Health Plan Risk Management
Get to the Root of the Problem

September 23, 2015
Agenda

• How to Manage Health Plan Risk
• Cost Implications of Doing Nothing
• Impact of Health Care Reform
• Solutions and Next Steps
What are the cost drivers of your medical plan?

- Medical or Rx Claims
  - Administration
  - Reinsurance
  - Taxes/Fees
  - Carrier Profit
How do you lower your health plan costs?

Medical or Rx Claims

- Administration
- Reinsurance
- Taxes/Fees
- Carrier Profit

Medical or Rx Claims

- Administration
- Reinsurance
- Taxes/Fees
- Carrier Profit
How is your health plan underwritten?

Community Rated
How is your health plan underwritten?

Experience
Rated
Fully Insured Plans

What is the “cost” of insurance?
Fully Insured Plans

Company A
- Unspent Dollars
- Health Plan Claims

Company B
- Health Plan Claims

Total Premium Paid
But the ACA regulates loss ratios…

If carrier spends less, rebate is given

Carrier must spend 80-85% on health care

Pay premium to carrier
Actual “Formula”

Traditional MLR = \[ \frac{\text{Health Care Claims}}{\text{Premiums}} \]

ACA MLR = \[ \frac{\text{Health Care Claims} + \text{Quality Improvement Expenses}}{\text{Premiums} - \text{Taxes, Licensing & Regulatory Fees}} \]
How can you manage your risk?
What is the “health” of your medical plan?
“You can’t manage what you don’t measure”
What is happening to the health of America?

Obesity Rates in adults and children 1994
What is happening to the health of America?

Adults doubled

Children tripled

2014
What is happening to the health of America?

1 in 3 Children born today will develop diabetes in their lifetime
What is happening to the health of America?

$3 of every $4 of health care dollars is spent by Americans with chronic diseases
Number of People with Chronic Conditions on the Rise

50% of the population will have a chronic condition by 2030

What is happening to the health of America?
What is the cost of doing nothing?
Health Insurance Premiums vs. Inflation

If other prices grew at the same rate of health care...

A gallon of milk would cost $48

A dozen eggs would cost $55

A dozen oranges would cost $134
Obamacare’s Annual Costs Exceed $100 Billion by 2015

IN BILLIONS OF CURRENT DOLLARS

2015: $114 billion

2022: $256 billion

Small-Employer Tax Credits

Insurance Subsidies

Medicaid and CHIP Expansion


Federal Spending by the Numbers 2012 heritage.org
Health Care Reform will cost $256 billion by 2022 - CBO

How will the government get the money to pay for the ACA?
Revenue Raisers = Taxes and FINE$ for Employers
# Table 1. Effects on the Deficit of the Insurance Coverage Provisions of the Affordable Care Act

(Billions of dollars, by fiscal year)

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**Memorandum:**

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- Changes in Revenues<sup>e</sup>: -1, 18, 24, 35, 37, 48, 54, 61, 68, 75, 83, 503

**Sources:** Congressional Budget Office; staff of the Joint Committee on Taxation.
Employer Mandate: $140 billion over 10 years (starting in 2015)
Cadillac Tax: $87 billion over 10 years (starting in 2018)
Total U.S. health expenditures (both public and private) are projected to soar to more than one-quarter of the economy by 2037.

Costs will continue to soar over next 20 years.


NOTE: CMS data used for years 1960 – 2020. The 2037 figure reflects the latest available projections from CBO.
What impact does this have on the employees?
There was a 13.4% increase in consumer out of pocket healthcare spending from 2011 – 2012.
More Out-of-Pocket Expenses

$300 billion

Today, consumers pay more than $300 billion out of pocket to healthcare providers to cover the cost of their annual care. This number is growing rapidly.

2006

TODAY

The proportion of employees with deductibles over $1000 has tripled since 2006, from 10% to 31%.
Employee Retention Concerns

- Other: 53% High or Top Concern, 12% Little or No Concern
- Professional/Technical Services: 65% High or Top Concern, 8% Little or No Concern
- Manufacturing: 53% High or Top Concern, 10% Little or No Concern
- Information/Media/Telecommunications: 70% High or Top Concern, 8% Little or No Concern
- Healthcare/Social Assistance: 63% High or Top Concern, 8% Little or No Concern
- Finance/Insurance: 52% High or Top Concern, 13% Little or No Concern

Source: Payscale, 2013
How can you manage your risk?
Three Ways to Manage Risk

- **Transfer**: Fully insured – pass the risk to the carrier
- **Accept**: Self insured – accept ownership of your claims
- **Eliminate**: Drop coverage and have employees get their own health plan
Two Ways to Buy a Health Plan

Fully Insured

100%
Non-Refundable
Premium

Vs.

Self Insured and Captives

Medical and Rx Claims

Stop Loss Insurance Premium
PPO/Network Rental Fee
Third Party Administration (TPA)
Care Management
Health Care Reform Changes to Fully Insured Plans

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Risk Adjustment

• Designed to prohibit risk selection
  • Encourages insurers to compete based on plan, not on group demographics/industry.
• Applies to individual and small group plans (currently up to 50 employees, moves up to 100 in 2016)
  • Negative impact on statistically healthier employers (white collar companies)
• 3 year phase-in for Massachusetts
ACA Taxes on Fully Insured Plans

Causes premiums to increase the average family premium by $400/year
Fully Insured

- Non-Refundable Premium

Vs.

Self Insured

- 4-6% Tax Impact

- Medical and Rx Claims
  - Stop Loss Premium
  - PPO Rental Fee
  - Third Party Administration (TPA)
  - Care Management
  - HPM Software

100% State Insurance Taxes

ACA Taxes/Fees

Not Applicable
Taxed Enough Already? Just wait until Obamacare kicks in

To pay for generous subsidies to purchase health insurance, a huge expansion of Medicaid, and other new spending, Obamacare raises taxes and adds 17 new taxes or penalties that will affect all Americans.

**Total Annual Costs of Obamacare Taxes, 2010-2019:**

- $501 BILLION

**Source:** Heritage Foundation calculations based on data from the Joint Committee on Taxation, March 2010 report.
But we can’t manage our health care claims!

We do with workplace injuries…
Costs of Chronic Conditions

![Costs of Chronic Conditions Graph](image)

- Yearly total cost per customer:
  - 0 chronic conditions: $3,024
  - 1 chronic condition: $6,084
  - 2+ chronic conditions: $11,940

- Yearly total out-of-pocket costs per customer:
  - 0 chronic conditions: $2,204
  - 1 chronic condition: $2,816
  - 2+ chronic conditions: $3,500

Number of chronic conditions
What happens if we invest in our employees and they leave? What happens if we don’t and they stay?
But won’t my insurance carrier help me manage my claims?
Remember the Loss Ratio Requirements?

Traditional MLR = \[
\frac{\text{Health Care Claims}}{\text{Premiums}}
\]

ACA MLR = \[
\frac{\text{Health Care Claims} + \text{Quality Improvement Expenses}}{\text{Premiums} - \text{Taxes, Licensing & Regulatory Fees}}
\]

Carrier Profits
How do the carriers grow their bottom line?
How do the carriers grow their bottom line?

Medical or Rx Claims

Administration
Reinsurance
Taxes/Fees
Carrier Profit

Higher claims =

Higher premiums
But the % is the same...

3% of $1m

3% of $3m
If I overpay, it isn’t that bad, right?
40% Non-deductible excise tax on “high-cost coverage”
Cadillac tax includes several components
Exhibit A:
Average Annual Health Insurance Premiums and Worker Contributions for Family Coverage, 2003-2013

Exhibit A:
Average Annual Health Insurance P
Family Coverage, 2003-2013

- Employer Contribution: $16,351
- Worker Contribution: $11,786
- Total: $4,565
Both employer and employee contributions

- Employer Contribution: $16,351
- Worker Contribution: $4,565

Exhibit A:
Average Annual Health Insurance Premiums
Family Coverage, 2003-2013

2013
Tax-advantaged health care accounts

FSAs   HSAs   HRAs
40% Non-deductible excise tax on “high cost” coverage

Includes all pre-tax contributions

$10,200

$27,500
Cadillac Tax Example

$400 monthly premium

+ $2,550 annual FSA/HRA/HSA contribution

In 2015
Health Care Costs

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12% Trend Increase
16% Trend Increases

Cadillac Tax Threshold
Health Care Costs

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Fail Cadillac Tax
Nearly Half of U.S. Employers Expected to Hit the Health Care “Cadillac” Tax in 2018 with 82% Triggering the Tax by 2023

Published: Sept 23, 2014 10:39 a.m. ET

Companies may not be aware of all factors determining tax

ARLINGTON, Va., Sep 23, 2014 (BUSINESS WIRE) -- Despite continuing efforts to rein in rising health care costs, roughly half of large U.S. employers will begin to hit the excise tax in 2018 and the percentage is expected to rise significantly in subsequent years, according to an analysis of large employer health care programs conducted by global professional services company Towers Watson (NYSE, NASDAQ: TW). Further, the size of the tax burden is expected to be substantial as the Congressional Budget Office (CBO) estimates the total liability for companies subject to the tax could be a cumulative $79 billion between 2018 and 20231. Implemented as part of the Patient Protection and Affordable Care Act (PPACA), the
### Table 1.

**Effects on the Deficit of the Insurance Coverage Provisions of the Affordable Care Act**

(Billions of dollars, by fiscal year)

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**Sources:** Congressional Budget Office; staff of the Joint Committee on Taxation.
Cadillac Tax: $87 billion over 10 years (starting in 2018)
Obamacare 'Cadillac Tax' Will Lead Employers to Cut FSAs: Analysis

by DAN MANGAN

If you like your flexible spending account ... you might not be able to keep your flexible spending account.

Obamacare's looming "Cadillac tax" on high-cost health plans threatens to hit one in four U.S. employers when it takes effect in 2018 — and will impact 42
Health care premiums up, employers look for Cadillac tax curbing measures

By Nick Otto
September 22, 2015

If an employer says they don’t have concerns about the Affordable Care Act’s looming excise tax set to go into effect in 2018, they’re probably fibbing. One in five employers with 200 or more employees say their health plans will exceed the threshold limits which begin in 2018, according to the latest report from the nonprofit Kaiser Family Foundation and the Health Research & Educational Trust.

Thirteen percent of employers offering health benefits say they have made changes to their plans to avoid reaching the threshold.

RELATED

- ACA helped pull uninsured rate down to 10.4% in 2014
- How Healthcare.gov botched $600M worth of contracts
- PBE Index activity picks up

PARTNER INSIGHTS
What are your options?
What is your full-time employee headcount?

Small  
(Under 25)

Medium  
(Between 25-100)

Large  
(100+)
Small employers under 25

- Limited options, plans are community rated and your experience doesn’t apply.
  - Likely no self insured option for you.
- Legally you don’t have to offer health insurance if plan becomes too cost-prohibitive.
Medium employers 25-100

- Self insurance and captive programs available to evaluate.
- Group must be healthy to save $.
- ACA law will affect this group immensely in 2016/2017.
  - Rating factors
  - Merged market (community rating)

Employers 50-100 may need to renew in 2015 to keep out of small group for 1 year – talk to carrier now regardless of renewal date!
Large employers 100+

• Highly recommended to evaluate self insurance option.
  – Typically is less costly, but based on your population. The healthier the group, the lower the costs.

• Important to begin addressing due to ACA taxes and upcoming Cadillac tax liability.
How Do You Evaluate the Options?

Step 1: Review the current health of the plan before end of year.

Step 2: Compare pricing and benefits to current or renewal plan.

Step 3: Review long term goals of health plan and employee benefits program to determine if a change makes sense.
Timing

- ACA changes in 2016 for employers with 50-100 employees occurring this fall.
  - Must review alternative options before November due to early renewal option.
- All other groups evaluate ~120 days prior to renewal.
- Cleary risk management team to provide complimentary underwriting review.
  - Important to determine if self insurance/captives are a viable option.
Reminder: IRS Reporting Is Due Soon
6055 & 6056 Reporting Requirements

- Any employer with 50+ full-time equivalent (ALEs) employees must file in early 2016 on 2015 data.
  - Significant penalties apply for failure to report.
- Must sign up with payroll/third party ASAP to get assistance.
  - Additional cost to employer.
- Forms due to employees by 1/31.
- Filing due to IRS by Feb/March.
Get to the Root of the Problem
Tiffany Finnegan
tfinnegan@clearyinsurance.com
617.320.2780

Justin Yurchenko, CIC, AAI
jyurchenko@clearyinsurance.com
617.305.0349

Certified Healthcare Reform Specialist
Healthcare Reform Center & Policy Institute