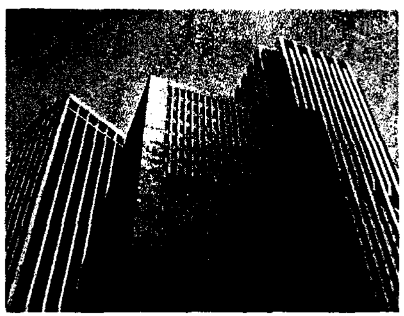
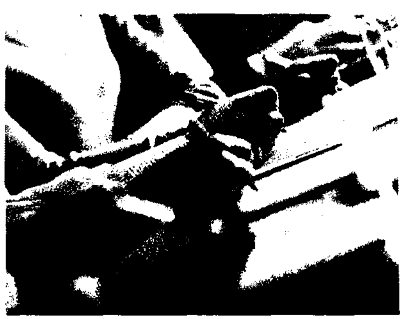
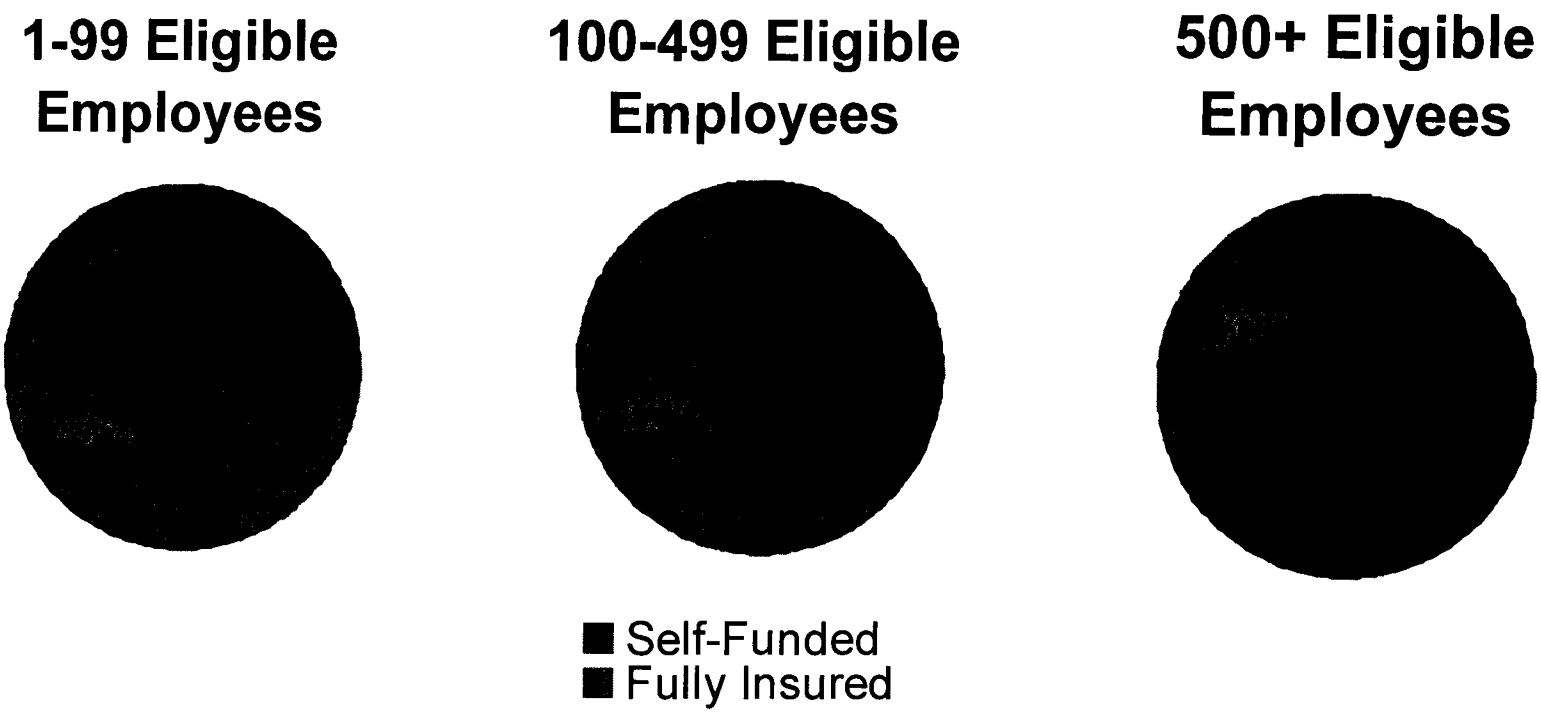




Southern Ohio Public Schools Health Insurance Purchasing Consortium

Brower

Bigger Groups Self-Insure Health Plans



Source: SHRM Health Care Benchmarking Study, 2010

SELF-FUNDED

- Employer assumes all or a portion of the risk for health benefits
- Administrative options available to employers choosing self-funding:
  - Administrative Services Only (ASO)
  - Fixed Costs
  - Variable/Claims Costs

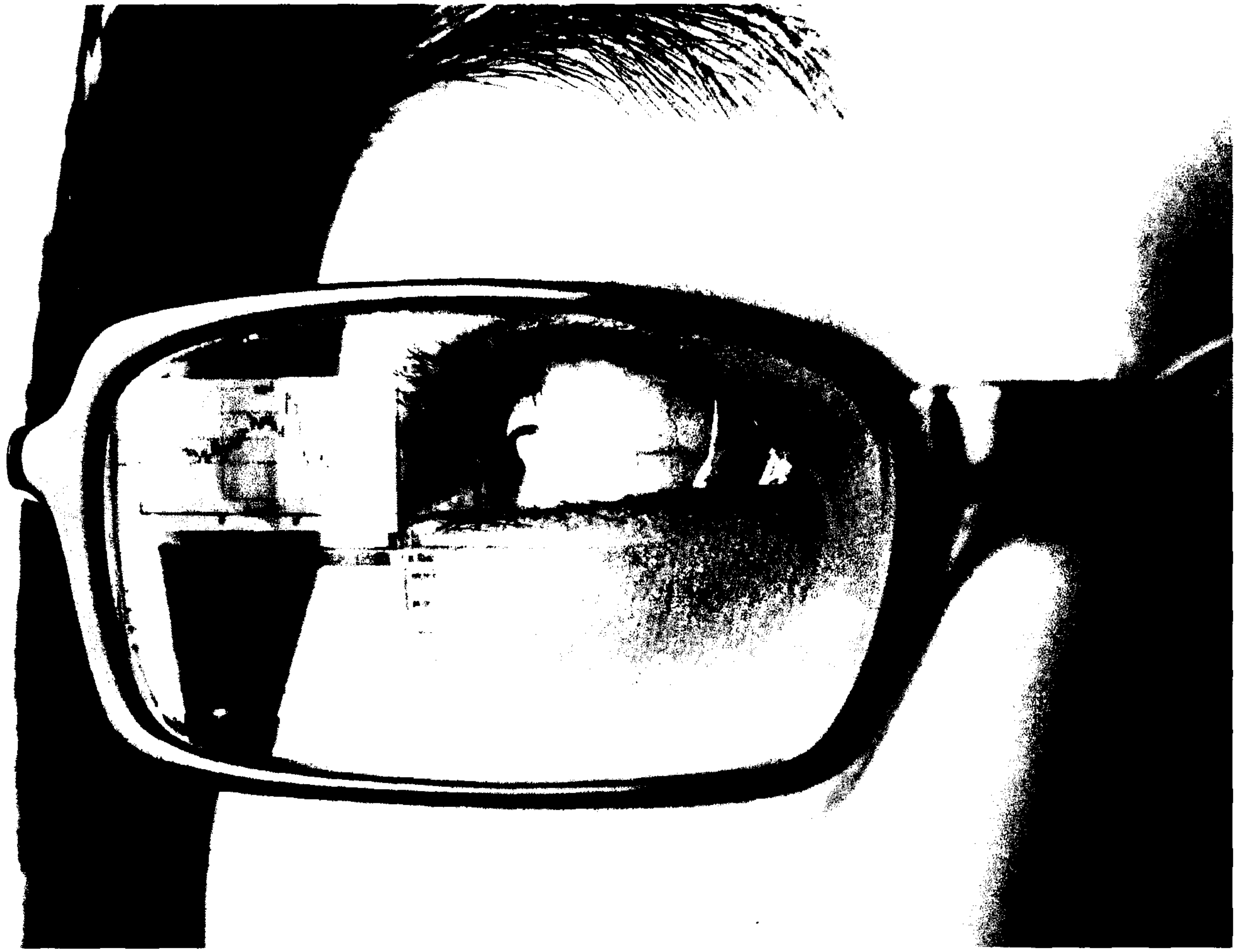
SELF-FUNDED TERMS

Administrative Fee:

- Fee charged for claims adjudication, billing, eligibility, customer service, plan document maintenance, access fees, Managed Care Fees

Expected Claim:

- Total claims underwriter expects you to have in one policy year, actuarially determined from your past claims experience



STOP LOSS INSURANCE

PROTECTION AGAINST UNEXPECTED CLAIMS

Specific/Individual Stop Loss:

- A shock loss may be defined as an abnormally large and unexpected claim.
  - Could be the result of severe accident or serious illness
- Insurance companies are prepared for such occurrences – build margin into premium to help offset the financial impact shock losses can cause

PROTECTION AGAINST UNEXPECTED CLAIMS

- What can the self-funding employer do to protect assets against such losses?
  - Stop Loss Insurance is designed to offer effective protection against excessive claims by limiting the amount of risk on any individual insured.
  - 100% of covered losses you pay for any individual in excess of the individual policy year deductible will be reimbursed for the remainder of the policy year.

PROTECTION AGAINST UNEXPECTED CLAIMS

Aggregate Stop Loss: The Ultimate Protection!

- The expected claims of any given group can usually be predicted with a fair amount of accuracy and thus become budgetable.
  - But, when these expected claims are incurred by a surprisingly high number of insureds, an unforeseeable fluctuation occurs.
- The impact of any unpredictable fluctuation could jeopardize the financial stability of a company.
  - Aggregate Stop Loss Insurance is a precautionary measure designed to protect you from the unknown, guarding your assets and preserving cash flow.

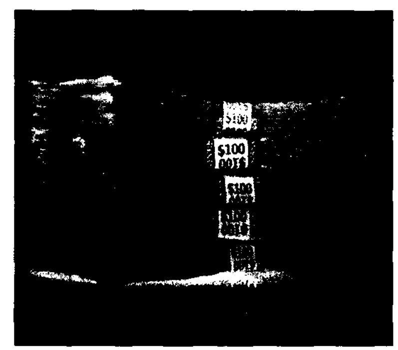
INDIVIDUAL & AGGREGATE STOP LOSS

Example of how a $127,000 claim would be handled:

Employer pays the deductible amount:
$25,000

If the individual **Stop Loss Deductible** is $25,000…

…the Insurance Company pays the excess over the deductible amount:
$102,000



The amount funded but not reimbursed ($25,000 in this example) will apply toward the **Annual Aggregate Deductible.**

SELF-FUNDED ADVANTAGES & DISADVANTAGES

SELF-FUNDING: ADVANTAGES

- Flexibility in Plan Design
  - Self-funded plan not bound by state mandates
- Risk Management effectiveness through Stop Loss Insurance
  - Employer may choose the amount of risk to retain and the amount to be covered under stop loss protection. Under an insured arrangement, insurance company sets the pooling level.
  - Protection from monthly swings can be controlled through a Monthly Aggregate.

SELF-FUNDING: ADVANTAGES

- Tax Savings
  - No premium tax for the self-funded claim fund; thus, an immediate savings equal to the amount of premium tax is realized. (Average state tax is 2%)
    - Assuming annual premium of $16,100,000 x 1.4% = **$225,400** in potential savings to you!
- Retention
  - Administration of the plan less expensive under a self-funded arrangement without sacrificing a reduction in services
    - Also the option of choosing services à la carte

SELF-FUNDING: ADVANTAGES

- Additional Cash Flow
  - Employer holds onto reserves
  - Assuming annual premium of $16,100,000:
    - Projected reserves = $1,609,999
    - Self-funding implies that employer must fund for incurred but unreported reserves. Assuming "reserve" is maintained in an interest-bearing account, employer can regard it as a source of income. Therefore, additional income is generated.
- Margin
  - Insurance companies typically charge 3-10% for margin (for fluctuations in claims)
    - Under self-funded arrangement, this component is eliminated
    - Projected Margin = $483,000

SELF-FUNDING: DISADVANTAGES

- Risk Assumption
  - Employer assumes risk between the normally anticipated claim level and Stop Loss Coverage level
- Fiduciary Responsibility
  - Employer is responsible

Thanks for your attention!

QUESTIONS?