SIIA'S SELF-INSURED EMPLOYER NARRATIVE CAMPAIGN: AIRCRAFT GEAR CORPORATION

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As part of its advocacy and engagement activities series, the Self-Insurance Institute of America, Inc. (SIIA), is launching a targeted Self-insured Employer Narrative Campaign designed to identify self-insured employers and their employees. These narratives will be used to illustrate the value of the self-insurance industry to state policymakers, Members of Congress and others.

Once SIIA members identify self-insured employers willing to share their stories, SIIA will help draft professional narratives, interview the employers, and use the narratives to reach out to policymakers and influencers on the local, state and national level.

These narratives can include innovative and effective benefit designs, employer health stories and how employers and employees both benefit from a self-insured health plan.

While advancing self-insurance generally, these employer stories can also impact policy consideration. More than ever, voices from the self-insured industry are needed as we collectively advocate and engage with policymakers on the state and federal levels to show the value of the self-insurance industry and its ongoing success.

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Provided below is an example of an employer narrative story from SIIA member Aircraft Gear Corporation to demonstrate just one example of the impact that self-insured employers can have on policy and industry discussions.

AIRCRAFT GEAR CORPORATION

Loves Park, Ill.-based Aircraft Gear Corp.'s foray into self-funding started out as a cost-saving initiative that has morphed into a holistic healthcare strategy that is enabling this small Midwestern employer to offer high-quality medical care to its 125 employees and their dependents with very little cost-sharing.

It all began about 30 years ago when Aircraft Gear Corp. downsized from 600 employees to about 250. The company manufactures aircraft parts, and at the time, a significant portion of its business was derived from defense contracts. As the defense contractors consolidated, AGC retreated from that industry and refocused on private contracts.

While AGC was self-insured when it had 600 employees, it didn't seem feasible for it to continue to self-insure with just 250 employees because having one or two large claims could be financially disastrous for the newly downsized company.

"So we stayed fully insured, but in the first year, our Chicago division had a 30% rate increase at renewal. That was big for us," recounted Jim Knutson, Risk and Benefits Manager. "I asked our broker and carrier why such a big increase, and they said it was because we had bad experience."

"But the next year, we happened to have a good year, so I was looking forward to my renewal but instead got a 35% increase," Knutson said. "When I asked why, they said we were too small to be statistically credible" so the company was being charged based on the overall experience of insurer's book of business, which was worse than AGC's.

"They essentially were saying that our experience was good enough to count in the bad year, but in the good year, I had to pay for somebody else's bad year," Knutson said.

While that may be the nature of insurance—to spread the risk—Knutson decided to explore self-insurance so that AGC could get more control over its benefit costs.

AGC hired a third-party administrator (TPA) to help develop plan documents and process claims. The company also bought Medical Stop-loss Insurance, a type of excess insurance policy that pays claims that exceed a predetermined amount.

In AGC's case, its medical stop-loss policy paid claims for individuals that exceeded $40,000. If the total sum of the company's claims for all its plan members exceeded 120% of the amount actuaries projected the company would likely pay in a given year, the medical stop-loss coverage also would pay claims above that predetermined threshold.

Being self-insured also enabled AGC to address other healthcare-related issues affecting employees such as access. Because of the ongoing consolidation of healthcare delivery systems throughout the United States, it's become harder for AGC to obtain discounts from providers since it doesn't provide the volume of business these larger systems need.

As a result, AGC contracted directly with a handful of independently operating primary care physicians—the ones that weren't bought by healthcare systems.

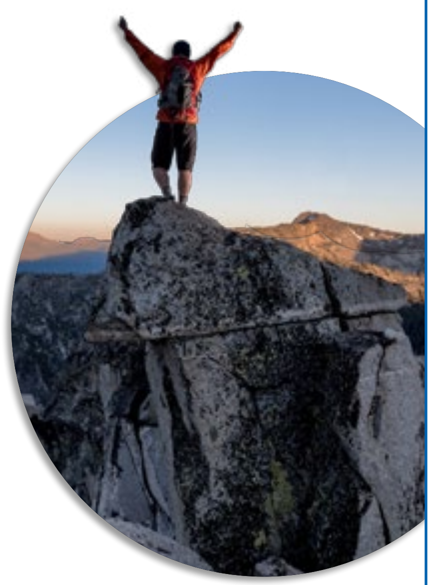
AGC also changed how it compensated providers to address underuse and overuse of care. Working with a neurosurgeon who shared a similar philosophy toward healthcare, Knutson focused on the primary care piece first. The underuse problem had shown up when plan members had difficulty getting appointments for primary care needs.

Next, attention turned to specialists and hospital contracts. Knutson and his colleagues consulted publicly available provider quality data to create physician and hospital profiles. After identifying the high-quality providers in its market, and using additional data derived from a RAND Corp. benchmarking study, AGC negotiated its own discounted fee schedule for paying providers under direct contracts.

The company also was able to improve benefits by self-insuring. Currently, employees have no deductible and only pay 30% of the cost of care up to a maximum $500 out of pocket per plan member. Employees also are not required to make a premium contribution for their own or their dependents' coverage. By contrast, when the company was fully insured, it was forced to increase plan deductibles and annual out of pocket caps to offset yearly premium hikes.

Even though AGC is still shrinking—it's now down to 125 employees—it is still self-insured and is continuing to fine-tune its benefit plan.

Six years ago, AGC began working with another SIIA member, East Coast Underwriters, a Greenville, S.C.-based



managing general underwriter (MGU) to form its own cell captive with six other Illinois-based companies ranging in size from 75 to 200 employees, none of which is large enough to form their own single-parent captive.

As a result of spreading its healthcare risks with other captive members, "a lot of the cost spikes have been removed. There's still variation from year to year, but we're not seeing those 35% bumps," Knutson said.

The captive also helps on large claims that overlap the renewal of stop-loss contracts, which are usually for a one-year period, Knutson said. If there is a large claim still developing at renewal time, the stop-loss carrier will try to limit its exposure by capping the amount it will pay on that claim, or even removing the individual who filed that claim from the stop-loss coverage altogether, a practice known as "lasering."

AGC's story is just one example of the benefits of self-insurance for midsize employers. Such anecdotes are an effective way to influence policy on the local, state and federal levels.

Every day, self-insured employers are making decisions and designing benefit plans that help American workers and their families. Similarly, ongoing policy and regulatory actions have real-life impacts on the ability of employers to operate these self-insured health plans.

SIIA members interested in contributing to the Employer Narrative Campaign by contributing a successful self-insurance story should contact Dakota Jackson at djackson@siia.org. ■

Ryan Work currently serves as the vice president of government relations for the Self-Insurance Institute of America, Inc. (SIIA) where he heads up the association's federal advocacy and political activities related to captive insurance and other alternative insurance issues. In this role, Ryan is responsible for developing and managing strategic outreach and policy development before Congress, the Administration and various federal regulatory agencies.

Prior to joining SIIA, Ryan directed government affairs activities for S&P Global (previously McGraw Hill Financial), where he represented brands including Standard & Poor's, Platts and J.D. Power.

Ryan has served in a number of senior staff positions within the U.S. House of Representatives, most recently as Legislative Director for Rep. Cathy McMorris-Rodgers (WA). He previously served as Chief of Staff to Rep. Katherine Harris (FL) and in various staff roles with the Committee on Ways and Means and the Office of the Speaker of the House.

Joanne Wojcik is an accomplished journalist and communications professional with more than 30 years of experience covering the commercial insurance industry. Over the course of her career, she has researched, reported and authored thousands of news articles, commentaries and White Papers on topical issues affecting the commercial insurance, risk management, workers compensation and employee benefits industries.

She currently is a freelance writer and conference programmer, generating content for all types of media platforms and SIIA's National annual conference. Previously, Joanne served as the Director of Conference Programming for Business Insurance magazine, producing educational conferences and webinars targeting risk management professionals and its annual Women to Watch Awards and Leadership Conference.