

Loxahatchee River District

Water Reclamation | Environmental Education | River Restoration


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D. Albrey Arrington, Ph.D., Executive Director



MEMORANDUM

TO: GOVERNING BOARD
FROM: D. ALBREY ARRINGTON, Ph.D. 
DATE: FEBRUARY 10, 2016
SUBJECT: HEALTH INSURANCE OPTIONS

This month, Dustin Kuehn from the Gehring Group will be at our Board Meeting to discuss Alternative Funding Arrangements for Health Insurance. Using the attached presentation, Mr. Kuehn will discuss three general categories of health insurance: fully-insured plans (what we have now), self-funded plans, and hybrid options. Mr. Kuehn will discuss pros and cons of each approach, present a few case studies of each, and answer any questions you may have.

We are not seeking any Board action this month. This is simply an information gathering opportunity, so that the Board may more fully understand our options as we consider a strategy for 2017. Of course, depending on the Board's interest, Mr. Kuehn will be prepared to discuss prudent next steps.

Please let me know if you have any questions, and I will answer them if I am able. Otherwise, you may contact Dustin Kuehn at 561-626-6797.

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Dr. Matt H. Rostock
Board Member

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Board Member

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Board Member

James D. Snyder
Board Member

Alternative Funding Arrangements

February 18th, 2016



Discussion Items

- The Funding Spectrum
- Fully Insured Plans
- Hybrid Funding Products
- Self Funding Arrangements
- Case Studies
- Next Steps

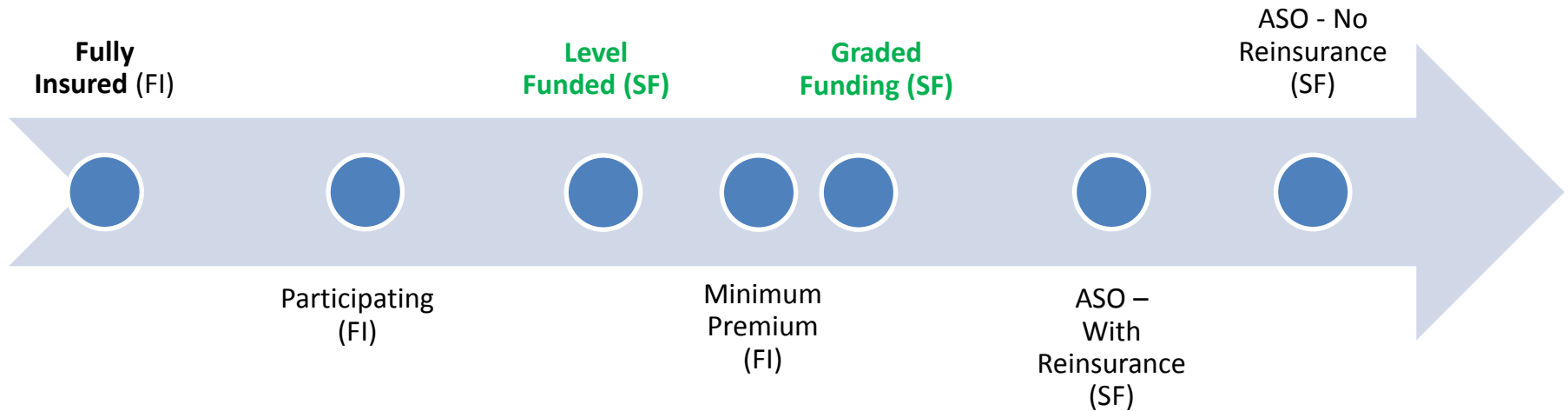
The Funding Spectrum

Lowest Risk

Lowest Return Potential

Highest Risk

Highest Return Potential



FI=Fully Insured in terms of ACA compliance. Carrier takes on ACA requirements, as necessary.
SF=Self Funded in terms of ACA Compliance. Plan sponsor takes on ACA requirements. E.g. PCORI, TRF, etc.

What Funding Options Are Available

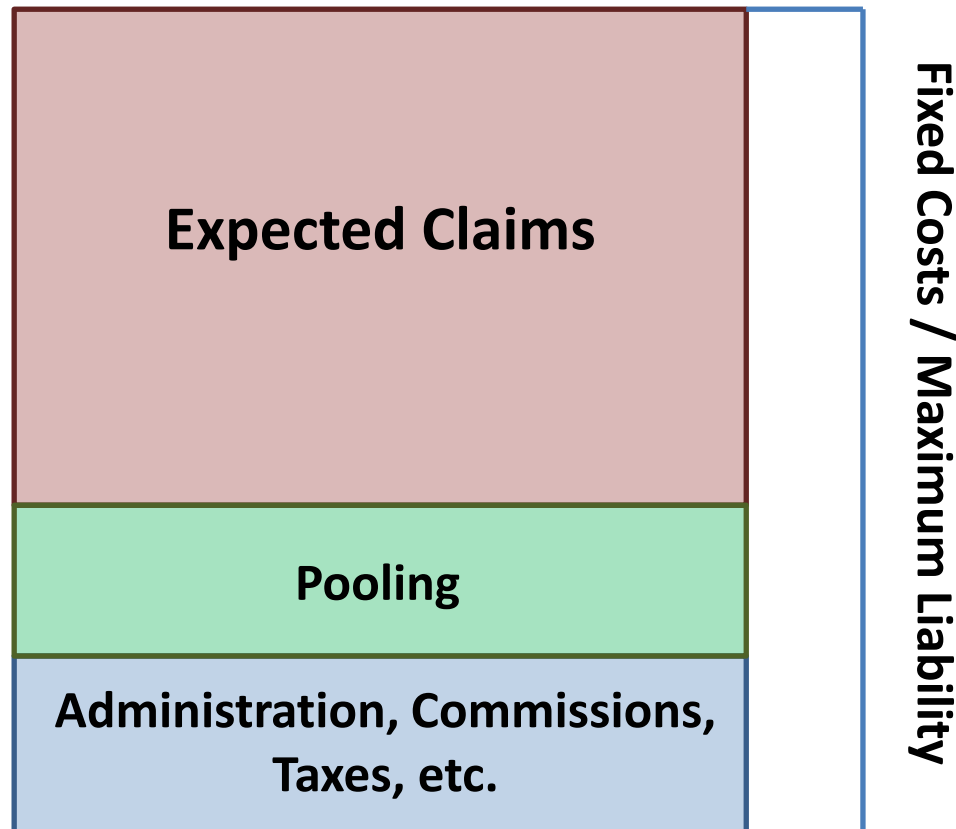
- **Fully Insured**

- Premiums Paid to Insurance Company
- “Winner Take All”
- Gains or losses stay with Insurance Carrier (assume liability)
- Plan design aligned by state, no flexibility

What Carriers Offer Fully Insured?	All Carriers
How Are Costs Determined?	Standard Underwriting (Manual Claims + Creditable Claims)
What are potential pitfalls to be worried about?	“Buying Business”, Manual Experience, Unjustified Renewals, minimal transparency

What Funding Options Are Available

Fully Insured Monthly Premiums Include:



What Funding Options Are Available

- **Participating Contracts**

- Premiums Paid to Insurance Company
- Full Insured Contract
- Formula applied at end of year – “surplus” provided to group

What Carriers Offer Participating?	Florida Blue – “ProShare”(75+) Cigna – “Shared Returns” (100+) United Healthcare
How Are Costs Determined?	Standard Underwriting plus a margin
What are potential pitfalls to be worried about?	Fully insured concerns plus renewal terms e.g. requirement to renew.

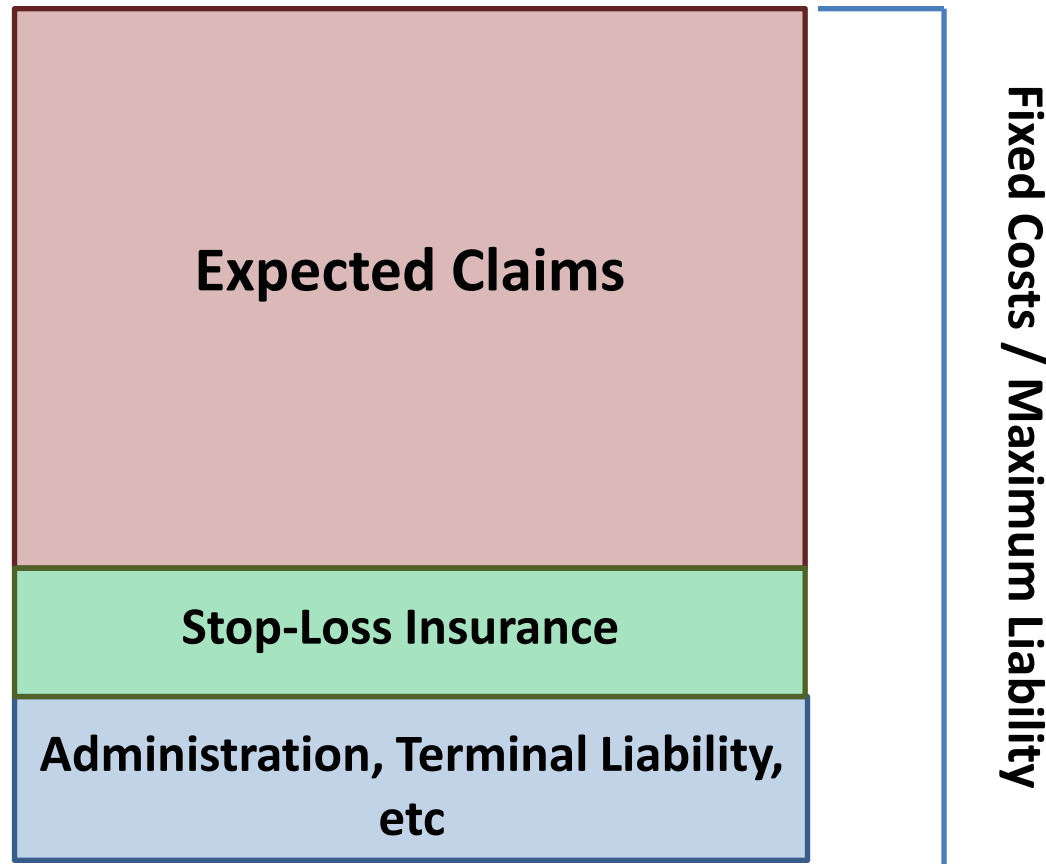
What Funding Options Are Available

- **Level Funding –**
 - Level premiums paid to carrier each month
 - Fixed Costs and Claims pre-paid to insurance company
 - Formula applied at end of year (month 15) – “surplus” credit provided to group if they renew (33% / 50% / 66% / 100%)
 - Flexibility to design customized benefit plan

What Carriers Offer Level Funding?	Cigna, Aetna, Humana, UHC
How Are Costs Determined?	Standard Underwriting plus a margin/claims corridor
What are potential pitfalls to be worried about?	Renewal terms, billing, Individual Questionnaires needed under 100 employees, PPACA fees, banking (EFT)

What Funding Options Are Available

Level Funding Monthly Premiums Include:



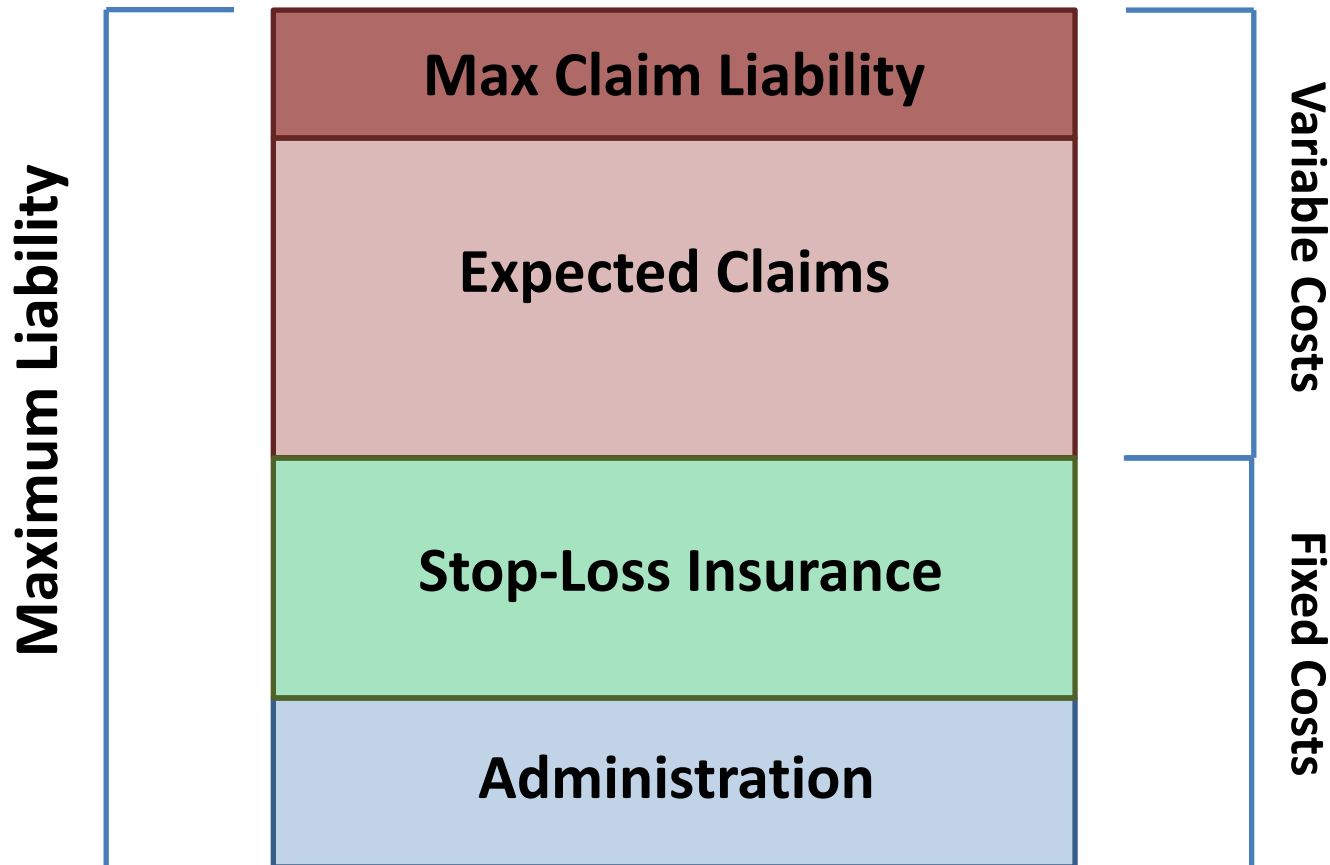
What Funding Options Are Available

- **Graded Funding–**
 - Fixed Costs paid to insurance company
 - Claims paid on a monthly frequency
 - Monthly costs will fluctuate
 - Costs will never exceed monthly or annual maximum and may be lower

What Carriers Offer Min. Premium?	Cigna (<250 EE's)
How Are Costs Determined?	Standard Underwriting plus a corridor
What are potential pitfalls to be worried about?	Banking, Fluctuations in monthly payments, Deficit Carryover, terminal liability

What Funding Options Are Available

Graded Funded Monthly Costs Include:



Advantages/Disadvantages of Self Funding

Advantages

- Flexibility in plan design
- Additional cash flow (employer holds reserves in stabilization account)
- Retention – administration costs less expensive
- Not responsible for HCR Health Insurer Fee
- Elimination of “Margin”
- Provides highest level of Return on Investment when offering a clinic

Disadvantages

- Employer assumes risk between the anticipated claims and stop loss coverage levels
- Reserve requirements specific to public sector entities (112.08)
- Actuarial Fees (112.08)
- Increased employer administration (finance & benefits staff)
- Employer assumes responsibility for reporting & payment of HCR Reinsurance and PCORI fees
- If leave TPA or stop loss carrier:
 - “Run out” claims
 - Additional TPA cost to process run out claims

Summary of Products by Carrier

- **Mid-Market Offerings (50-300 employees)**

	Fully Insured	Level Funding	Self Funding
Florida Blue	X		
Cigna	X	X	X (Graded Funded)
United Healthcare	X	X	
Aetna	X	X	
Humana	X	X	X (100+)

Individual Questionnaires are required to be completed by all eligible employees

Case Studies:

	# of EE's	Carrier	Funding Type	Funding Transition Date	FI Renewal offer before switch	Alternative Funding Rate Inc.	Avg. Renewal Inc / Yr	2015 Deficit / Surplus
1	28	CIGNA	Level Funded	1/1/14	12.18%	0.70%	10.5% inc	Deficit
2	33	CIGNA	Level Funded	Prior to 2010	N/A	N/A	9.88% inc	\$100k refund
3	57	CIGNA	Level Funded	10/1/11	N/A	0%	11.88% inc	Deficit
4	89	CIGNA	Graded Funded	10/1/15	27.16%	27%	N/A	N/A
5	112	CIGNA	Graded Funded	10/1/15	28.3%	10.5%	13%	\$98k surplus
6	137	CIGNA	Level Funded	10/1/12	17.3%	4.5%	3.97%	\$7k Deficit

Case Study: Level Funded

Cost Comparison and Loss Ratios

Date	Total Plan Funding	Fixed Costs (Stop Loss Prem & ASO fees)	Actual Paid Claims (Net of ISL)	Total	Reserve Accumulation	Total EE's	Claims / EE / Month
October-14	\$161,125	\$39,460	\$171,294	\$210,753	(\$49,628)	135	\$1,268.84
November-14	\$159,410	\$39,039	\$155,509	\$194,548	(\$35,139)	135	\$1,151.92
December-14	\$158,797	\$39,039	\$135,324	\$174,363	(\$15,566)	134	\$1,009.88
January-15	\$161,738	\$39,760	\$114,568	\$154,328	\$7,410	136	\$842.41
February-15	\$160,512	\$39,610	\$142,320	\$181,929	(\$21,417)	134	\$1,062.09
March-15	\$159,992	\$39,182	\$110,464	\$149,646	\$10,346	135	\$818.25
April-15	\$161,830	\$39,632	\$116,063	\$155,695	\$6,134	138	\$841.04
May-15	\$162,381	\$39,917	\$126,770	\$166,687	(\$4,306)	138	\$918.62
June-15	\$161,768	\$39,617	\$82,242	\$121,859	\$39,909	137	\$600.31
July-15	\$157,082	\$38,469	\$156,055	\$194,524	(\$37,443)	133	\$1,173.35
August-15	\$155,366	\$38,049	\$76,148	\$114,197	\$41,169	133	\$572.54
September-15	\$157,143	\$38,484	\$66,799	\$105,283	\$51,860	135	\$494.81
Annual Total	\$1,917,142.47	\$470,259.28	\$1,453,554.47	\$1,923,813.75	-\$6,671.28	1623	\$895.60

Individual Stop-Loss Benefits Received	\$354,061.36
Terminal Fund on Account with Cigna	\$154,356.00

* Total Paid Claims only include claims up to the stop loss limit.

Case Study: Graded Funded

Cost Comparison and Loss Ratios

Plan Totals	PLAN FUNDING								
	Plan Funding	Administration Fees	Stop Loss Fees	Total Paid Claims*	Admin Terminal Liability	Stop Loss Terminal Liability	Claims Terminal Liability	Total Plan Cost	Reserve Accumulation
October-14	\$72,394.10	\$1,253.35	\$4,826.63	\$23,653.36	\$3,758.18	\$14,495.68	\$36,045.38	\$84,032.58	(\$11,638.48)
November-14	\$72,980.72	\$2,526.13	\$9,731.47	\$47,813.86	\$2,526.02	\$9,747.31	\$24,224.41	\$96,569.20	(\$23,588.48)
December-14	\$74,153.96	\$5,133.39	\$19,791.72	\$41,070.89	\$0.00	\$0.00	\$0.00	\$65,996.00	\$8,157.96
January-15	\$72,394.10	\$5,011.53	\$19,322.31	\$64,627.23	\$0.00	\$0.00	\$0.00	\$88,961.07	(\$16,566.97)
February-15	\$74,153.96	\$5,133.39	\$19,791.72	\$35,441.33	\$0.00	\$0.00	\$0.00	\$60,366.44	\$13,787.52
March-15	\$71,220.86	\$4,930.29	\$19,009.37	\$33,351.70	\$0.00	\$0.00	\$0.00	\$57,291.36	\$13,929.50
April-15	\$71,807.48	\$4,970.91	\$19,165.84	\$23,096.64	\$0.00	\$0.00	\$0.00	\$47,233.39	\$24,574.09
May-15	\$72,394.10	\$5,011.53	\$19,322.31	\$21,163.26	\$0.00	\$0.00	\$0.00	\$45,497.10	\$26,897.00
June-15	\$74,382.52	\$5,148.81	\$19,856.84	\$23,981.33	\$0.00	\$0.00	\$0.00	\$48,986.98	\$25,395.54
July-15	\$74,382.52	\$5,148.81	\$19,856.84	\$48,170.99	\$0.00	\$0.00	\$0.00	\$73,176.64	\$1,205.88
August-15	\$73,209.28	\$5,067.57	\$19,543.90	\$26,584.33	\$0.00	\$0.00	\$0.00	\$51,195.80	\$22,013.48
September-15	\$71,449.42	\$4,945.71	\$19,074.49	\$26,347.40	\$0.00	\$0.00	\$0.00	\$50,367.60	\$21,081.82
Annual Total	\$874,923.02	\$54,281.42	\$209,293.44	\$415,302.32	\$6,284.20	\$24,242.99	\$60,269.79	\$769,674.16	\$105,248.86
PCORI FEE (\$2.08 PMPY)									(\$287.04)
REINSURANCE FEE (\$63 PMPY- 2014) (\$44 PMPY- 2015)									(\$6,727.50)
Reserve Accumulation									\$98,234.32

Estimated Terminal Liability (Claims & Admin) \$ 90,797

Specific Stop-Loss Benefits YTD \$ 572,615

* Total Paid Claims only include claims up to the stop loss limit.

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Considerations

- Risk Tolerance
- Financial / Banking Concerns
- Transparency (Claims Experience & Plan Utilization)
- Large Claim Activity
- Wellness / Clinics

Timeline of Expectations

Scenario #1: Waiting for Renewal before RFP

<u>DATE:</u>	<u>ACTION:</u>
8/01/2016 (TBD)	Pre-Renewal Strategy Meeting
9/30/2016	Census Requested from District
10/03/2016	Renewal received by Gehring Group
10/05– 10/20/2016	Individual Questionnaires completed by Employees
10/20/2016	Board Meeting – Discuss Renewal Offer
10/21/2016	RFP released to the market (If necessary)
11/4/2016	RFP responses due at Gehring Group
11/7-11/10/2016	RFP Responses evaluated by Gehring Group
11/11/2016 (TBD)	RFP review of RFP analysis with LRD Staff
11/14/2016	RFP analysis packet provided to Board Members
11/17/2016	Board Meeting – Approve Carrier Recommendation
11/21 - 11/30/2016	Prepare Open Enrollment Materials
December 2016	Open Enrollment Meetings
1/01/2017	Plan Year begins

Scenario #2: Automatic RFP before Renewal

<u>DATE:</u>	<u>ACTION:</u>
8/01/2016 (TBD)	Pre-Renewal Strategy Meeting
8/30/2016	Census Requested from District
8/30 – 9/13/2016	Individual Questionnaires Completed by employees
9/14/2016	RFP released to the market
10/5/2016	RFP / Renewal responses due at Gehring Group
10/6-10/13/2016	RFP Responses evaluated by Gehring Group
10/14/2016 (TBD)	Initial review of RFP analysis with LRD Staff
10/20/2016	Board Meeting – Review Initial RFP responses
10/28/2016	Best and Final Offers (BAFO) Due at Gehring Group
11/04/2016	BAFO Responses reviewed with LRD Staff
11/14/2016	RFP analysis packet provided to Board Members
11/17/2016	Board Meeting – Approve Carrier Recommendation
11/18 - 11/30/2016	Prepare Open Enrollment Materials
December 2016	Open Enrollment Meetings
1/01/2017	Plan Year begins