12/14/05

PRIMER ON GROUP HEALTH CONTRACTS: DIFFERENT TYPES OF INSURING

A. Fully Insured means a contract covering claims Incurred, in a period for which premium has been paid to the Insurer, and Paid for the period (12/24+) contract. The Insurer must receive the claim within one year of when it was incurred in order for the claim to be covered and paid.
   1. Because of Claim Lag, the first year is really 9 months of Incurred claims paid in 24.
   2. **No Risk** for claims. You pay premium only.
   3. No reserving needed for termination tail (Incurred but Not Reported (IBNR) Claims) with a Fully Insured contract.
   4. You pay claim dollars in advance.
   5. Pooled in an insurance company. Good for bad risks – with bad cash flow.
   6. Good if Ignorance is Bliss.
   7. Your risk is only the premium for 12 months.
   8. However;
      a. Reserving is constant, needed or not.
      b. No reward for good claim experience- they keep your money.
      c. No "real" monetary incentive guaranteed for you to control your claim cost or you just don't want to be bothered.

B. High Deductible (Specific) partial Self Insuring (with Aggregate Stop Loss) is coverage for any contract period determined by prior coverage and the client's wishes. This is only done with sufficient prior claims data, good cash flow and the desire to control cost (when claims are low) or when the fully insured market delivers (with your bad experience) unreasonably high renewal rates, then you may as well get involved with Self Insuring and take a little risk.
   1. First year contract varies based on the contract your leaving and what you want as 12 month costs.
   2. Second year contract is chosen by the insured.
   3. Unless you want all of your costs to equal an insured rate **there is risk**.
   4. You must reserve for IBNR, or insure it, to limit size of your risk.
   5. You pay claims only if they occur.
   6. You are pooled only for claims over your Specific Deductible and in excess of your Aggregate. You are buying less insurance.
   7. Self-Insuring is necessary if you want to know what's going on and you want to control claims.
   8. a. Reserving is flexible and IBNR can be insured.
      b. You keep your premium dollars if claims are low.
      c. You have $1,000,000 reasons to control costs and manage risk.
   9. Risk is 125% of Expected Claims. 100% Expected and 25% Risk = Maximum Claims Cost (a.k.a. Aggregate Stop Loss). With good experience you pull money out through the management of your health plan.
   10. In a bad year you're insured and in a good year you're ahead-either way you're faced with like rate changes.

C. Contract Scenarios for Self Insuring

1. Coming out of a Fully Insured plan, you insure your new IBNR for less risk.

   i.e. Insured plan transition to

   12/15 or paid 12/12 (less premium)

   12/18

   12/24

   Or

   at anytime simply paid in 12

2. Moving from a Self Insured Plan to another Self Insured Plan you define your risk coming in, and either pay extra premium to buy coverage for the IBNR tail or not.

   i.e. Self Funded Plan Splits- you leave

   24/12 or simply paid in 12

   18/12

   15/12

   paid in 12

   Or option to pay tail out of your 15/12

   Changing Self Funding contracts (even with an insured tail) you could still pay extra dollars out of contract on really late claims. The contracts must be managed to use gains in good years, as you may want to purposely pay claims out of contract during a transition.

   i.e. If 2005 is a low claim year, we consider a 12/18 and pay the IBNR out of 2005 in 2006 outside of the contract (still deductible as health expense).

3. Moving from Self Insured to Fully Insured you can buy an IBNR tail option ahead of time and pay those claims in addition to your new Fully Insured Contract Premium.

D. Retro not covered here.

E. Certain TPA's and Carriers only offer certain contracts.

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(ASO-Self Fund Review)

Group Health	Expense		Revenue
(No payroll deduction reductions)			
	Paid Claims		Monthly Rates and Annual Premium
2001 – 12/01	$556,912 Med	(79% agg.)	S $267.09
+ 99,248	$86,117 Rx		LF $501.25
Ahead	$189,379 F.E.		F $690.92
($30,000 Spec 24/12)	Cost $832,408/A		Premium $931,656/A
2002 – 12/02	$727,123 Med	(124% agg.)	S $306.68
- 29,428	$82,479 Rx		LF $628.45
Lost	$267,276 F.E.		F $777.86
	Cost $1,076,881/A		Premium $1,106,309/A
2003 – 12/03	$660,507 Med	(74% agg.)	S $326.63
+ 122,545	$113,905 Rx		LF $631.20
Ahead	$291,816 F.E.		F $894.24
	Cost $1,066,228/A		Premium $1,188,773/A
2004 – 12/04	10m annualized $91,668 Med	(79% agg.)	S $355.12
+ 92,421	$144,400 Rx		LF $688.49
Ahead	$372,379 F.E.		F $976.41
	Cost $1,308,477/A		Premium $1,400,868/A
2005 *estimate*	Med		S $388.71
($50,000 Spec 15/12)	Rx		LF $759.45
	$231,992 F.E.		F $1,076.33
	Cost		Premium ? /A

*F.E. – Fixed Expense