



The Future of Self-Funding – An Insider’s Take

Editor’s Note: This article represents “commentary” and represents views of the authors. We welcome other opinions on the subject.

by Adam V. Russo, Esq.

I am proud to say that I have been involved with the Self-Insurance Institute of America (“SIIA”) for more than half of my lifetime, and I hope to continue to be deeply immersed in it, and the industry it represents, for the rest of my career.

I have learned so much from its members and leaders, and from it I have gained hope for the future of our industry. I believe it will continue to evolve, even as we face obstacles from all fronts. Yet – even as I gain hope for the future of our industry, I also witness people who are not grasping the opportunities presented to them, and I worry.

We all go to the conferences, we all hear the speeches, we all read the articles, we all hop on a webinar or two and for the most part what we hear is informative yet reactionary.

Presenters, panelists, and experts dutifully tell us what to do when certain events occur or things happen to us and our clients. We are advised how to get out of sticky situations or how we can make a quick buck taking advantage of others’ despair.

We are told how to make the best of the situation we find ourselves in. To me, it gets old and rather frustrating. Why isn't anyone telling us to create a new situation, a new paradigm shift, a new environment? We see glimpses of it when we talk about things like reference based pricing, medical tourism, carve outs, and other out of the box methodologies, but I think it's time for a bigger leap.

What we aren't being told or hearing from our industry at large is how we can shape the future of health insurance and self-funding. Too many brokers, HR representatives, lawyers, administrators, and carriers are sitting back, fat and happy, working within the borders of the status quo.

Anyone or anything that tries to knock these walls down is immediately branded as a disruptor or a menace to our industry. We have so many entities in health insurance that are making so much money ensuring everything just stays the same, that we are all forgetting about the one entity that matters most in all of this...the clients – the actual employee benefit plans and their hard working employees whose money we are spending. Unfortunately, too often they are an afterthought, if they are thought of at all.

Many in our industry, at the end of the day, forget who the client is. We serve the employee members of the self-insured companies we represent. We have a moral, ethical, and professional duty to be prudent with

plan assets and to do right by the client; not just by taking advantage of scenarios and issues presented by the current environment, but by taking steps to change that environment.

The reality is that Obamacare and Trumpcare have not and will not fundamentally reduce the high cost of health care. No government program or act of Congress will move the needle when it comes to affordability of healthcare. Only the private sector – we – can drastically alter the future of our industry, promote its growth and lower the overall cost of care. How can we do this?

By actually showing a willingness to change how we do things – stop being lazy – and put in the hard work necessary to write new types of plan documents, carefully review bills, process claims on a plan by plan basis, collaborate with each other preemptively, implement controversial cost containment measures, stop shying away from responsibility and openly advertise our ideas, issues, and solutions.

No third party administrator (“TPA”), for instance, can compete with the large carriers by trying to beat them at their own game. This is why reference based pricing has received so much attention over the past few years.

But even proponents of this pricing methodology would tell you it's not perfect; but it is a step in the right direction – questioning the status quo, sacrificing what is easy, and challenging those who'd abuse the plan participants and their benefit plans for the sake of helping others. The reality is that over 99% of self-funded plans still rely on networks and their discounts,



and so do a vast majority of TPAs, despite the fact that they will never get a better rate than the large carriers, will never be able to cap payments below the network rate based on plan document imposed limits, and will continue to run afoul of stop-loss carriers seeking to apply their own caps on what is payable.

This is just the beginning. As we try to win a game against the entities that wrote the rules, eventually we'll either recognize the futility and create our own game, or we'll fail.

Focus on the actual overall claim spend rather than claim discounts. Focus on innovative and personalized plan language that matches the needs of the employee population, not some cookie cutter plan design that makes auto adjudication easier to do.

The bottom line is that whatever we do, do it with the realization that we are spending someone else's hard earned money. Every day workers are paying their colleagues claims with the cash out of their own pockets, so don't just accept a 10% discount; fight for that employee and their money by actually scrutinizing the charges. Act as if that truck driver's pay check is your pay check.

Not All Self-Funding Is the Same

It's not easy to change the status quo. It's certainly tough to do across all of your clients. That's why you should start small. It's time to step up to the plate and identify one plan that you can empower. As many of you have heard me say before, not all self-funded plans are the same.

TPAs need to do more to show brokers and employers that by working with them, the plan administrator can have control and create savings; they are actually at the college level of self-funding. Instead of purchasing prepackaged plans, employers and brokers want to modify plans to fit the needs of their employees and clients.

An employer with a large percentage of older employees may want to focus on chronic pain benefits, whereas an employer with a younger workforce might adapt the plan to cover family planning or incentivize these younger employees with wellness and preventative care measures as we have done internally.



When it comes to reducing healthcare cost and plan management, you may need some help.

- Is what you are doing effective?**
- What are you doing that's different?**
- Are your employees engaged and willing to help?**
- Are your employees "educated consumers"**
- Are your employees and management satisfied?**

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Yet, while a college degree is great to have, it's still not enough to get the top jobs - those need a PhD. The problem with most TPA "college level" plans is their reliance on the networks and the desire to compete on the discount level.

It has been proven that this will never work, so the best option is to reach that PhD level of self-funding where the emphasis is on overall claims costs, control, customization, employee incentive programs, and data analytics. This is everything that the national carriers aren't emphasizing and thus should be our focus.

We have an in-house recruiter here at The Phia Group who identifies and recruits the best and the brightest to work at our company. While we don't have a fancy office with ocean views in downtown Boston, we

have one thing that we know blows away anything the rest of the employers in our city have to offer - the best self-funded plan available in the marketplace. In case you are wondering, my second floor corner office has a beautiful view of the dumpster in our rear parking lot.

According to the 2016 Milliman Medical Index, the typical family of four costs \$25,826 annually in premium and out of pocket expenses and 57% of costs are borne by the employer. Self-funding the right way can reduce these figures significantly and we as an industry must focus on this.

At our company, a single employee pays \$127.62 for health insurance a month. This compares to the \$554 average in the state of Massachusetts, based on the 2017 UBA survey.

In my state, the average co-pay is \$25 for urgent care and generics, where we have no copay. My wife, four children and I pay \$357 a month for the greatest self-funded coverage available on the market where any other family in Massachusetts would be paying on average \$1320. How do we do this? We built a program where our employees care about the overall cost of care and their behavior is dictated by both quality of outcomes and overall claims costs.

It shouldn't be revolutionary, but it is in our industry, as we do everything to empower our plan. So I have a simple message for all of you, a challenge actually. Offer something to the market that no carrier could ever do because it goes against their business model. It is an

opportunity to have more success than ever imaginable but it takes work - lots of it.

If you put the work in, the positive results will come pretty rapidly. The actual claims cost per employee in our organization is \$5,858 per year, compared to the norms of around \$12,000 for a self-funded plan in our region.

This is front page sales material that every TPA should jump on instead of talking about the network discount that you cannot come close to matching. By the way, we utilize a blue cross network for claims but the reason our plan is successful has nothing to do with network discounts. What we have done successfully is turn our patients into health care consumers.

To get to this higher level, and make "oddties" the "status quo," we need fresh eyes and new blood in our industry. We need a new generation to look to self-funding as their industry of choice; fertile ground to try new methods for plan creation and administration.

This won't be easy and will take years to accomplish but the time is now to get these young professionals on board, engage with the leadership at SIIA, and see the new processes begin to take shape.

Getting Younger People Involved in Our Industry

Let's face it – our industry is getting older. The term self-insurance doesn't really attract anyone except for those of us who have experience, or truly recognize the opportunities it presents for innovation.

For those of us who can see how advanced and exciting this industry is that it truly is the "secret" weapon against the rising cost of healthcare; that it is the key to providing the best care for the lowest cost to this nation's workers – that is attractive.



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We need to sell this to the youth of this country. At my organization, we have begun to identify young talent that will hopefully energize our industry by selling them on the excitement and career opportunities – as well as capability to make the world a better place – that the self-funding industry has to offer.

The great news is there aren't many other industries that present to young professionals the opportunities that ours does. From a legal perspective, for young people walking out of law school with a degree, where else can they find the fast growing legal opportunities that we have? We have hired attorneys straight from law school and within two years they are able to publish articles, be involved in true litigation, and speak on a stage in front of hundreds.

This does not happen in the probate or criminal law world. The laws are so new, and so many issues are still not resolved or are

being actively challenged, small wonder that our industry is engaged in more pivotal cases than any other:

There are many new litigation issues ranging from balance billing to fiduciary responsibility. In fact, Obamacare is still a rather new law when you think about it. The number of legal inquiries we get from the industry just proves that there is so much still unknown in the self-funding universe and this should be viewed as a selling point to recruit the best legal minds and talent. As we battle physicians and facilities over unjust charges, we need legal acumen to change the industry for the better for our clients.

The same can be said for IT, data analytics, software opportunities, actuarial needs, accounting positions, and sales and client management needs. From a data analytics standpoint, there are many untapped areas

when it comes to actual claims data, scoring mechanisms to identify future claims risks, and overall plan design options.

It is vital that we as an industry create an educational track developed specifically for young professionals that must address both technical industry information, as well as career development content, including why the self-funding industry compares favorably to other professional fields, in particular the major healthcare carriers.

To promote the industry as a whole, we need to incorporate structured opportunities for young professionals to have quality face time with influential senior industry executives. This can be a huge start to a broad, multi-year initiative to promote self-funding as a great career path for the younger generation. We want and need these individuals for the sake of our

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future and to preserve and grow our interests both in our lines of business and the future protection of our livelihoods in Washington DC.

Self-Funding is Growing

We are in a booming business sector right now and the statistics prove that. The Employee Benefit Research Institute stated in July 2016 that the percentage of private establishments offering health plans (at least one of which is self-insured) has increased from 28.5% in 1996 to 39% in 2015 (a 36.8% increase).

Between 2013 and 2015, the percentages of companies offering health plans with at least one self-insured plan has increased for mid-sized companies from 25.3% to 30.1%(a 19% increase); and for small establishments from 13.3% to 14.2% (a 7% increase).

Similarly, the percentage of health-plan-covered workers enrolled in self-funded health plans has increased from 58.2% to 60% (a 3% increase) from 2013 to 2015. The largest increases in self-funded plan coverage among covered workers have occurred in establishments with 25-99 employees and with 100-999 employees.

Over this same period, the portion of large employers (those with 500 or more employees) offering health plans reporting they self-fund at least one plan has increased from 71.6% in 1996 to 80.4% in 2015.

Overall, 63% of employers are fully or partially self-insured, compared to only 44% in 1999.

As more employers turn to self-funded health plans for flexibility and cost control, health insurance companies are tweaking their business models to adjust to what we are doing. They do not want us to take away their business and if anything, they want to take our clients away.



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Attempting to beat them at their own game will not happen. They have the networks; they have the bargaining power with the physicians and the hospitals. As self-funding continues to be more popular among larger employers, the carriers will do what they need to do to keep these clients.

Every client I speak to states the same thing. They have never been so busy or have had so many prospects. The opportunity to create a permanent change in the insurance world is now. Let's embrace it.

Empower Your Plans

We all know the advantages to self-funding but we have to change the way we market, charge, operate and discuss the benefits of it. TPAs cannot compete with the large carriers on discounts, so instead let's put our marketing and sales efforts on actual claim costs per employee per year. The CFOs at every employer will pay attention to that number and start asking brokers questions. Those brokers will turn to us for answers.

Unlike the large carriers, we can and should share client data with them as it's their money. We should be analyzing trends and identifying areas of high risk exposure. We should then be modifying their plan documents to fit their unique needs.

This is what we can do and the competition cannot. We all know that employers with self-funded plans are paying the claims on behalf of their employees and family members. As a result, they retain ownership of all the data and have greater control over plan design, benefit coverage, premium contribution, and claim information.

We need to focus on the ability of employers to design a plan that specifically fits the culture and need of the organization. It allows the employers an opportunity to



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analyze claim utilization and be creative with benefit features that are targeted to improve the overall health and well-being of the group.

TPAs need to explain to the broker community that their hands are tied when it comes to curbing healthcare spend in their current carrier environments. The only way to have claims freedom and allow the employer to truly reduce their risk and overall claim spend is by maintaining control. That's the message – that's the flyer – that's the sales opportunity.

We all need to take a look in the mirror and decide what we truly care about when it comes to health care. If lowering the overall cost isn't your first answer, in my opinion, you are doomed to failure. Until self-funded plans, stop loss carriers, third party administrators, brokers and plan members are all aligned on lowering claims costs nothing will change.

By having skin in the game and rewarding patients with a share of the claims savings, your plans will see results. It's contagious around our office as people talk about the savings checks they have received. Even the small stuff can make a difference as not only do the dollars matter, the change in future behavior is equally or more important.

The overall advantages to employers with customized plan design approaches must be spelled out constantly. Whether we are talking about carve out programs, direct contracts, incentive plans, wellness options, cost savings opportunities, and steerage initiatives, multiple plan design mechanisms are the Achilles heel of the carrier world.

Let's make a pact to focus our marketing and sales efforts on actual claim spend versus the average discounts on charges we cannot control. Our ability to negotiate claims, identify fraud, overpayments and abusive billing practices, and use cutting edge technologies to identify savings opportunities are all huge advantages. We can prosper by being disrupters so let's get loud. ■

Adam V. Russo, Esq. is the Co-Founder and Chief Executive Officer of The Phia Group LLC; an experienced provider of health care cost containment techniques offering comprehensive claims recovery, plan document and consulting services designed to control health care costs and protect plan assets. The Phia Group's overall mission is to reduce the cost of plans through its recovery strategies, innovative technologies, legal expertise, and focused, flexible customer service.