FEATURE

A Turning Tide

LONG ACCUSTOMED TO SIMPLY HELPING EMPLOYERS CHOOSE AMONG HEALTH INSURANCE CARRIERS AND EARNING COMMISSIONS, BENEFIT BROKERS AND ADVISERS HAVE INCREASINGLY EMBRACED SELF-INSURED SOLUTIONS AND FLAT-RATE COMPENSATION

The Affordable Care Act has safely secured its place in history as both a lightning rod for discontent and beacon of hope, but the ACA also led the employee benefits brokerage and advisory community to a critical tipping point.

Scores of industry consultants have grown tired of seeing fully insured employer clients face soaring premium rate hikes at renewal that they have no control over, observes Doug Layman, president of health and life at Gilsbar, LLC.

He says there's also a realization that highly effective wellness programs, care management and engagement in disease management are game changers in a self-funded environment for reducing presenteeism, improving health and increasing productivity.

And it's trickling down market as never before. As a third-party administrator (TPA) whose average size group is 800 lives, this means Layman is now encountering "brokers and consultants that we've never had conversations with before."

WRITTEN BY BRUCE SHUTAN

Jonathan Socko, SVP for East Coast Underwriters, has seen a significant growth of knowledge and expertise in recent years from the brokerage community where self-insurance is concerned. He says industry producers have been able to leverage blocks of business with stop-loss carriers and managing general underwriters (MGUs) to negotiate better deals on behalf of employer clients. In the process, many have transitioned from the role of traditional sales-oriented broker to strategic adviser driven by marketplace innovation.

With more movement to self-insurance, One Digital Health has evolved from a traditional benefit broker with commoditized services to "a trusted adviser and business partner" with commission transparency, says George Papagelis, the brokerage's SVP of specialty health sales.

Mark Kunkle

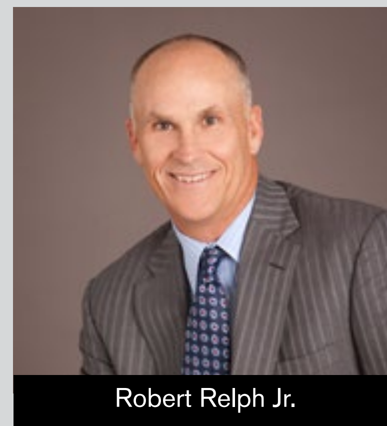
There's now more emphasis on leveraging client and market insights, as well as data analytics, alongside developing a long-term strategy for value-based plan designs, alternative network options, employee engagement and wellbeing, and other cost-containment programs. "We can clearly articulate the value we bring to the table to meet our clients' goals and the compensation that we make doing so," he explains.

BEGRUDGING ACCEPTANCE

But it wasn't always that way. Many brokers have begrudgingly accepted self-insurance to avoid losing clients instead of proactively using it as a tool to help manage their health care spend, opines Mark Kunkle, president of Power Kunkle Benefits Consulting. However, "most of us who are fully engaged in analyzing and reviewing self-funded are of the opinion that over time, you will outperform the fully-insured market," he says.

His firm has been tracking those differences since 2014. For Kunkle's self-funded level premium consortium block of business, for example, the average annual increase for employer groups with 50 to 99 lives is 10.86%, but if a client applies surplus dollars to offset this cost then the net renewal increase is just 3.9%. A 10% average annual increase for employer groups with 100-plus lives is a mere 1% net renewal if surplus dollars are applied. In comparison, fully insured employers experienced annual increases of 21.19% and 15.34%, respectively, for groups with 50 to 99 and 100-plus lives.

What's drawing more brokers to self-insurance is the demand for transparency and value, as well as a deeper understanding of cost drivers, which may involve unbundling various components of a health plan, according to Robert Relph Jr.,


Robert Relph Jr.

president of Relph Benefit Advisors, an Alera Group company. One key part of that equation involves prescription drug costs.

He sees growth in the stop-loss captive area where groups with 100 to 500 lives that previously might have been reticent about self-funding can purchase stop-loss coverage at a lower attachment point.

Kunkle placed a fair amount of self-funded business in the late 1990s and into the early 2000s when stop-loss coverage tightened and self-insured opportunities dried up a bit, forcing many clients back to fully-insured plans.

A lot of chatter about the merits of this approach resumed about 2010 with passage of the ACA whose medical loss ratio rules do not apply to self-funded plans and removal of the lifetime maximum spiked claims. Since the 2014 rollout, self-insurance has become increasingly palatable to small and midsize employers amid the creation of level-funded products and captives in the workers' comp space.

A key difference between those timetables is that "we're astute on how we can build in protections so that somebody doesn't get chased out of the stop-loss market again," Kunkle says,

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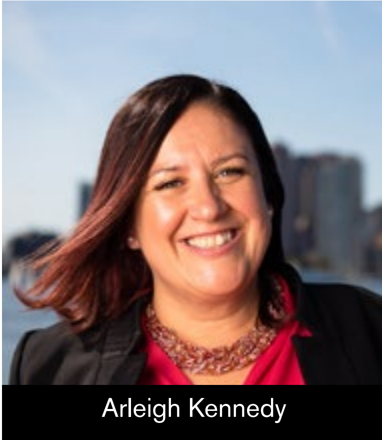
Arleigh Kennedy

warning that the pattern could resurface. "There are some things out there that you can do to protect yourself."

Brokers have long embraced fully insured arrangements with easy commissions "because it was the path of least resistance," notes Arleigh Kennedy, SVP for Evolution Risk Partners. Some continue clinging to this vision. When previously working for a Blues plan, she recalls how a broker requested a 35% commission for moving an employer client from a fully-insured to self-funded plan. "He wanted to get the same commissions," she quips.

Every time fully-insured plan premiums increase, broker commissions also balloon. This phenomenon essentially means their pay is commensurate with the pain points of those employer clients, observes the head of a TPA who asked not to be identified.

"Brokers who had the fully-insured business lost it to somebody else, and they realized that the market dynamics shifted and they would have to change their ways," he says, noting the rise of flat fees and payments on multiple platforms.

Health insurance carriers then tweaked their override programs with membership targets. All the major agencies have significant overrides known as "stay bonuses" to ensure that that business doesn't move, which the source describes as creating "a huge conflict of interest when you're supposed to be independently representing your customer."

But volume bonuses and overrides paid to brokers from fully-insured health plans have been eclipsed by flat fees and even performance-based compensation involving self-insurance, according to Socko. While the latter arrangement is obviously risky relative to the days of easy commissions, it's a bold commitment to wresting control over soaring employer-provided health benefit costs.

"Ultimately, it's promoting transparency, which is something that we're trying to do in the medical and insurance world to begin with, and I think a lot of that has trickled down," he says.

At least 90% or more of his new clients in the past 18 months are brokers and advisers who have become more educated about their client options and savvy at negotiating stop-loss terms. This has actually enhanced, rather than diminished, relationships with TPAs.

"I have discussions almost every week with advisers who want to know who our preferred TPAs and cost-containment vendors are," Socko reports. "There can be challenges to working with TPAs or vendors that we do not have an existing relationship with, so our input is sought after quite often."

In many instances, the result is a more collaborative approach wherein he has helped advisers convert employer groups out of fully-insured plans and explored common ground on the best possible pairings.

Jonathan Logan

"If you're in stop loss and want to work with more advisers, I think you need to have some of that upfront discussion about what's going to happen to any given case," he suggests. "There is definitely a greater comfort level if I know that they want to pair a piece of business with an administrator or a subset of cost-containment vendors that we already have a relationship with or have vetted."

VALUE IN FLAT FEES

A growing realization that large health insurance carriers struggle to control costs has eroded that comfort level, according to Kennedy. They're increasingly seeing greater value in charging a flat consultative fee and working harder to earn a client's trust. Large brokerage houses that were once reluctant to work with MGUs now believe they're more creative and in tune with claims management and Rx programs than some of the big direct-writer carriers, she observes.

Jonathan Logan, president of Logan & Associates, accepted a 66% pay cut moving a BUCA group to a self-insured deal with a TPA because it was the right thing to do for that client.

"The former broker who was getting that money no longer has it," he explains, "and so 33% of a fixed number vs. 66% of a number that no longer exists, I'll take it all day, every day."

As someone who has long been comfortable charging employer clients a flat-rate consulting fee or generating revenue on a per-employee-per-month basis, Kunkle values the importance of fee transparency and fair compensation. "When you're getting a 32% increase in your fully-insured premiums, does that warrant a 32% increase in your fees? Probably not," he says.

Doug Layman

Relph prefers to strip out all his compensation relative to stop-loss, Rx and other sources in favor of a direct fee based on the specific services and resources delivered to each client. This enables him to better "add straight value" to clients and is in more line with his approach to business. Interestingly enough, his firm was also moving in that direction for insured clients in his home base of New York, but the state's Department of Financial Services prohibited brokers from doing so. "Carriers had to pay according to their filed commission structure," he adds.

Indeed, regulatory restrictions at the state level obviously will shape an adviser's business. Stop-loss coverage cannot be written for groups of 100 or fewer lives in New York. As such, most of his self-funded clients have tended to be in the 1,000-plus lives range.

KEEP IT SIMPLE

One caveat for industry producers is that they avoid unnecessary layers of complexity aimed at complementing a self-funded plan, which can create confusion.

"There's so much of that stuff out there that it becomes difficult for the employer and their employees to understand it," Layman cautions.

Examples include specialty network carve-outs, cash-pay strategies, level-funded plans and reference-based pricing, all of which he supports in certain situations depending on the employer's needs. Layman says each of these solutions must be delivered and designed appropriately with three goals in mind: keep in simple, lower costs and improve health outcomes.

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Noting that self-funding isn't a silver bullet or necessarily the best solution for all small employers, Layman believes it's the right strategy in many cases. But ultimately he says "it's about each employer and their situation."

Kennedy's former sales colleagues at the Blues plan she worked at often would crow about improving the member experience, but never would cite specific examples in terms of better cost control than self-insurance. "The days of just sitting back and letting the BUCA carriers handle things have long gone," she says. "We're seeing a turn back to the TPA marketplace where people really want to control the cost of their health care."

Producers are gradually realizing the possibilities are virtually endless with self-insurance. Kunkle's firm, which offers self-insurance to clients with as few as five employees, has its own wellness division that conducts biometrics in conjunction with various program initiatives. He describes patient responsibility as missing from the health plan management equation, along with a need to better educate patients about their disease or condition so they can ask better questions and ultimately enjoy a higher quality of life.

Since many TPAs and insurance companies continue to use the broker and consultant sales channel, the anonymous TPA source from earlier suggests a need for "more accountability and direct relationships with HR and benefit directors at companies." His prediction is that more CFOs will need to be dialed into the mix to help rein in health insurance costs as a rising business expenses.

Given that as many as 60% of companies with 50 or more employees nationwide self-insure, Logan says it behooves fellow brokers and advisers to consider these solutions. "We're talking about something that is as common as breathing, and more and more employers are embracing it for just a whole lot of reasons," he notes.

Bruce Shutan is a Los Angeles freelance writer who has closely covered the employee benefits industry for more than 30 years. ■

SIIA PANEL TO WEIGH DEEPER BROKER ROLE

Growing broker and adviser activity in the self-insurance marketplace will be a hot topic of discussion during a SIIA conference panel March 18-20 in Charlotte. N.C.

The session, "Beyond Disruptors and Rock Stars – Let's Talk Execution," will examine how effective execution and coordination can make all the difference when transitioning employers into self-insurance or making substantive changes to a plan. This panel will share success stories and address areas where there's room for improvement on how brokers and advisers, TPAs and stop-loss carriers can team up to serve the best interests of plan sponsors.

Speakers include Mark Gaunya, co-owner and chief innovation officer of Borsilow Insurance; Kevin Trokey, founder of Q4intelligence; Jim Rinere, president of CWI Benefits, LLC; and Arlene Cayetano, managing member, president and CEO of Greymatter Risk Management, LLC.