.

"You ever play roulette?" Mark Gerhard, the organization's finance manager, remembers the film's protagonist asking a European tourist, whose response was: "On occasion." Snipes's character then says, "'Well, let me give you a little piece of advice: Always bet on black.' So we thought it was better to bet on ourselves."

A similar strategy unfolded at St. John Properties, faced down a 19% premium increase by United Healthcare. "We just thought that was ridiculous," recalls **Teri Mallonee**, the company's VP of operations. In 2009, the company was paying about $9,000 per employee per year, which would have climbed to $12,000 if the fully insured plans were renewed.

While NorthBay was performing well in a traditional fully insured environment, Gerhard says "they were coming back with 10% increases every year, even though they were making $200,000 in profit. So that was a little bit hard to take year after year."

A Captive Transition

The next stop for NorthBay and St. John Properties was to join a heterogeneous medical stop-loss captive featuring at its height about 35 like-minded employers from various industries. It was the first benefit captive created in the Mid-Atlantic region, offering an "opportunity to take a peek under the hood and see what's really driving their health care costs," says **Gary C. Becker**, CEO of the Becker Benefit Group, Inc., a boutique benefit consulting firm.

He created the captive in 2010 from his own client base, then banded together with several brokers in 2013 to deepen its risk pool. Requirements included having to meet a certain risk profile and be willing to sponsor a wellness initiative. Each captive member also was expected to pay all claims within its self-funded retention and buy stop-loss insurance, including both specific and aggregate claim protection. In addition, they would post collateral to the group captive, but retain unused claim reserves.

"All these groups that I put into the captive were fully insured," he explains, noting how each of these employers had arrived at a point in time where "they weren't just going to sit back and just take it on the chin every year."

St. John Properties was one of the first groups to join the captive in 2010, while North Bay came on board the following year. Before long, they both determined that it made more sense to be self-funded on a standalone basis. The two companies were among the captive's healthier groups and concerned about what Becker calls "a blending effect" that involves mixing the risks of disparate employee populations. Ultimately, they lost money and decided not to want to wait long enough to share in any surplus down the road in the form of dividends. NorthBay exited the captive in 2012, after just eight months, while St. John Properties left in 2013, after three years.

Mallonee initially considered moving from a fully insured arrangement to self-insurance, but was advised that their group was too small and it was a risky proposition. So instead, the captive became a bridge to self-insurance, but the journey wasn't without troubled water.

"We were getting nailed," Mallonee explains. "Every time we put up the collateral, they were calling the collateral at the end of the year, so basically it was really costing us more." Collateral calls were made three years in a row, with multi-million dollar transplants involving other captive members cited as a major driver of the increase. Thus, it was time to move on.

"Once they learned about all these wonderful opportunities to manage risk, they felt that it was in their own best interest to do it and have many stop-loss carriers bidding for their business," Becker says of his clients that sought yet another change in strategy.

In transitioning from a captive to stand-alone self-insurance, Becker says employers may prefer to shop for the best deal on stop-loss on their own and re-evaluate the pricing at a

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[*St. John Properties by the Numbers*]

	UHC/PWC Trend	UHC/PWC PEPY	Self-funded	Collateral Call	HSA Contr.	Total Actual Costs	PEPY Savings	Number of Ee's	Number of Months	Annual Savings	Cumulative Savings
2009						$8,937		96			
2010	19.00%	$10,635	$11,223	$588	$0	$11,810	-$1,175	94	6	-$55,245	-$55,245
2011	9.00%	$11,592	$11,242	$769	$0	$12,011	-$419	89	11	-$34,168	-$89,412
2012	8.50%	$12,578	$12,029	$0	$0	$12,029	$549	94	12	$51,579	-$37,834
2013	7.50%	$13,521	$9,213		$0	$9,213	$4,307	82	12	$353,203	$315,369
2014	6.50%	$14,400	$8,123		$1,145	$9,269	$5,131	84	12	$430,996	$746,365
2015	6.80%	$15,379	$5,333		$637	$5,971	$9,408	87	10	$1,130,308	$1,876,673
2016	6.50%	$16,378									

later date, whereas all members of the captive lock in longer-term pricing with a single stop-loss carrier.

Although Becker's clients were eager to cut bait from the captive as confidence in their risk-management strategies grew, he's still a big believer in the potential of these arrangements.

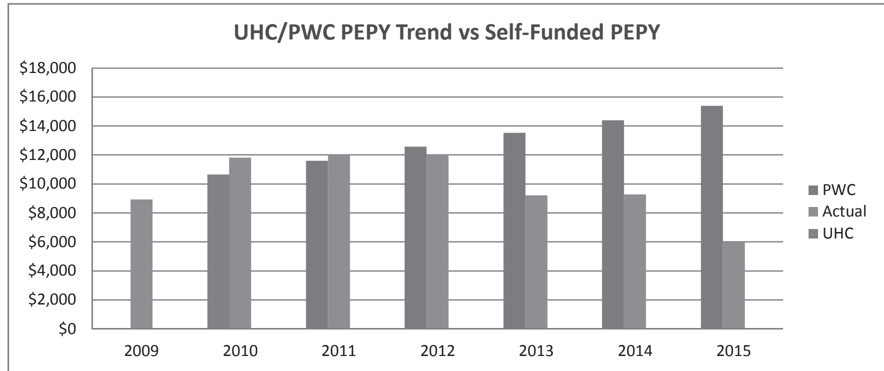
"It's absolutely the right place for employers to go into and stay into for a long time," he says. "Every employer has a different level of risk tolerance and need to make a decision that they believe is in their own best interest... The whole idea of a captive is you're going to have your good years and bad years."

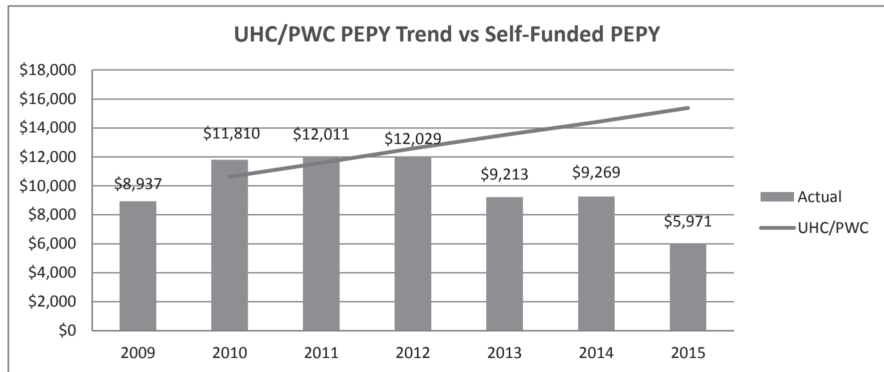
A Matter of Life or Death

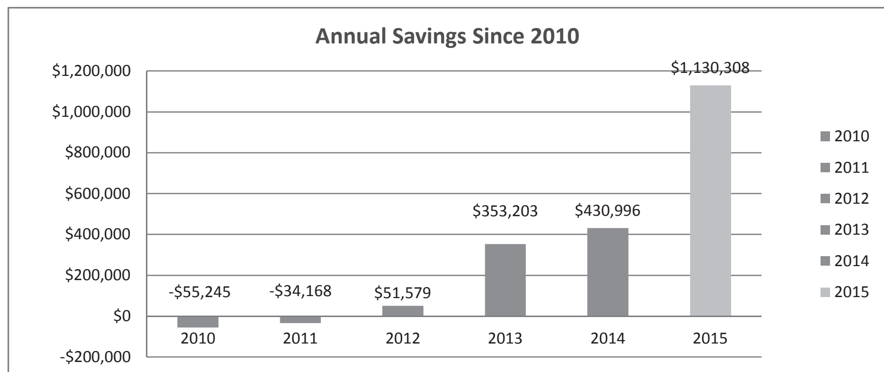
At a time when many employers balked at forcing employees into wellness initiatives for fear of discrimination claims or undermined morale, St. John Properties decided to make twice-annual biometric screenings mandatory.

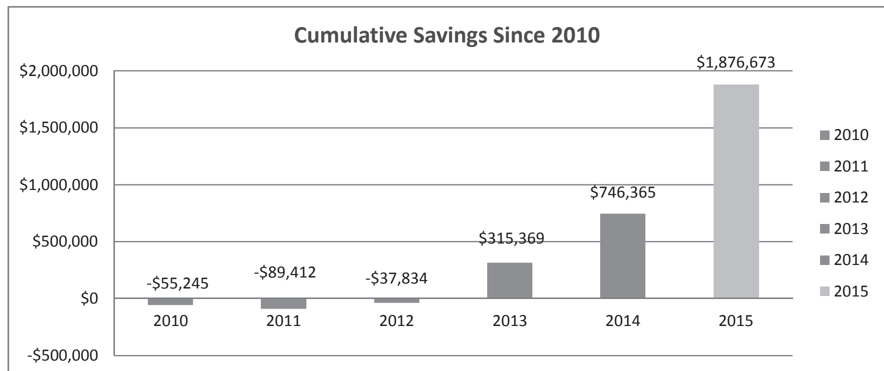
"I think people get too concerned or worried about the employees' responses and then you take these little baby-steps," Mallonee observes. "It's like tearing off a Band-Aid. Just do it. Just tell them it's part of being on the insurance."

Employees of St. John Properties are now reaping the rewards of this tough-love-in-the-workplace approach. They received up to $1,500 toward their health savings account, which led to a marked improvement in









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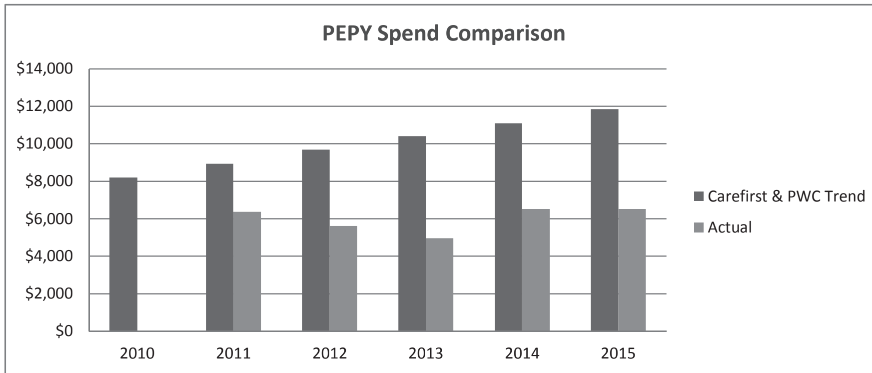
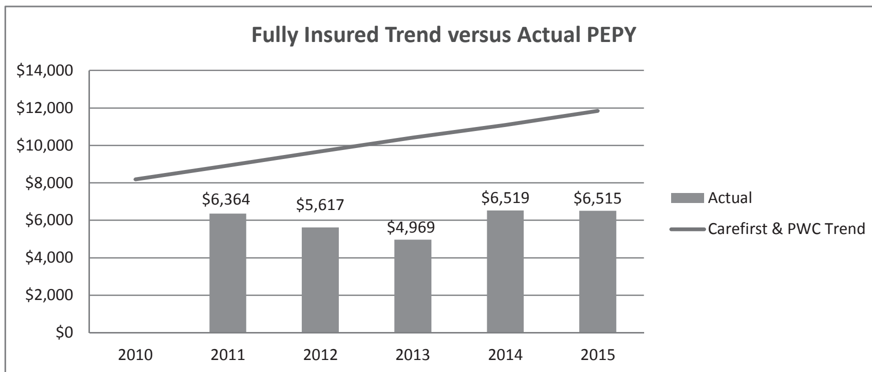
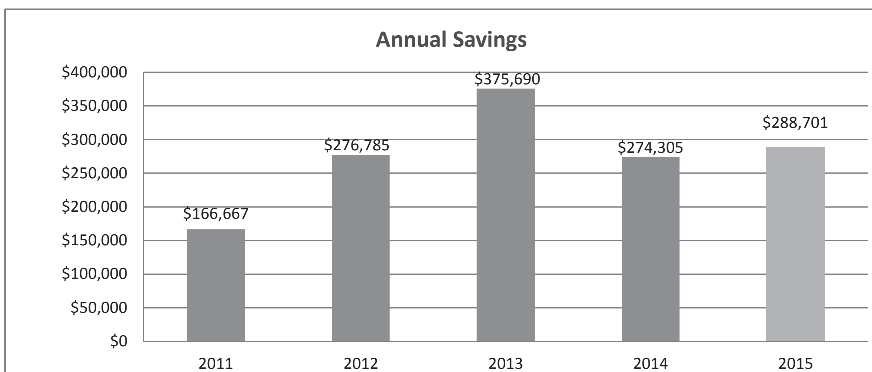
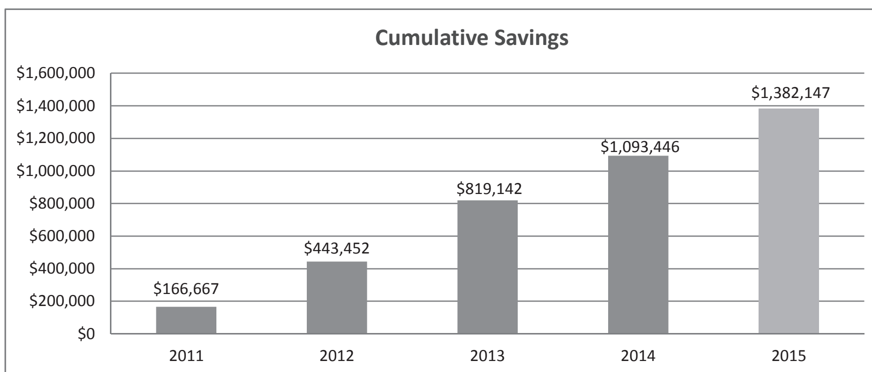
[NorthBay by the Numbers]

	Carefirst & PWC Trend	PEPY	Self-funded	Collateral Call	Total Self-Funded	PEPY Savings	Number of Ee's	Number of Months	Annual Savings	Cumulative Savings
2010		$8,191								
2011	9.00%	$8,928	$6,364	$0	$6,364	$2,564	65	12	$166,667	$166,667
2012	8.50%	$9,687	$5,617	$0	$5,617	$4,070	68	12	$276,785	$443,452
2013	7.50%	$10,414	$4,969	$0	$4,969	$5,445	69	12	$375,690	$819,142
2014	6.50%	$11,091	$6,519	$0	$6,519	$4,572	60	12	$274,305	$1,093,446
2015	6.80%	$11,845	$6,515	$0	$6,515	$5,330	65	10	$288,701	$1,382,147
2016	6.50%	$12,615								









biometric screening scores, as well as free Fitbits in 2015. Also as part of its health-conscious culture, St. John Properties offers free vitamins and toothbrushes, as well as physical therapy sessions lasting 30 minutes and an on-site gym.

Becker likened the notion of lower monthly premiums for employees with favorable biometric screening results to a good-driver discount on auto insurance, adding that it offers employees "an incentive to start thinking about taking their health more seriously."

Beyond these incentives, which have been well received, the company occasionally is reminded that the right health plan design could actually save a life. For example, warning signs surfaced for at least one employee who was then able to make some adjustments to reduce his high blood pressure, such as losing 40 pounds. There also was a light-hearted, weight-loss contest during which employees had to appear in a bikini. Another employee wasn't so lucky. He suffered a stroke at a young age before biometric screenings were required, which Mallonee believes could have prevented the unfortunate event.

Unlike St. John Properties, NorthBay shied away from biometric screening because of employee pushback. It also wasn't deemed all that beneficial based on the group's current health status.

The results at St. John Properties have been significant, with $1.5 million saved over the past five and a half

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		2011	2012		2013		2014		2015		2016	
2011	Traditional + Captive Insurance	$ 437,000.00	$ 465,405.00	*	$ 495,656.33	*	$ 527,873.99	*	$ 562,185.80	*	$ 598,727.87	*Est. 2012-2015 with a 6.5% increase each year which is a conservative increase
2012	Captive + Self-Insured		$ 279,000.00								^	
2013	Self-Insured				$ 287,000.00							
2014	Self-Insured						$ 270,000.00					
2015	Self-Insured								$ 301,000.00			
2016	Self-Insured										$ 507,358.00	So even my worst case senario in 2016 this $507K, which would be $89K better than what traditional healthcare would have charged
	Savings over Traditional Insurance		$ 186,405.00		$ 208,656.33		$ 257,873.99		$ 261,185.80		$ 914,121.11	Realized savings over 4-years

Actual net medical expenses | Estimated based on past history of increases

years on a health plan that averages about 95 employees.

"Their average spend went from close to $11,000 per employee per year back in 2009 before I got involved to about $7,000 and change this past year," Becker marvels. "Their spend per employee per year is going down 30% to 40% when everybody else's rates or spend is going up... They do a lot of things to enhance the employee experience at their company and it's paying dividends."

Indeed, premiums haven't risen in four years. "That's huge," Mallonee exclaims, noting that the average per employee per year cost is now down to about $7,000. "We've been really, really, really happy being self-insured," she says.

Betting on Self-Insurance

When NorthBay entered the captive market, the average age of its 65-employee group was about 28 or 29 and the workforce was healthy. But when the numbers didn't justify sticking with this arrangement, the company decided it could do better with stand-alone self-insurance and pocket any savings rather than hand it over to the captive.

"The thought was we could monitor ourselves better than we could monitor other groups [in the captive] that may have a lot more employees and then worry about them pushing health at their business," Gerhard explains.

He compares it to a six-sided die with ones on four of the sides, a two and three on the remaining sides. "If you roll a two, one year in six, you're going to finish at par," he explains. "And then maybe one year is bad and you've got some claims."

As was the case with St. John Properties, NorthBay also was told that its size was inadequate for the actuaries if it switched to self-insurance and that the company should expect to pay a higher premium that would be commensurate with the risk level of a smaller group.

Still, he was confident that costs could be controlled on the front end through health and wellness programs that offered employees a financial incentive to stay healthy, as well as changing their mindset to reflect the importance of maintaining good health. This approach includes paying for free annual checkups for the workforce, whose average age is now about 32.

"Once we went into self-insurance, there was no turning back," Gerhard notes. "We've been very happy."

In 2011, NorthBay's actual net medical expenses were $437,000 as it moved from a traditional fully insured arrangement to captive insurance. The following year represented a tipping point as a new blend of captive and self-insurance reduced that cost to $279,000. Since then, the tab has fluctuated slightly from $287,000 in 2013 to $270,000 in 2014 and $301,000 in 2015 with stand-alone self-insurance. The per employee per year cost has dipped from $8,928 in 2011 to $6,515 in 2015.

NorthBay's net savings over traditional insurance is estimated at $914,121 between 2012 and 2015 based on a conservative annual increase of 6.5% that reflected past rate hikes. The future also appears to be bright. "Even our worst-case scenario in 2016 of $507,358 would be $89,000 better than what traditional health care would have quoted us," Gerhard explains.

He's satisfied that annual increases are at least in the reasonable range of 3% to 5%. And while NorthBay's administrative services only arrangement with Cigna and its third-party administrator reflect price increases, he's nevertheless comfortable "dealing with a known player in the health market" that is welcomed by many doctors and hospitals.

Becker is bullish about the future of self-insurance, particularly as it trickles down market to smaller employers. "We're putting employees in a position to know who the best doctors are, where the fairly priced facilities are," he says. "If they choose to use that, we'll give them 100% coverage instead of 90% coverage. We'll also give them a $1,000 deductible credit." The result is lower readmission rates and claims costs, along with higher quality of care, he adds. ■

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