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next steps

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ABD Academy Webinar

How And Why To Self-Fund Your Health Plan

September 17, 2014



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About ABD

Our reputations precede us. Our best is ahead of us.

We're a select and growing group of professionals who believe that people come before policies. Professionals who believe that in order to succeed, insurance and risk management must become synonymous with innovation. People who believe that together is the only way forward as a company, as an industry, and most importantly, as an advocate for our clients.

Ready to learn about self-funded health plans?

How And Why To Self-Fund Your Health Plan



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GO YOUSM



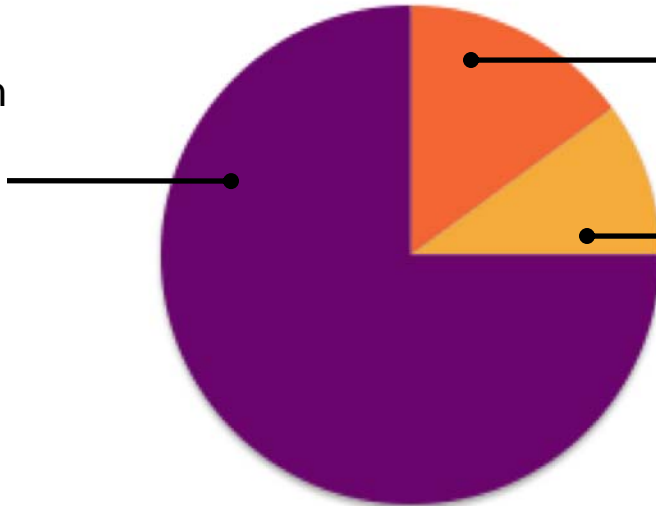
AGENDA

- Funding and Cost Basics
- Self-Funding Models
- Self-funding advantages
- Why consider this?

WHERE THE HEALTH CARE DOLLAR GOES

Claims

Payment for health care services rendered under the benefit plan.



Fixed costs

Include administrative expenses, access fees, pooling/risk charge and premium taxes.

Reserves

Money set aside for payment of claims incurred, but not yet paid.

FIXED COSTS

- Administrative Fees: Insurer or Third Party Administrator's charge to administer plan
- Stop Loss Insurance Premiums (ASO)
 - Individual Stop Loss: Claims protection over each individual plan member; "ISL" , Specific stop loss
 - Aggregate Stop Loss: Protection against overall excessive claims; "ASL"
- Access Fees (ASO): Charge to lease provider network
- Pooling Charge (Fully insured): Similar to ISL
- Federal and state premium taxes

LARGE CLAIMS PROTECTION INDIVIDUAL STOP LOSS (“ISL”)



- The ISL limit is set at the beginning of the year
- Employer’s claims experience is capped at a certain dollar amount for each individual
- Claims below ISL limit only count towards claims premium experience
- Claims above ISL limit are considered “pooled” and are only factored into ISL premium

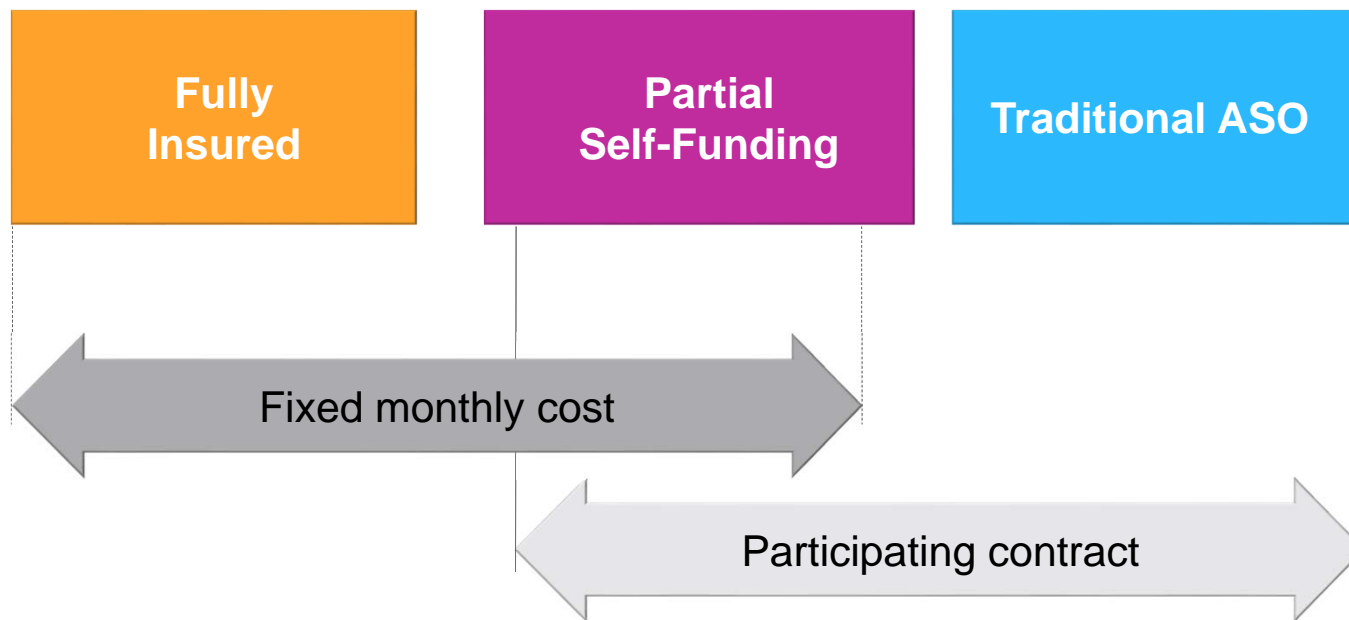
ISL Limit / Pooling Point: \$35,000*

	Total Claims	Claims Experience Amount	Cigna Liability
Individual 1	\$55,000	\$35,000	\$20,000
Individual 2	\$135,000	\$35,000	\$100,000
Individual 3	\$235,000	\$35,000	\$200,000
Total	\$425,000	\$105,000	\$320,000

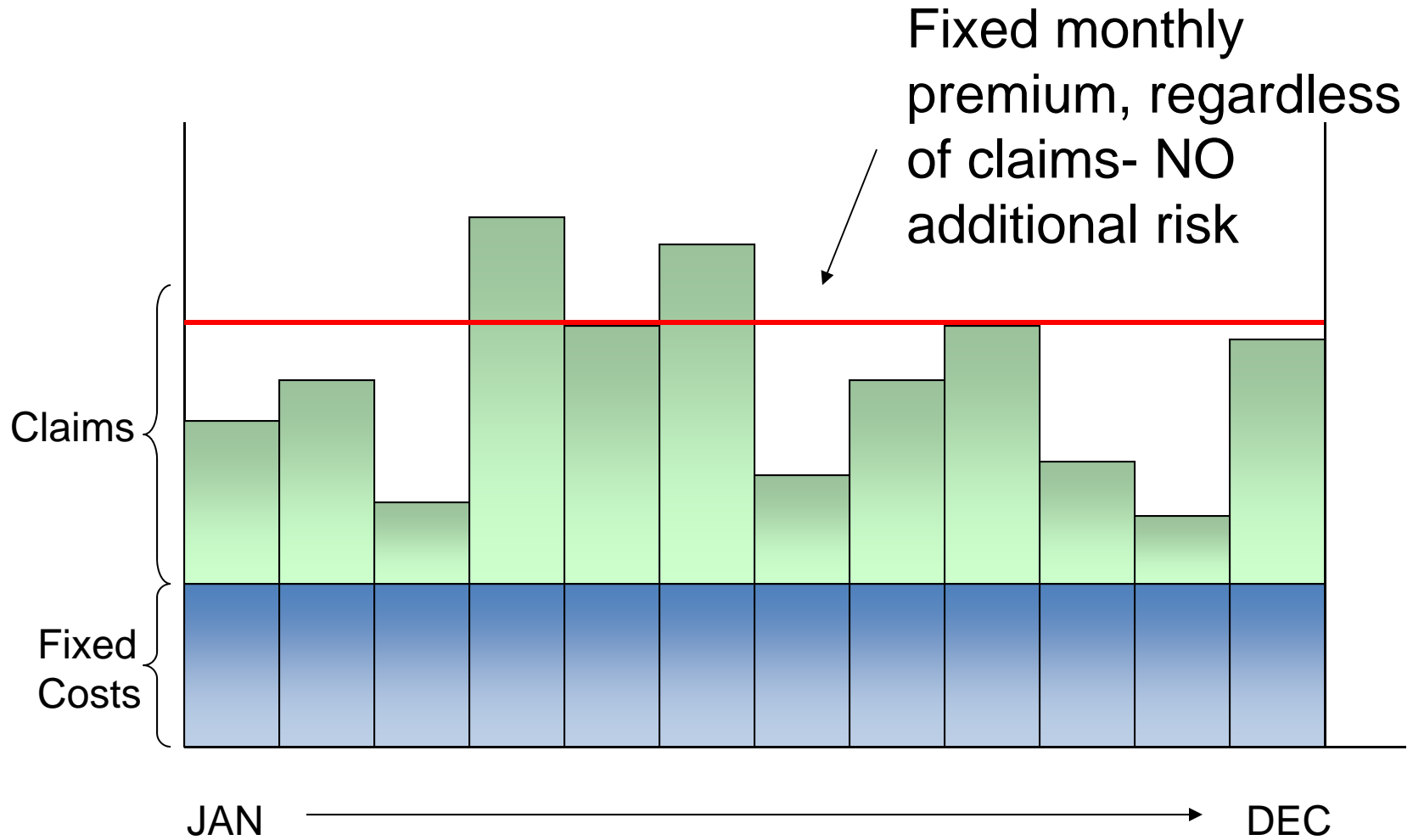


FUNDING SPECTRUM

Risk : Reward

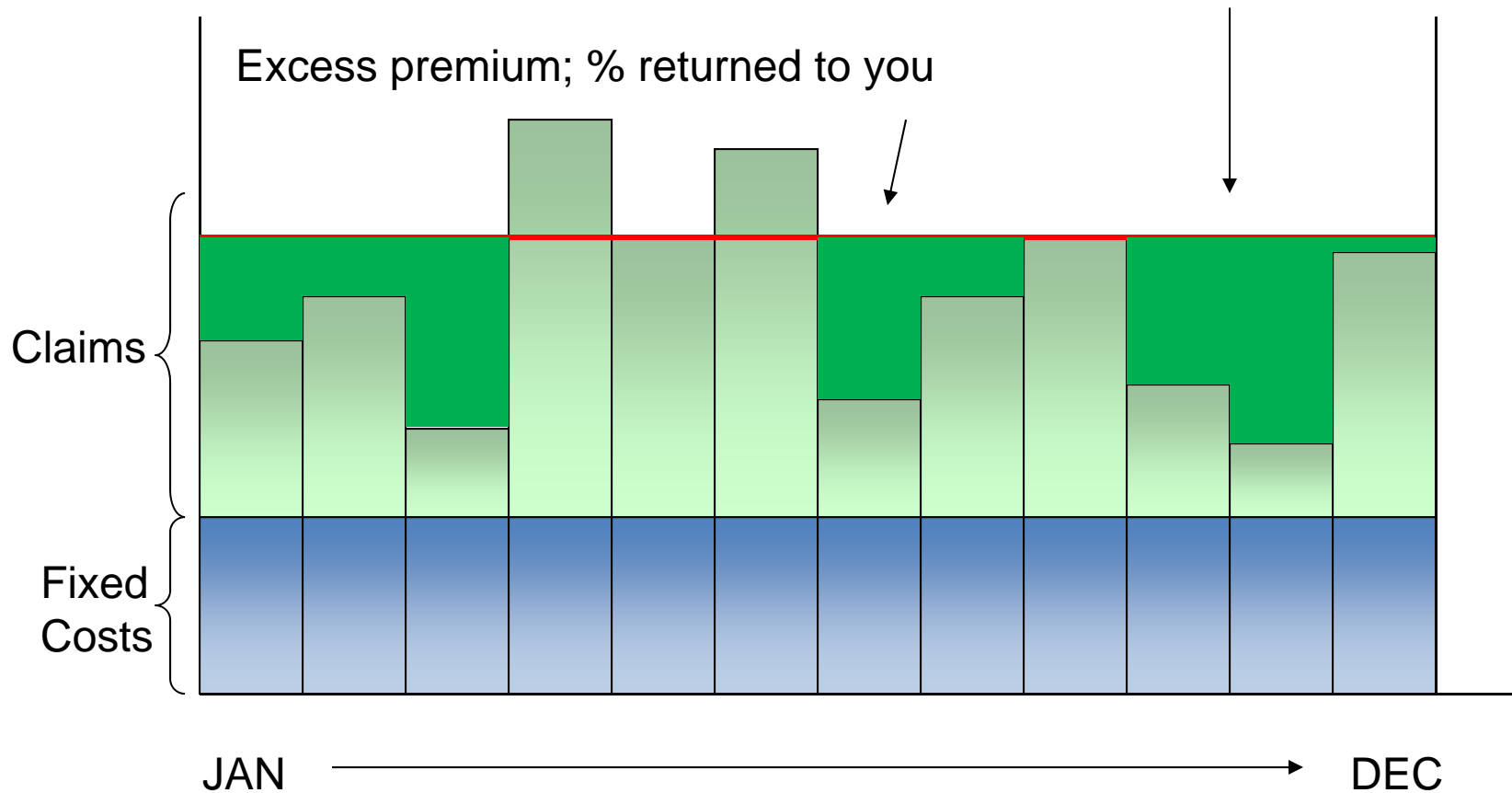


FULLY INSURED MECHANICS

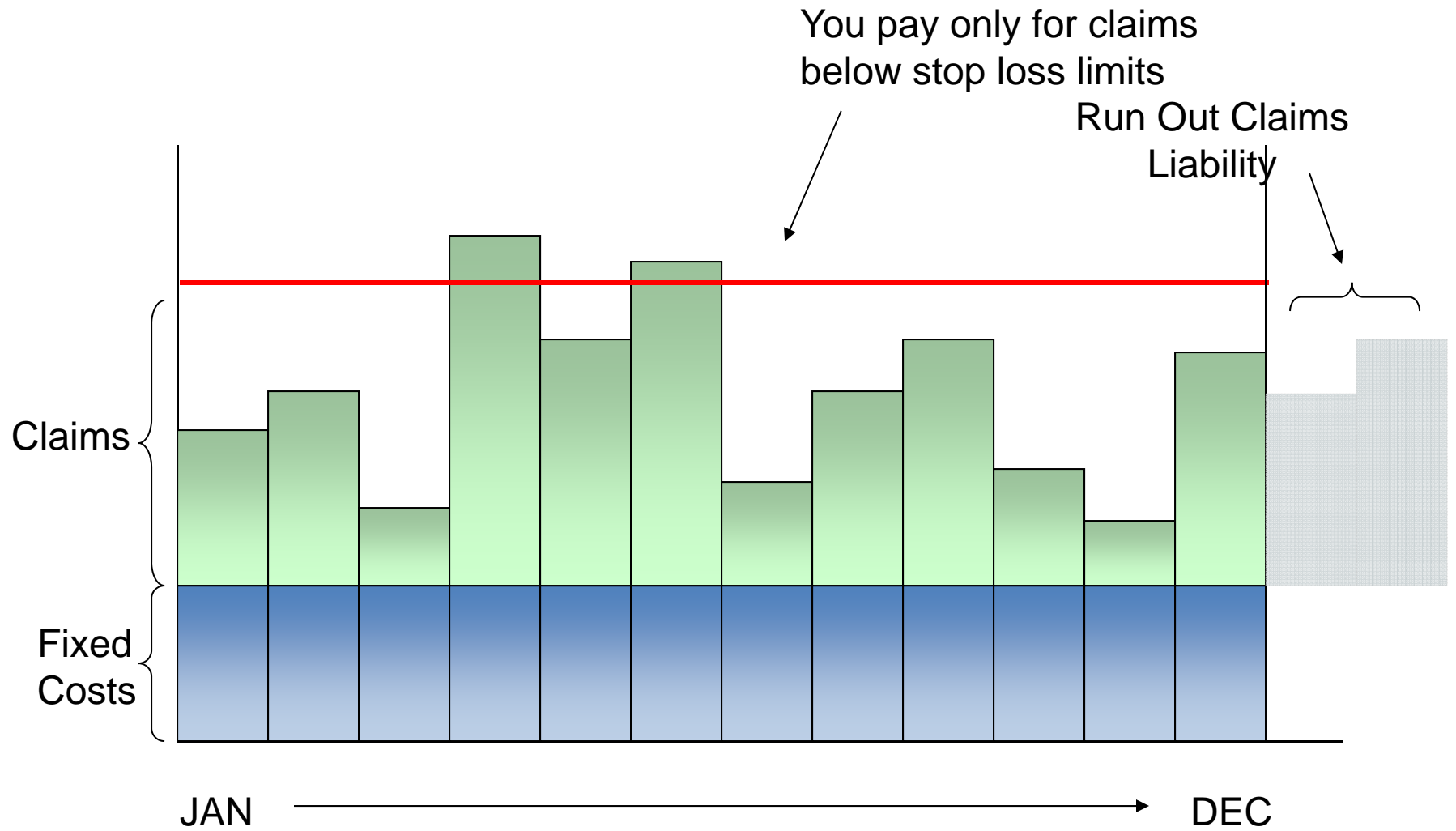


PARTIAL SELF-FUNDING

You pay a level monthly premium, regardless of claims- NO additional risk



TRADITIONAL SELF-FUNDING



FULLY INSURED



- Full insurance protection.
- Predictable, fixed monthly premium for all costs.
- Carrier pays covered claims.
- Also known as traditional funding or guaranteed cost.



PARTIAL ASO/SELF-FUNDING (LEVEL FUNDING®)

HOW IS IT SIMILAR TO FULLY INSURED?

- Full insurance protection.
- Monthly cap on total cost.
- No liability at termination.

HOW IS IT DIFFERENT?

- Participate, or share, in claim experience. Employer recoups claims premium (% of) actual claims are less than premium collected.
- Claims reporting available
- Complete plan design flexibility



1-Lower than a traditional funding plan. 2-Subject to underwriting approval. Client may hold reserves until termination.

SHARED RETURNS[®] MINIMUM PREMIUM

HOW IS IT SIMILAR TO FULLY INSURED?

- Full insurance protection.
- Monthly cap on total cost.

HOW IS IT DIFFERENT?

- Lower, fixed monthly premium.¹
- Hold reserve funds.²
- Pay for claims as they occur.
- Participate, or share, in claim experience. This means the employer saves money in real time if actual claims are less than expected.



¹-Lower than a traditional funding plan. ²-Subject to underwriting approval. Client may hold reserves until termination.

SETTLEMENT ILLUSTRATION

SHARED RETURNS MINIMUM PREMIUM

	Claims are lower than expected	Claims are higher than expected
Expected claims (bank account liability)	\$2,500,000	\$2,500,000
less actual paid claims	\$2,350,000	\$2,600,000
plus Cigna reimbursed claims	\$0	\$100,000
Bank Balance	\$150,000	\$0

CLAIMS ARE LOWER
 Employer benefits in real time by paying less money.

CLAIMS ARE HIGHER
 Cigna covers employer's excess claims. Reimbursed claims carry forward and can be recovered from future positive balances.

This example is provided for illustrative purposes only. Actual components will vary.

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SELF-FUNDING WITH STOP LOSS

HOW IT WORKS

- Self-funding does not provide insurance protection.
- Reduced fixed costs.
- Pays all covered claims and reserves.
- Also known as "ASO" or "Administrative Services Only."

ADDITIONAL PROTECTION AVAILABLE

- Integrated Stop Loss protects against excess claims.
- Cigna as claim fiduciary.



EXPECTED VS. ACTUAL COST

SELF-FUNDING WITH STOP LOSS

	Claims are lower than expected	Claims are higher than expected
Expected claim	\$2,500,000	\$2,500,000
less actual paid claims	\$2,350,000	\$2,600,000
Bank Savings/Over-run	\$150,000	(\$100,000)

CLAIMS ARE LOWER

Employer saves \$150,000 by paying lower claims throughout the year.

CLAIMS ARE HIGHER

Employer pays \$100,000 more than the expected cost since actual claims were higher than expected.

This example is provided for illustrative purposes only. Actual components will vary.



TRANSPARENCY IN HEALTH CARE COSTS

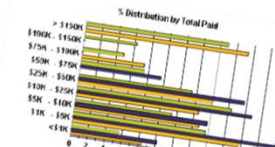
- Month by month paid claims
- Large claims
- Detailed Rx reporting
- Utilization reporting to track trends

MEDICAL COSTS By Service Category

Provider Type	Place of Service	Service Category	Current Period		Prior Period		Percent Change	
			June 2009	May 2010	June 2008	May 2009		
Hospital/Facility	Inpatient	Maternity/Neonatal	\$23,313	\$0,471	\$136,394	\$0	146.2 %	\$0,471
		Medical/Surgery	\$109,307	\$0	\$0	\$0	24.1 %	\$136,394
		Other	\$191	\$145,865	\$0	\$0	32.2 %	\$145,865
Total for Inpatient			\$192,811	\$146,336	\$136,394		\$1,488	
Total for Outpatient	Outpatient	Maternity/Neonatal	\$2,587	\$10,000	\$70,000	\$12,533	73.8 %	\$1,488
		Medical/Surgery	\$130,534	\$12,533	\$20,100	\$12,533	67.3 %	\$70,000
		Other	\$47,754	\$92,041	\$92,041	\$92,041	96.5 %	\$12,533
Total for Outpatient			\$180,875	\$114,574	\$114,674		\$92,041	
Total for Hospital/Facility			\$373,686	\$260,910	\$251,068		\$237,906	
Physician	Inpatient	Hospital Visit	\$15,745	\$9,799	\$1,705	\$1,705	60.7 %	\$0,799
		Maternity/Neonatal	\$1,475	\$1,705	\$1,705	\$1,705	103.6 %	\$1,705
		Other	\$19,224	\$11,506	\$11,506	\$11,506	61.1 %	\$11,506
Total for Inpatient			\$36,444	\$23,009	\$3,916		\$85,962	
Total for Outpatient	Outpatient	Office Visit	\$154,400	\$85,962	\$41,085	\$41,085	79.7 %	\$85,962
		Medical/Surgery	\$64,993	\$41,085	\$41,085	\$41,085	63.2 %	\$41,085
		Other	\$219,443	\$127,047	\$127,047	\$127,047	72.7 %	\$127,047
Total for Outpatient			\$438,836	\$254,114	\$209,217		\$359,194	
Total for Physician			\$475,280	\$277,123	\$213,132		\$445,156	

MEDICAL PAID CLAIMS BY PAYMENT CATEGORY

Payment Category	# of Claims	% of Total	Amount Paid	% of Total	Current Period		Prior Period		Normative Current Year
					June 2009	May 2010	June 2008	May 2009	
<10K	414	100.0 %	\$1,072,770.18	100.0 %	265	100.0 %	2,063	\$51,559.88	100.0 %
10K - 15K	101	24.4 %	\$1,318	0.1 %	743	29.1 %	743	\$93,857.58	181.1 %
15K - 20K	22	5.3 %	\$10,048.00	0.9 %	188	7.3 %	188	\$132,870.79	241.1 %
20K - 25K	10	2.4 %	\$10,048.00	0.9 %	188	7.3 %	188	\$132,870.79	241.1 %
25K - 30K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %
30K - 35K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %
35K - 40K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %
40K - 45K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %
45K - 50K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %
50K - 55K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %
55K - 60K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %
60K - 65K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %
65K - 70K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %
70K - 75K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %
75K - 80K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %
80K - 85K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %
85K - 90K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %
90K - 95K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %
95K - 100K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %
>100K	0	0.0 %	\$0	0.0 %	0	0.0 %	0	\$0	0.0 %



Month	(1) Monthly Attachment Level	(2) Cumulative Attachment Level	(3) Benefit Payments	(4) Cumulative Benefit Payments	(5) In Month Change In Experience Deficit	(6) Cumulative Change In Experience Deficit	(7) Benefit Transfer Amount	(8) Cumulative Benefit Payments Transferred Amount	(9) Premium / Fee	(10) Total Transfer
MAY 10	161,554.53	161,554.53	82,427.98	82,427.98	0.00	0.00	87,004.61	87,004.61	44,234.00	131,238.61
JUN 10	159,322.21	320,876.74	94,237.88	176,665.86	0.00	0.00	93,543.78	180,548.39	40,618.42	134,162.20
JUL 10	158,987.44	479,864.18	163,198.58	339,864.44	0.00	0.00	169,814.87	350,363.26	40,635.69	210,450.56
AUG 10	158,868.26	638,732.44	166,319.41	506,183.85	0.00	0.00	166,319.41	516,682.67	40,694.15	207,013.56
SEP 10	160,481.82	799,214.26	93,670.93	599,854.78	0.00	0.00	93,202.58	609,885.25	39,645.64	132,848.22
OCT 10	159,739.78	958,954.04	110,027.06	709,881.84	0.00	0.00	110,027.06	719,912.31	28,864.52	138,891.58
NOV 10	157,557.85	1,116,511.89	128,829.78	838,711.62	0.00	0.00	128,829.78	848,742.09	39,727.70	168,557.48
***NOV	157,233.86	1,115,987.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DEC 10	155,640.67	1,271,628.58	98,851.54	937,563.16	0.00	0.00	98,851.54	947,593.63	41,118.26	139,969.80

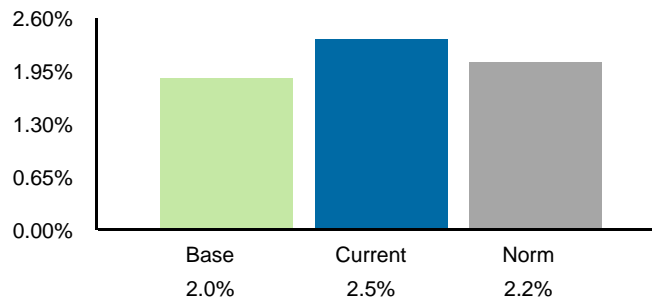




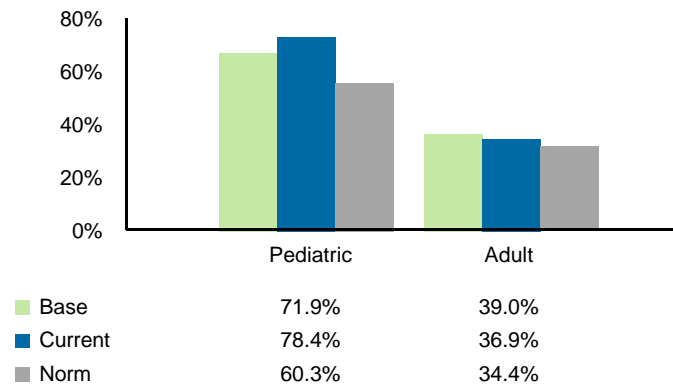
Preventive Care Summary

Customer ABC

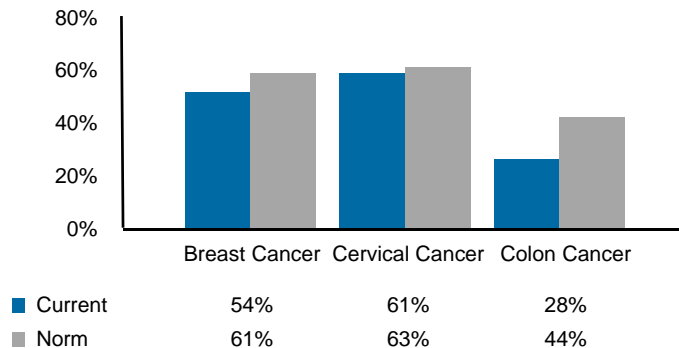
Preventive care as % of total spend



Well visit completion rates



Cancer screening rates



Comments

- Preventive care as a percent of total spend increased from 2.0% to 2.5%, and compares to a norm of 2.2%
- Well visit completion rate for adults decreased from 39.0% to 36.9%, and compares to a norm of 34.4%
- Breast cancer screening rate was 54%, 7% less than the norm of 61%
- Cervical cancer screening rate was 61%, 2% less than the norm of 63%
- Colon cancer screening rate was 28%, 16% less than the norm of 44%

*Results are based on HEDIS® technical specifications, but some variance will exist due to differences in claims data availability compared with specification criteria
 -Breast Cancer Age Criteria: 42-69 24 Month Eligibility
 -Cervical Cancer Age Criteria: 24-64 24 Month Eligibility
 -Colon Cancer Age Criteria: 51-75 24 Month Eligibility



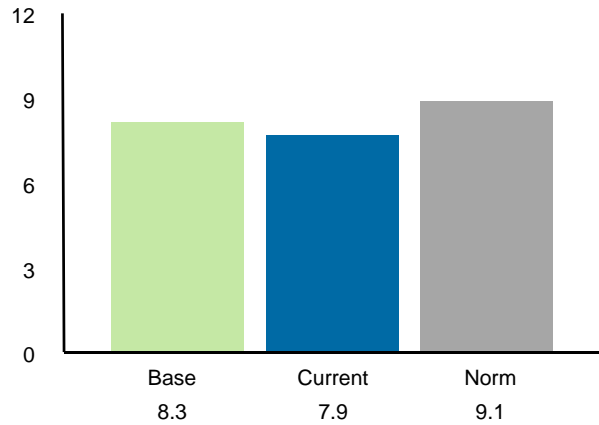
Current Period reflects claims incurred between Jan. 2012 and Dec. 2012, paid through Mar. 2013
 Base Period reflects claims incurred between Jan. 2011 and Dec. 2011, paid through Mar. 2013



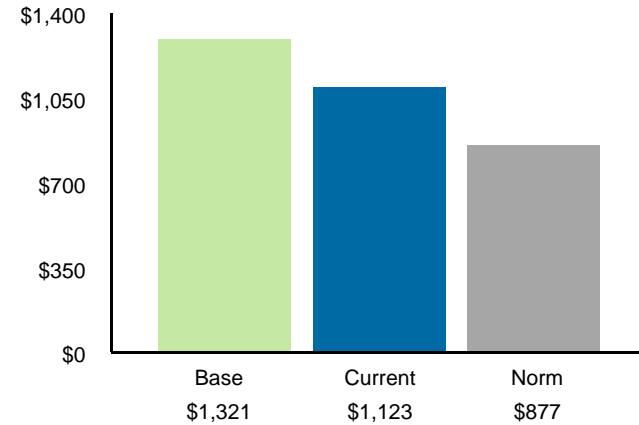
Pharmacy Summary

Customer ABC

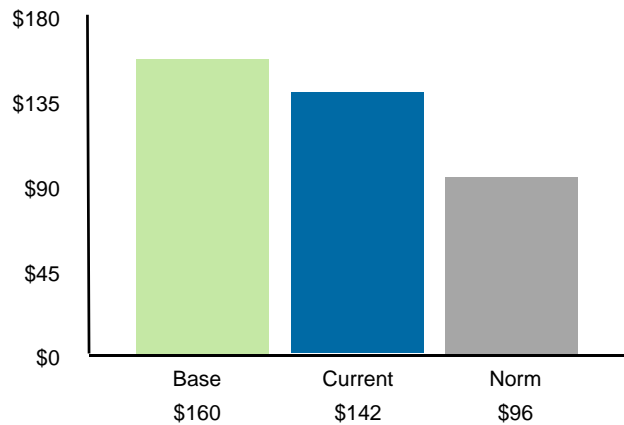
Average prescriptions per member



Plan cost (PMPY basis)



Average plan cost per prescription



Comments

- Pharmacy plan cost decreased from \$1,321 PMPY to \$1,123 PMPY, and compares to a norm of \$877 PMPY
- Average prescriptions per member decreased from 8.3 to 7.9, and compares to a norm of 9.1
- Average plan cost per prescription decreased from \$160 to \$142, and compares to a norm of \$96

Current Period reflects claims incurred between Jan. 2012 and Dec. 2012, paid through Mar. 2013
Base Period reflects claims incurred between Jan. 2011 and Dec. 2011, paid through Mar. 2013





Inpatient - Major Diagnostic Category Summary

Customer ABC

Cost & utilization trends (excluding catastrophic)

	\$PMPY			Admits Per 1,000			Days Per 1,000			Cost Per Case		
	Base	Current	Trend	Base	Current	Trend	Base	Current	Trend	Base	Current	Trend
Circulatory	\$147.61	\$145.05	-1.7%	8.2	8.7	5.5%	28.8	21.7	-24.6%	\$17,910	\$16,681	-6.9%
Digestive	\$53.56	\$90.42	68.8%	4.1	13.0	216.5%	4.1	17.4	322.0%	\$12,998	\$6,932	-46.7%
Blood	\$0.00	\$38.49	0.0%	0.0	4.3	0.0%	0.0	13.0	0.0%	\$0	\$8,852	0.0%
Pregnancies	\$29.61	\$15.65	-47.1%	8.2	4.3	-47.2%	12.4	13.0	5.5%	\$3,593	\$3,600	0.2%
Kidney	\$32.10	\$13.46	-58.1%	4.1	4.3	5.5%	12.4	4.3	-64.8%	\$7,789	\$3,096	-60.2%
Other	\$127.03	\$7.50	-94.1%	12.4	4.3	-64.8%	37.1	13.0	-64.8%	\$10,275	\$1,725	-83.2%
Total Non-Cat	\$389.91	\$310.57	-20.3%	37.1	39.1	5.5%	94.8	82.6	-12.8%	\$10,513	\$7,937	-24.5%
Catastrophic	\$401.08	\$2.81	-99.3%	24.7	0.0	-100.0%	181.3	0.0	-100.0%	\$16,222	\$0	-100.0%
Total	\$790.99	\$313.39	-60.4%	61.8	39.1	-36.7%	276.1	82.6	-70.1%	\$12,796	\$8,009	-37.4%

Comments

- Circulatory was the top category by plan cost in the current period. Circulatory cost decreased from \$147.61 PMPY to \$145.05 PMPY, a decrease of 1.7%
- Cost per case for the Circulatory category decreased from \$17,910 to \$16,681, a decrease of 6.9%
- Plan cost for non-catastrophic decreased from \$389.91 PMPY to \$310.57 PMPY, a decrease of 20.4%

SELF-FUNDING PLAN DESIGN FLEXIBILITY

	PPO Plan Design	YEAR 1	YEAR 2
	Office Visits	\$20 primary care \$20 specialist	\$15 primary care \$15 specialist
	Emergency Rooms	\$100 copay	\$150 copay
	Urgent Care	\$50 copay	\$35 copay



ACA FEES AND TAX EXAMPLE: SELF-FUNDING VS. FULLY INSURED

Effective Date: 10/1/2014
 Annual Premium: \$402,883
 Participating Employees: 76
 Total Members: 98 approx.

Fee	Self-funding Est. Amount	Fully Insured Est. Amount
Comparative Research Effectiveness Fee (CERF): \$2 PMPY	\$196	\$196
Reinsurance Assessment Fee: \$63 PMPY; \$44 in 2015	\$6,174	\$6,174
Health Industry Fee: 2.2%* of premium	N/A	\$10,475
CA State Premium Tax: 2.35% of premium; applied only to stop loss premium for self-funded	\$3,485	\$9,468
Annual Total	\$9,855	\$26,313

*Estimated, based upon range of 2% - 2.5%; increases to 3-4% 2015



IS SELF-FUNDING RIGHT FOR YOU?

Self-funding could make great sense

If you're looking to better understand your expenses and have more control over how your dollars are spent, you may be ready to consider self-funding your health plan.

- Was your renewal **backed up** with your claim experience and utilization data?
- Did you receive **reports** that showed how your health care dollars are being spent?
- Do you need **consistent plan designs** in multiple states?
- Can you **design** a benefit plan that suits *your* employees' needs
- Will you be receiving **money back** if claims run lower than expected?
- Do you need health improvement and other programs to help control costs?



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Questions?

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