CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

MOSS-ADAMS

HEALTH CARE GROUP

# Self Funded Plans: Do they deliver on the promise?

Western Pension & Benefits Council
January 15 Chapter Meeting

MOSS-ADAMS

# Agenda

- Introduction
- Healthcare Benefit Trends
- Employer Shift to Self-Funding
- Benefits of Self-Funding
- Why Perform a Claim Review?
- The Value of a Claim Review
- Sample Case
- Questions?

MOSS-ADAMS

# Introduction

- Presenters
  - Moss Adams LLP
  - Healthcare Consulting – Payer Practice
    - William H. Norris, Partner
    - Francis Orejudos, Senior Manager
- Objectives:
  - Gain an in-depth understanding of self-funding, trends and benefits
  - Comprehend self-funding financial benefits and risks
  - Understand the medical claims review process from the self-insured employer perspective
  - Learn how claims reviews can identify and help manage employers' claim spend

MOSS-ADAMS

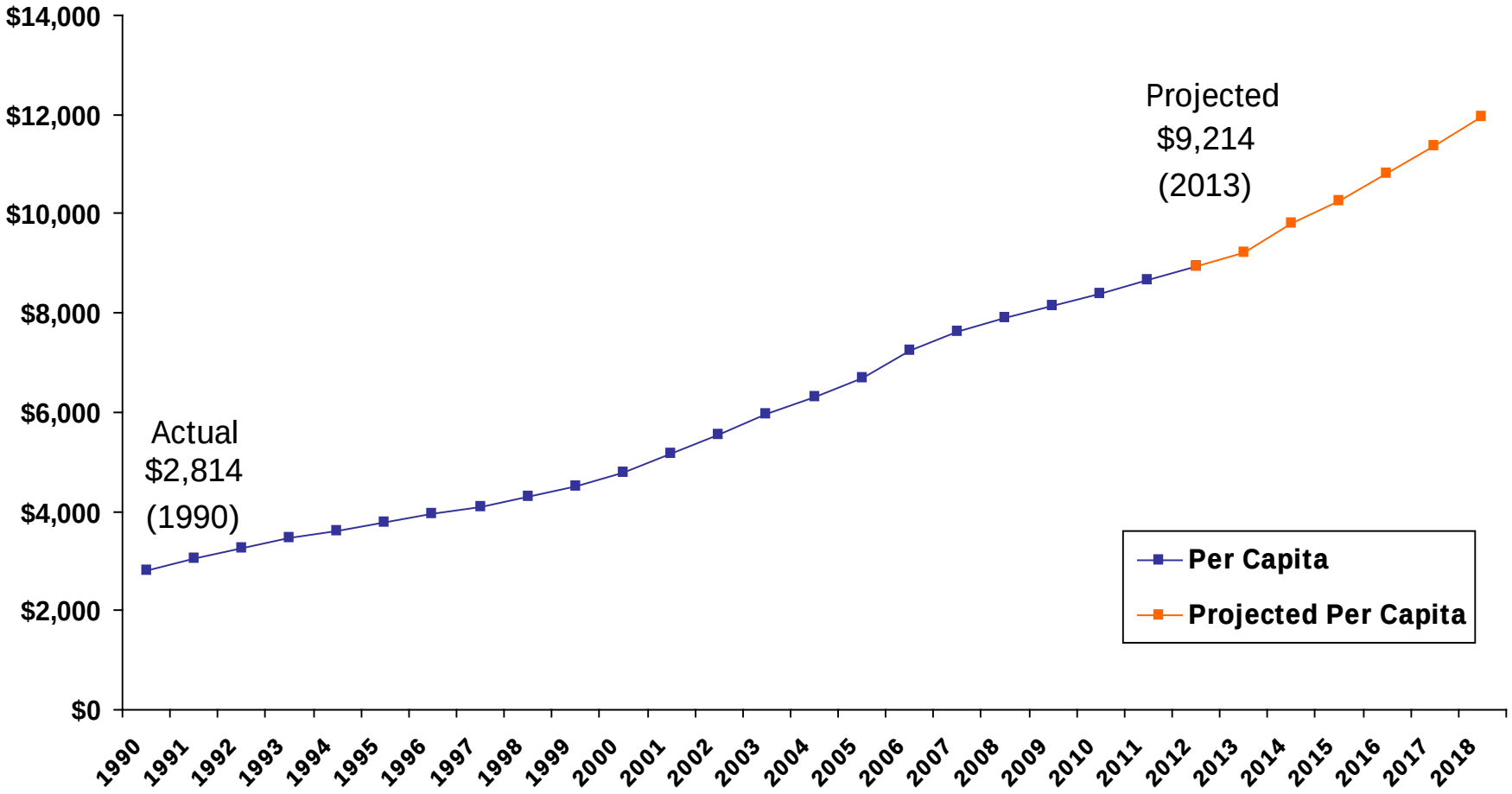
# Healthcare Benefit Trends

- Healthcare costs continue to rise in 2012
  - Family health premiums average $15,745
  - Employee contribution  is $4,316
  - Since 2002, premiums have increased 97 percent, 3x faster than wages (33 percent) and inflation (28 percent)
    - Employer contribution has increased 102%

- Healthcare reform will increase costs
  - Extension of coverage to adult children to age 26
  - Elimination of lifetime dollar limits
  - Coverage of children with pre-existing conditions
  - Coverage of preventive health services

MOSS-ADAMS

# National Health Expenditures Per Capita, 1990-2018




Source: Centers for Medicare and Medicaid Services, Office of the Actuary

MOSS-ADAMS

# Employer Healthcare Benefit Trends

- What are Employers doing to address rising costs?
  - Increasing cost-sharing, i.e. higher deductibles and copays
  - Reducing benefits
  - Emphasizing wellness programs
  - Increasing health risk management
  - Maximizing value from purchased services

MOSS-ADAMS

# Self-Funding Overview

Self funding: insurance arrangement where the employer assumes the financial risk for providing healthcare benefits to its employees

- Employers pay for claims out-of-pocket as they are presented instead of paying a premium to an insurance carrier
- Allows larger employers to reduce administrative fixed expenses and retain cash until employee claims are actually paid/funded

MOSS-ADAMS

# Self-Funding Overview

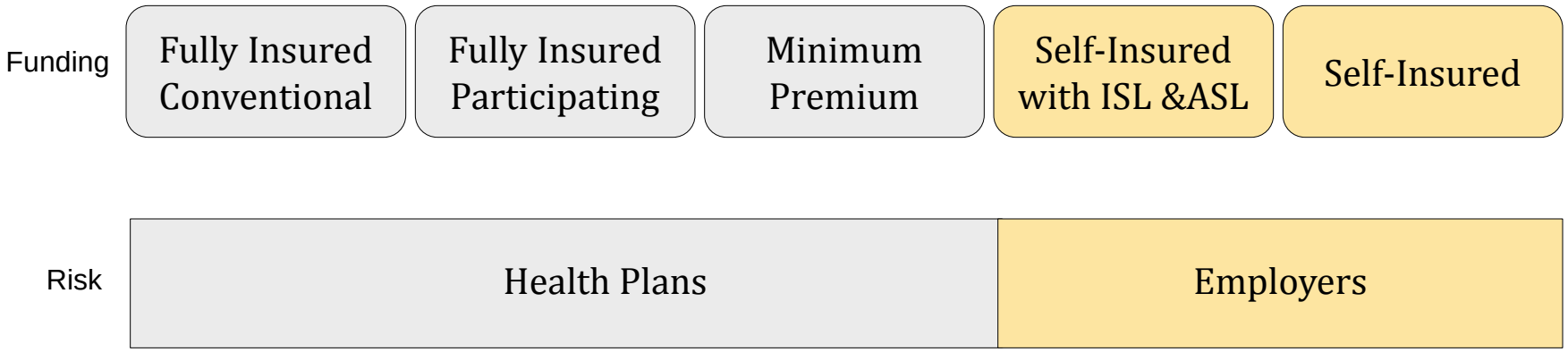
- Self funding allows larger employers to reduce administrative fixed expenses and retain cash until employee claims are actually paid/funded
  - Administrative savings ≈ 9% of insured premium
  - Cash flow ≈ 20% of insured premium

- Employers retain a portion of the claims risk when self funded. A number of reinsurance risk management strategies may be employed to match individual employer's risk profile

MOSS-ADAMS

# Funding Continuum

- As employers continue to face escalating healthcare costs, many have weighed the advantages and disadvantages of different funding mechanisms



MOSS-ADAMS

# Comparison of Funding Models

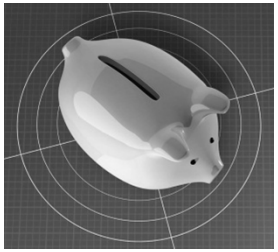
## Fully Insured

- **Claims 80%**
- **Risk Charge 12%**
- **Administration 8%**

## Self Insured

- **IBNR 12%**
- **Claims 65 - 70%**
- **Reinsurance 6-8%**
- **Administration 5-7%**

Cash Flow 10% to 12% of total cost



Savings up to 9% of total cost

MOSS-ADAMS

# Employer Healthcare Benefit Trends -- Shift towards Self-Funding

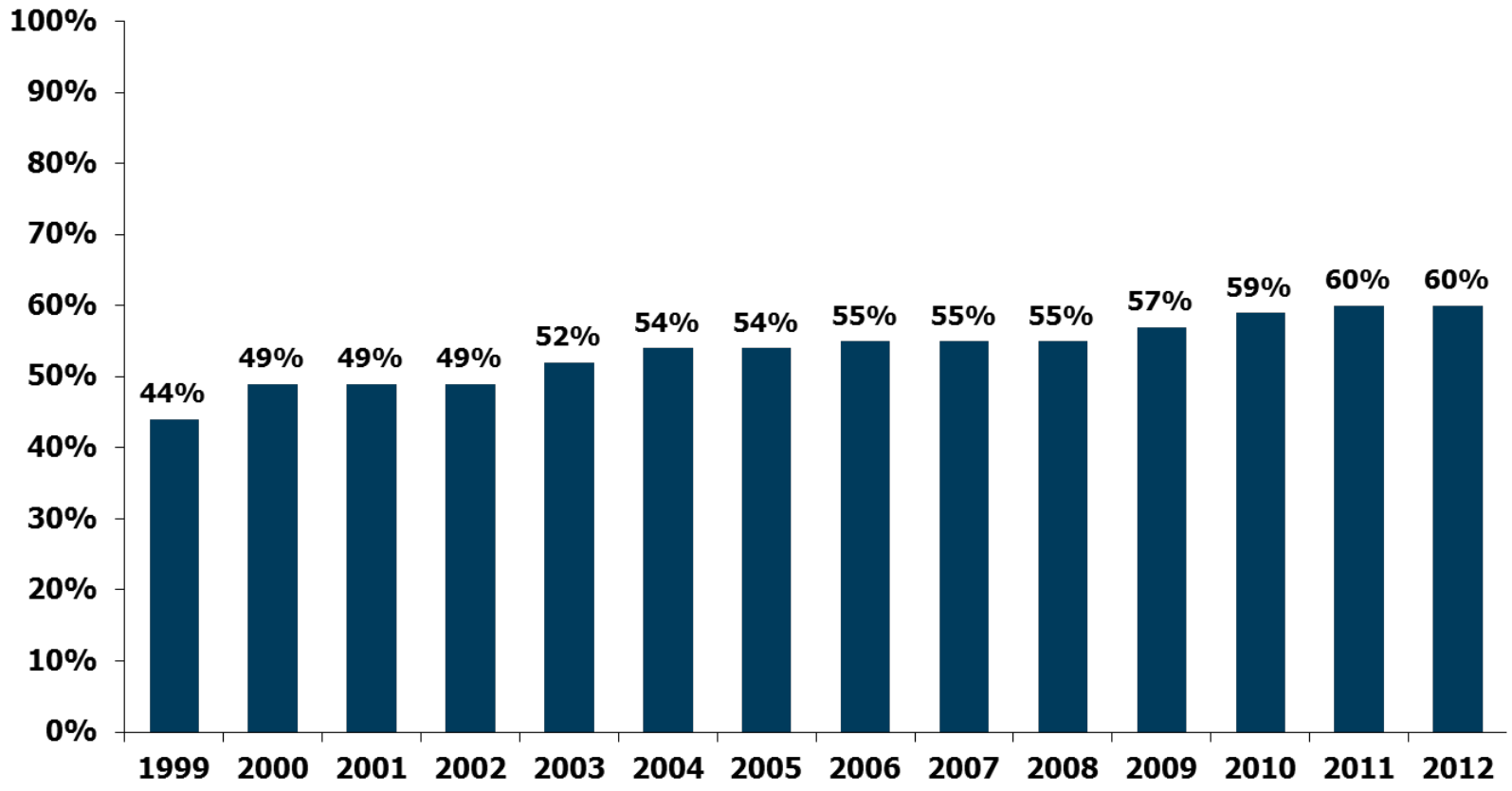
- Reasons for Self-Funding
  - Cost reduction compared to being Fully Insured
  - Control over plan design
  - Desire for data / wellness plans
  - Limited carriers / insured competition
  - Fewer state-mandated features
  - Self-insurance costs are decreasing

- Health Reform has increased shift
  - States have accelerated mandates
  - 2014 health reform self-funded plan taxes

Self-insured medical enrollment as of June 2012 was 97 million

MOSS-ADAMS

# Percentage of Workers in Self-Funded Plans, 1999-2012




Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2012

MOSS-ADAMS

# Self-Funding Benefits: Financial

- Administration and Insurance Savings
  - Reduced insurance charges
  - Eliminate carrier margins
  - Avoid state taxes
- Cash Flow
  - Retain cash until claims are funded
  - Eliminate pre-payment of claims (monthly premium)

MOSS-ADAMS

# Self-Funding Benefits: Plan Administration

- Access to Claim Data
  - Full access to data
  - Manage plan design more effectively
  - Facilitate population health
  - Measure vendor performance

**Employer (not Insurance Company)**

- Is Plan Fiduciary (ERISA)
- Is Covered Entity (HIPAA)
- Owns the data

MOSS-ADAMS

# Self-Funding Benefits: Plan Administration

- Ability to Customize Plans
  - Design plans for your needs
    - Analysis of trends: utilization and cost
  - No state mandates
  - Eligibility
  - Payment restrictions (e.g. subrogation)

MOSS-ADAMS

# Congratulations!

When you are self-funded, you are now looking at your medical expenses through the eyes of a healthcare payer…

## Now What?

MOSS-ADAMS

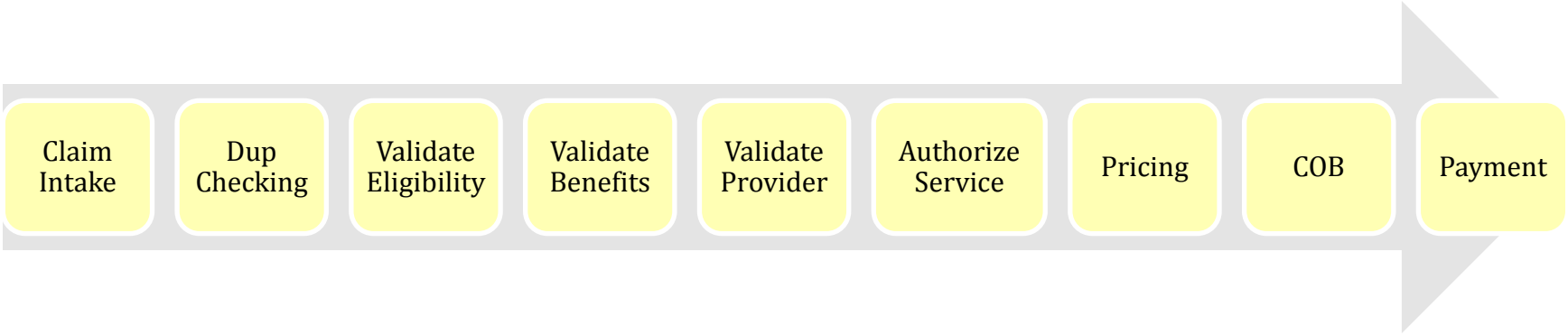
# Implications of Self-Funding

- Outsourced claims administration to Third Party Administrator
- Agreed to performance standards
- Most often, these self-reported results from TPA are relied upon
- Employer bears 100% financial risk

MOSS-ADAMS

# Claims Processing is a Complicated Business

- Providers or members submit claims for reimbursement for services rendered to the member. Several steps must occur before the administrator can issue payment




- In addition, administrators typically place minimal focus towards claims quality assurance

MOSS-ADAMS

# Claims Errors are Costly

- Majority of TPAs operate with an error rate between 1 and 5 percent
- For a $20 million dollar plan, a 3% error rate is $600,000 in additional costs
- A 2008 American Medical Association report showed a claims processing error rate as high as 20 percent among the largest insurers

- Many errors are avoidable
  - Duplicate claims
  - Claims after Benefit Termination
  - Ineligible members
  - Unauthorized Services
  - Services using the wrong fee schedule
  - Incorrectly coded services

MOSS-ADAMS

# Why Perform a Claim Review?

Objective: to determine whether claims are processed in accordance with our clients and their respective administrator's policies and procedures and to evaluate the financial, payment and procedural accuracy of claims payments

- Healthcare costs are rising faster than most others … and often go unaudited
- Employers are exposed to virtually 100% of the financial risk associated with the cost of healthcare benefits
- Measure compliance with performance guarantees
  - Accuracy results are usually contrary to the administrator's self-reported results
- Confirm that the administrator is interpreting benefit provisions accurately…misinterpretation can be costly

MOSS-ADAMS

# Why Perform a Claim Review?

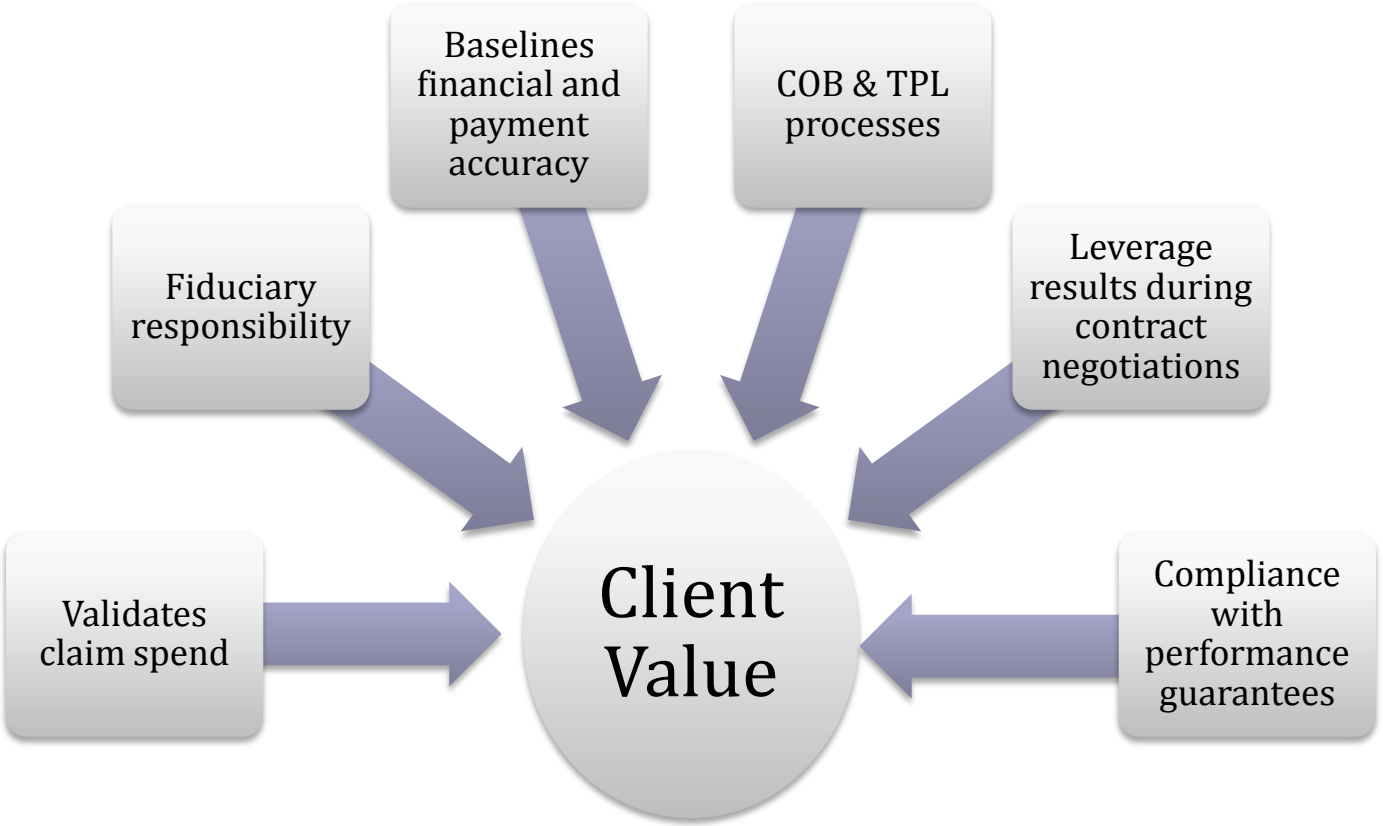
- 2011 National Business Group on Health survey
  - Identified strategies to successfully mitigate healthcare costs among 600 employers
  - Determined that "audit of medical claim payments" was one of the top tactics used by the highest performing employers
- 2010 Advisory Board Company study
  - Assessed 50 self-insured employers
  - Identified "Claims Administration Leakage" as a category for having one of the highest opportunities for savings

Employers must make it a financial imperative to review healthcare benefits spending

MOSS-ADAMS

# What is the Value of a Claim Review?

- Quantitative and qualitative insight into the administrator's claims processing performance can be gained



MOSS-ADAMS

# Measuring Performance

The standards below serve as critical indicators used to measure an administrator's ability to effectively process medical claims

| Performance Category | Suggested Standard |
|---|---|
| **Financial Accuracy** – dollar effect of payment errors expressed as a percentage | 99.0% |
| **Payment Accuracy** – reflects the percentage of instances in which is claim is paid correctly | 97% - 98% |
| **Procedural Accuracy** – number of benefit payment claims processed with no errors (payment and non-payment errors) | 97% - 98% |

MOSS-ADAMS

# Time for a Claim Review if…

- Selection of a new administrator
- Departure from administrator; run-off claims still require processing
- Significant changes to plan design or change in product
- Administrator changes claims system
- Administrator acquisition
- Significant membership growth by administrator

… any time there are Changes!

It is a best practice to perform a claim review every 2 years… even when the plan is running well

MOSS-ADAMS

# Sample Case

- **Client Issue:** Large Hospital System with approx. $14 million in self-funded claims expenses changed TPAs and decided to perform a claim review of its administrator. (Additionally, the client was experiencing an unexplained increase in claims cost while membership was flat.)
- **Service Provided:** Moss Adams performed a stratified random sample of 210 medical claims to evaluate the TPA's claim payment performance and adherence to the Client's plan design and benefit provisions.
- **Project Outcome:**

| Accuracy Measure | Client Level Service Agreement | Project Result | TPA Self-Reported Result |
|---|---|---|---|
| Financial | 98% | 96.81% | 100% |
| Payment | 98% | 96.18% | 100% |
| Procedural | 95% | 99.57% | 100% |

| Financial Errors Type | Error Frequency | Error Amount |
|---|---|---|
| Overpayments | 12 | $192,133 |
| Underpayments | 3 | $18,954 |
| Total (Absolute) | **15** | **$211.087** |

MOSS-ADAMS

# QUESTIONS?