

BIG INSURERS
Eyeing
Self-Funded
Solutions

by Bruce Shutan

Virtues, Caveats Seen Across Ever-changing Market Landscape

Pevco has manufactured, sold and installed pneumatic-tube systems for 35 years – a growing family owned operation that has always offered health insurance and about 99% of customers, in fact, are in the health care industry. But the company is barely a year into a self-insured solution provided by one of the nation's largest health insurance carriers.

A close review of Pevco's health care data over the past two years revealed "phenomenal" renewals relative to the national average, but also an opportunity to save money, according to Debbie Johansen, the company's director of HR. The switch took effect for the current plan year, which begins May 1, and has been seamless to the company's covered lives, which are split nearly even at 54 and 55, respectively.

After being fully insured with Cigna for nearly four years, Pevco decided to pursue self-insurance with the carrier's assistance – appreciating its track record of claims being paid on time and a comprehensive provider network. It also was encouraged by the small firm's broker a few years ago.

What's a big insurer doing helping such a small employer with a self-funded product? And is it in the best interest of the customer to embark on this path instead of the traditional route? The answer, of course, depends on who's doing the talking.

Most large carriers have taken a dim view of self-insurance and wouldn't sell funds under 100 employee lives, says Kevin Schlotman, a VP with Benovation, which is both a broker and TPA.

He believes any intention to now court smaller employers is an attempt to protect their market share. "They, along with many others, saw the

impact of the Affordable Care Act (ACA) coming and believed, rightfully so, that there would be some interest in self-funding for smaller groups, not as an escape, but as a better financial alternative to what people might find in some of those smaller marketplaces across the country," he explains.

His concern is whether these carriers are capable of the hand-holding challenges inherently associated with self-funding for smaller groups, or able to provide adequate administrative support through their own TPA model that mirror the ASO marketplace for large groups. But Schlotman cautions that even those arrangements can involve a significant delay in claims and that it's also a struggle to round out information for groups of fewer than 100 employee lives in the face of HIPAA.

A huge caveat to consider is that insurance carriers "don't necessarily have a stake in the game of keeping costs low," opines Arthur Hall, CEO of Emerson Reid & Co., a large brokerage firm, who believes "they would be thrilled to see the health care costs go up 10% for them and 12% for everybody else." By the same token, he says any tax burden on fully insured plans under the ACA will simply be passed through to payers.

Few would argue that their strategy is based on a pragmatic view of how the private health insurance market could evolve under health care reform. "The ACA seems to be serving up a new kick in the actuarial gut for insurers almost every week, and the millions of new customers they envisioned getting via exchanges may not actually be coming, or at least not in a favorable actuarial mix," notes a veteran industry observer who spoke on background purposes.

Fierce competition, no doubt, is driving large carrier involvement in the area of providing self-insured solutions. "The reason why Blue Cross, United, and Cigna are in this game is because Assurant, Trustmark, and every Tom, Dick, and Harry TPA in the market are going to be in this game," Hall bluntly explains. "It's 20% or 30% of the market, and it's a big delta for those 20% to 30%." He says carriers are motivated to muscle in on the self-insured market because higher taxes and more regulation make it increasingly attractive to a subset of employers.

One speaker at SIIA's 33rd annual National Education Conference & Expo in Chicago who declined to be interviewed for this article was particularly cynical about decisions by Cigna, UnitedHealthcare and other large carriers to aggressively sell self-insured plans down market to as few as 10 lives. She dismissed those strategies as nothing more than a ploy to reveal to state regulators the potential pitfalls of self-funding.

The speaker went on to say brokers are motivated to stick with commoditized, fully-insured arrangements because of their generous commissions. With groups under 200 lives, she said brokers who were only accustomed to serving fully insured groups have too steep of a learning curve on self-funding, which essentially amounts to uncharted territory.

"There's a huge market for groups that are looking for alternatives," she said, offering a bullish forecast of the potential to convert fully insured employers into self-insured plan sponsors.

Brand-name recognition

In some instances, Schlotman admits it may be more palatable for an employer to self-insure through a large health insurer if brand recognition and



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the breadth of network provider access are important enough points to employees and their dependents. This is particularly true if employees are scattered across multiple locations. "Some employers may say, 'I value what I perceive to be the strength and stability of a major national insurer,'" he says. "Ultimately, our goal is to put clients in the best position to win, period."

Most of the arrangements Schlotman has seen involve a level-funded product that funds to the maximum claim amount and refunds anything that's leftover at the end of the year. The key difference between these contracts and the independent TPA model is that "most of the carriers are holding back a part of that refund for themselves," he adds.

One advantage a large insurance carrier like Cigna has relative to traditional TPAs is an "ability to bring all the parts of the self-insured product to an employer" in one fee rather than involve multiple service providers, according to Lauren Stoddard, a manager in Cigna's Select product segment.

"We have an integrated system that allows us to trigger funds from the stop-loss policy and provide immediate reimbursement on those high-dollar claims, which you don't always get with a third-party administrator arrangement," she says.

Stoddard says it's also important to be clear on the consistency between various contracts. One pitfall, for example, would be to find that there is some benefit maximum on a certain type of transplant under the stop-loss policy that isn't under the medical policy that the employer wasn't aware of when the self-funding arrangement began.

Cigna has been offering self-funded plans to all types of employers for

about 20 years alongside fully insured options in order to broaden the choices available to customers for managing their health benefits. There's about a 50-50 split between self-funded and fully insured arrangements, Stoddard reports, with smaller group market growth seen.

The carrier's key messaging around self-insurance emphasizes not only greater employer control and flexibility over their health plans, but also more transparent claims data that allows for better decisions about plan designs and wellness programs. Stoddard acknowledges that self-funding may not be the right fit for smaller firms that aren't equipped to handle financial risks or cash-flow requirements.


But for others like Pevco, it's a tremendous opportunity. "We are very in tune with our employees about wellness and really understanding how the system is becoming more

consumer-driven," explains Johansen. The firm's health benefits strategy includes making employees and their families aware of a 24-hour nurse hotline, as well as imploring them not to use the ER as their primary doctor.

Decentralized operations also influenced the decision to go with self-insurance. "We have employees in various states," she says, "so it's very difficult when you're looking at different insurance companies and what's available because you've got to be able to encompass everybody. You can't just go with a regional company. It just worked out to be the best choice for us."

Scrutinizing the bundled model

Schlotman isn't sold on the advantages of a one-stop shop. "Traditionally, when you work with an independent TPA, everything is



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out there in the open for you to see," he notes. "When you bundle everything together, that's when things get a little bit murkier."

Hall also has his doubts about economies of scale bearing out, which he believes "will get eaten up by profit and/or bundling charges of the big carriers." Put another way, brand recognition allows for higher fees to be built into stop-loss or admin services. So while these carriers could offer a better branded product or significant network cost differentials, he doesn't think the service will be more competitive than traditional TPAs, which can always rent their networks to clients.

Insurers may be intrigued with self-insurance as another means of mining revenue, but it's unlikely that they will abandon their bread-and-butter businesses. "A bundled, fully insured solution is always going to have more top-line revenue," Hall says, "and these carriers are in the risk business, so they shouldn't be adverse to that, and I don't think they are. No carrier is adverse to risk. They want a price war to manage risk. So I don't foresee them ever wanting to get out of the fully insured business." ■

Bruce Shutan is a Los Angeles freelance writer who has closely covered the employee benefits industry for 26 years.



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