



# Self-Insurance Simplified - Why Your Fully Insured Renewal Might Cost You More Long Term March 26, 2024



Presented By  
**Cottingham & Butler**



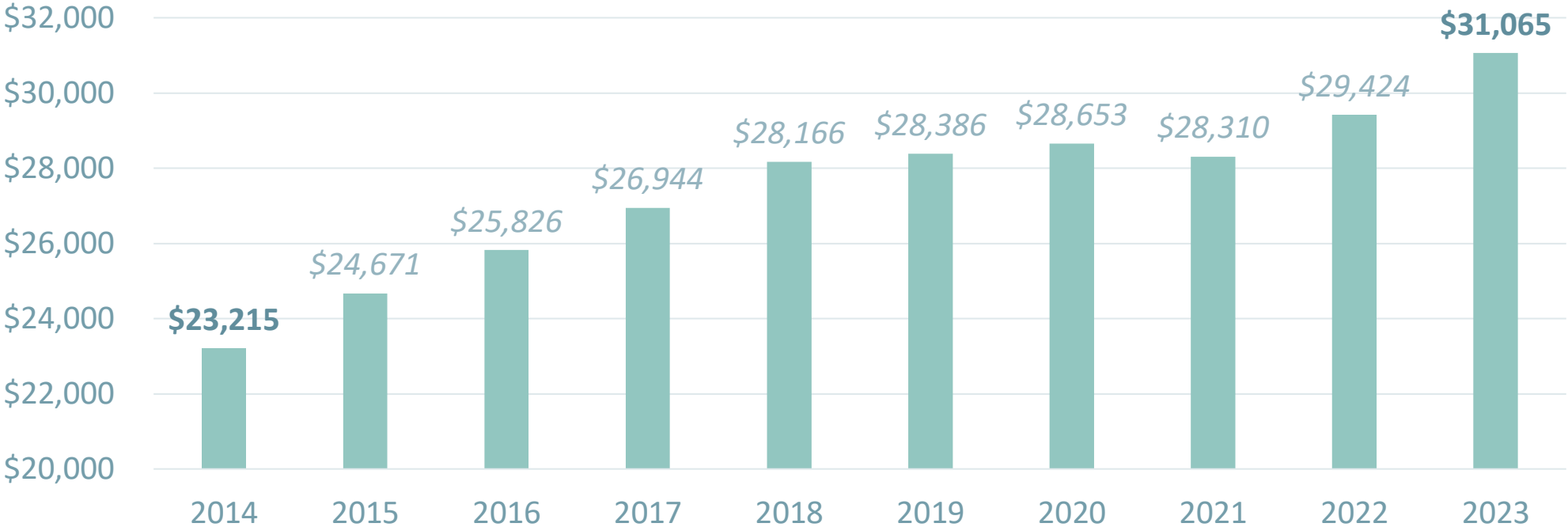
# AGENDA

- Health care cost trends
- Fully insured breakdown
- Addressing drawbacks of being fully insured

# THE SITUATION - HEALTH CARE COST ON THE RISE

Annual Healthcare Costs for Family of Four

Milliman Medical Index 2023

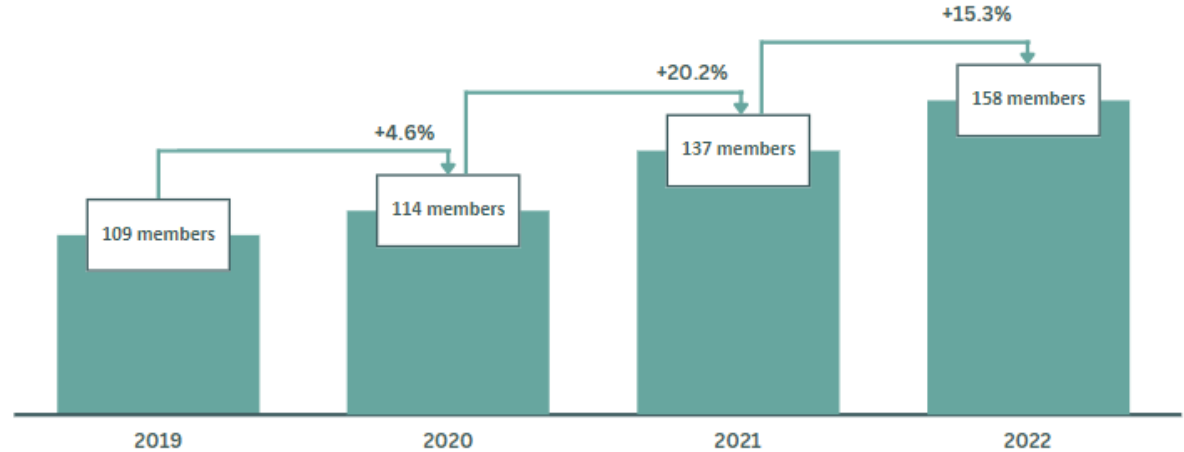


34% increase in healthcare spending for a family of four since 2014.

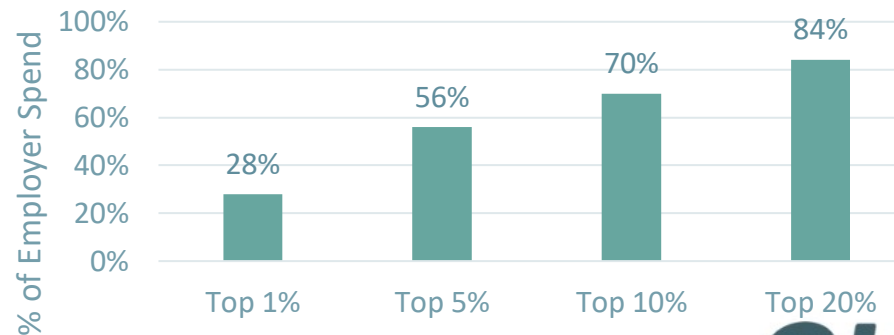
# THE IMPACT OF HIGH-COST CLAIMANTS

- **The top 10%** of claimants driving around **70%** of overall spend for a health plan.
- Top claimant diagnoses tend to be inclusive of Cancers, Cardiovascular Disease, and Musculoskeletal-related conditions.
- Over the past 4 years, we have seen **45% increase** in the # of \$1M+ claimants.
- **Overall, high-cost claimants are usually a large driver of any renewal increase or trend.**

Total million-dollar claims by year (per million covered employees)



Large Claimant % of Overall Spend



Source: Employee Benefit Research Institute (EBRI)– Education and Research “Persistence in High-Cost Health Care Claims: It’s Where the Spending Is, Stupid”

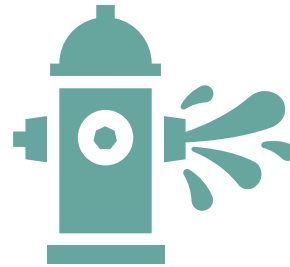
# WHY ARE COSTS INCREASING?

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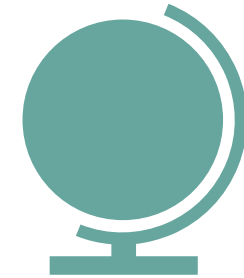
## Worsening Health

- Chronic Conditions
- Obesity Epidemic
- Lack of Preventative Care
- High-Cost Claims



## Healthcare Inefficiencies

- Administrative Bloat
- Lack of Consumerism
- Overtreatment/Excessive Diagnostics
- Specialty Drugs
- Middlemen Profiteering



## External Factors

- General Inflation
- Public vs. Private Insurance Balance
- Increasing Provider and Staff Compensation
- End-of-life Care

# THE COST OF CHRONIC CONDITIONS

- A significant portion of the US has heart- or diabetic-related chronic conditions.
- These conditions drive a significant amount of healthcare utilization and cost, especially when the same individual has multiple conditions (comorbid conditions).
- Overall, a significant portion of high-cost claimants are usually have at least one type of chronic condition

11.6%

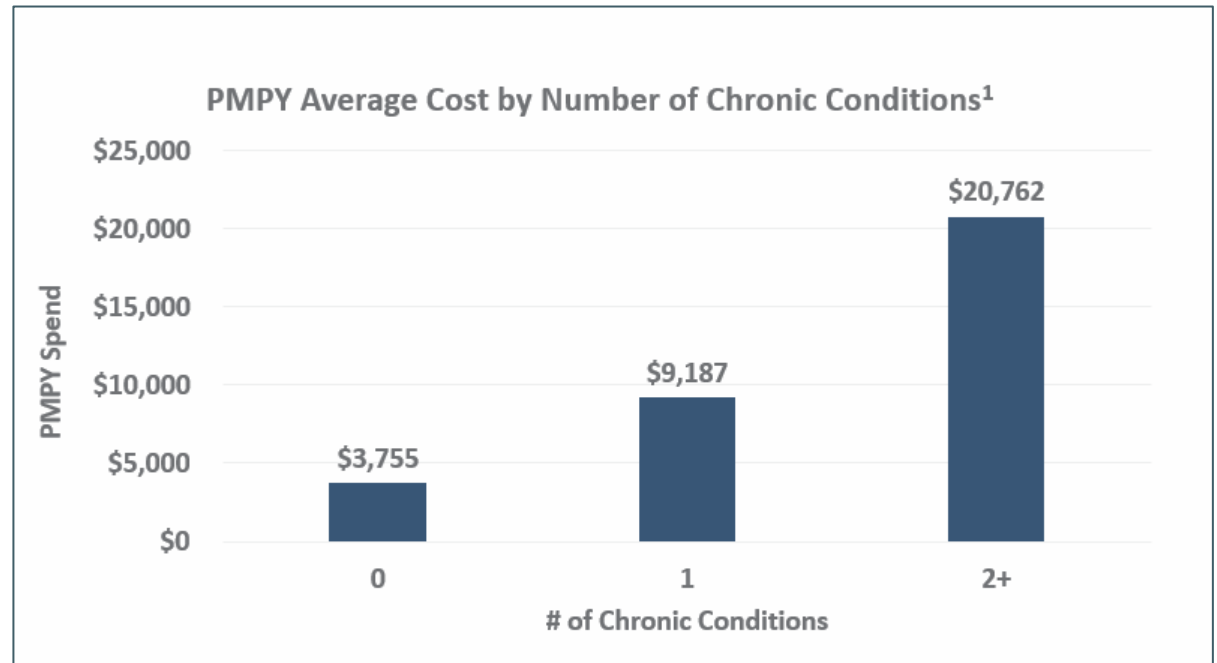
Percent of US Population w/ Diabetes

Center for Disease Control (CDC)

~50%

Percent of US Adults w/ Hypertension

Dept. of Health & Human Services (HHS)

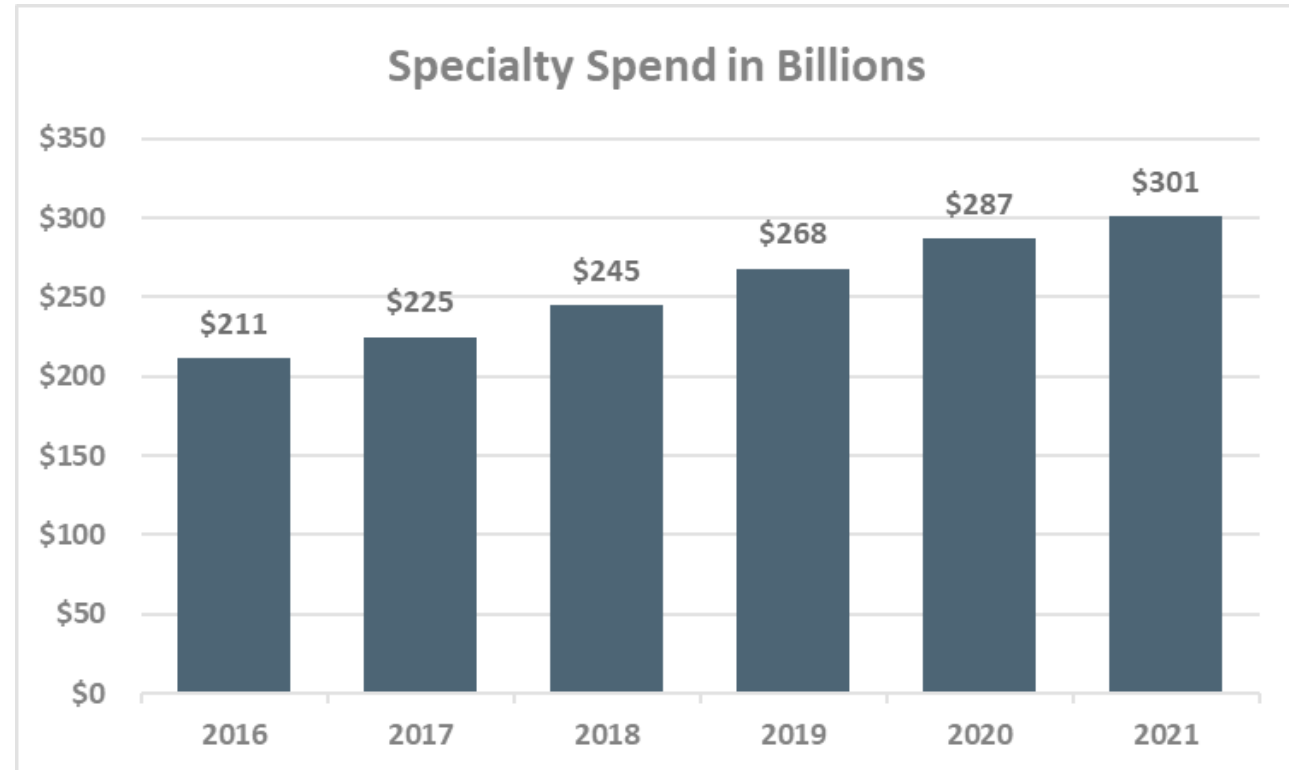


Source: Healthcare Cost Institute 2021 Study

# THE GROWTH OF SPECIALTY DRUGS

- Specialty drugs are expensive medications used to treat complex and/or rare chronic conditions like cancers, rheumatoid arthritis, etc.
- Specialty drugs are taken by <2% of total participants on the plan but account for ~50% of total pharmacy spend.
- Overall, the continued growth of specialty drug claims is putting significant pressure on health plan financials.

Includes Retail and Non-Retail Spend



Source 9; ASPE Article; Trends in Prescription Drug Spending 2016-2021

**FULLY INSURED**

**GUIDE RE**  
LIMITED



# THE “EASY” BUTTON – FULLY-INSURED

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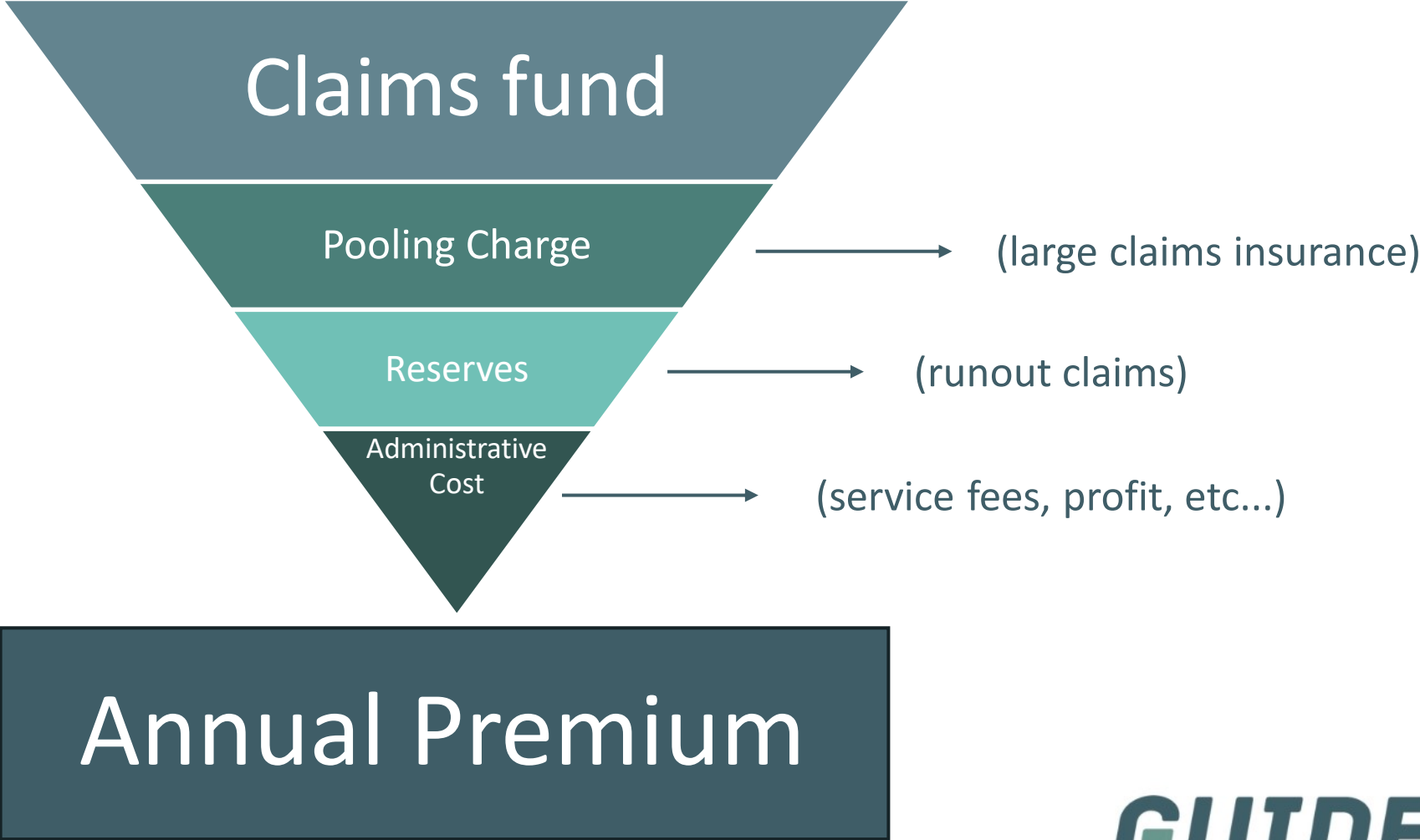
Pay Premiums



easy

Get Insurance

# BUT... HOW IS YOUR FULLY INSURED PREMIUM CALCULATED?



# CLAIMS ESTABLISH PREMIUM...BUT WHAT ESTABLISHES FUTURE CLAIMS?

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# CLAIMS ESTABLISH PREMIUM...BUT WHAT ESTABLISHES FUTURE CLAIMS?

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*Generally involves:*

Historical Claims Experience

Similarly Situated Groups Experience ("Manual")

Trend

Enrollment / Plan Design

*Additional Negotiations / Underwriting Discussions*

Projected Future Claims

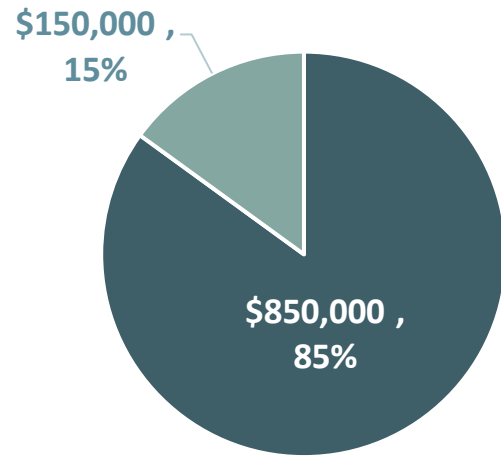
# THE TRUTH ABOUT FULLY INSURED... CLAIMS WILL STILL BE PAID

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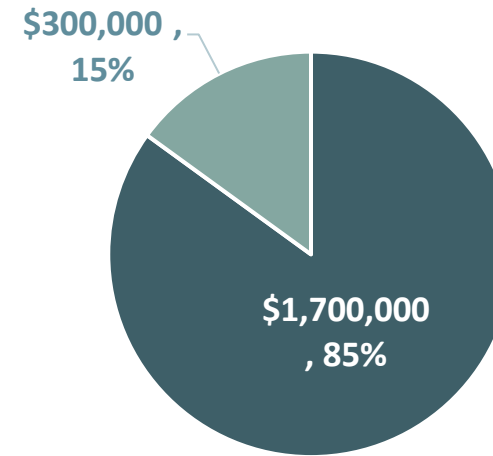
Deferred  
not  
Insured



# FULLY INSURED MISALIGNED INCENTIVES – THE DILEMMA



Same Fixed Cost %  
2x the Potential  
Profit for Carrier



■ Claims & Quality Improvements ■ Carrier Fixed Costs

■ Claims & Quality Improvements ■ Carrier Fixed Costs

- The ACA requires insurance companies to spend at least **85% of premiums** on healthcare claims and quality improvements.
  - 15% allocated towards carrier fixed costs (i.e., staffing), including profit margin.
- Unintentionally, this can create misaligned incentives where insurance companies are *okay* with claims increases,
- The higher the overall cost, the more profit insurance companies can make.

# WHAT CAN YOU DO TO CONTROL COST?

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## Transparency

### Identifying

Who is receiving care  
Where are they receiving care  
Why are they needing care

## Flexibility

### Implement cost/risk mitigation strategies to

Remove liability  
Decrease cost of care  
Prevent large claims incidences

In most cases, you don't have the flexibility to carve out services or implement unique strategies to help control cost. In fact, you might not even have clear visibility to what your claims spend even is.

# FULLY-INSURED

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## Pros

- Fixed 12-month cost
- Simple concept (pay premiums, get insurance)

## Cons

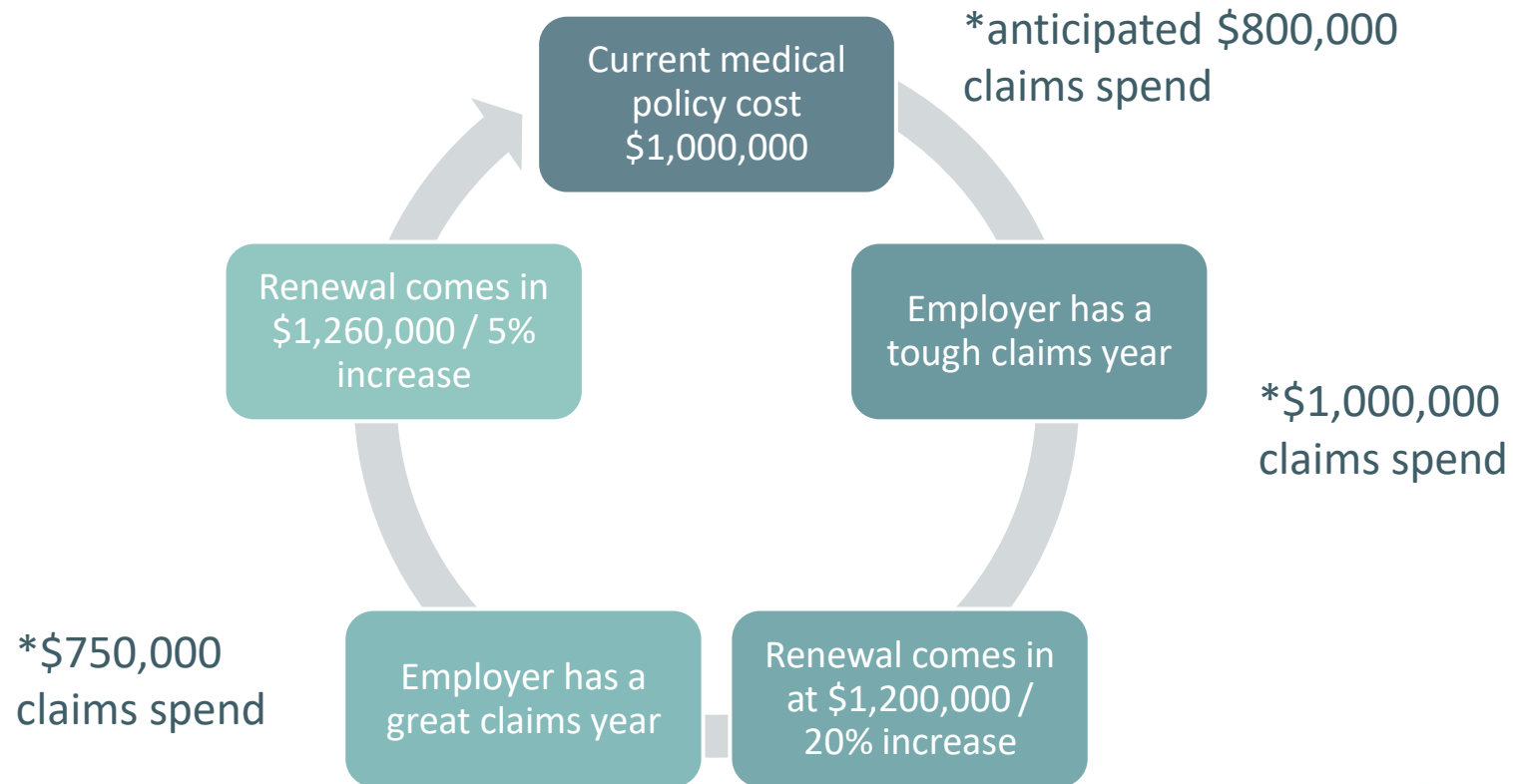
- Lack of control
- Misaligned Incentives
- No opportunity to win



# LONG TERM IMPACT

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Overtime, the fully insured model can lead to uncontrolled claims and a higher price point for your insurance with little to no opportunity to come down.

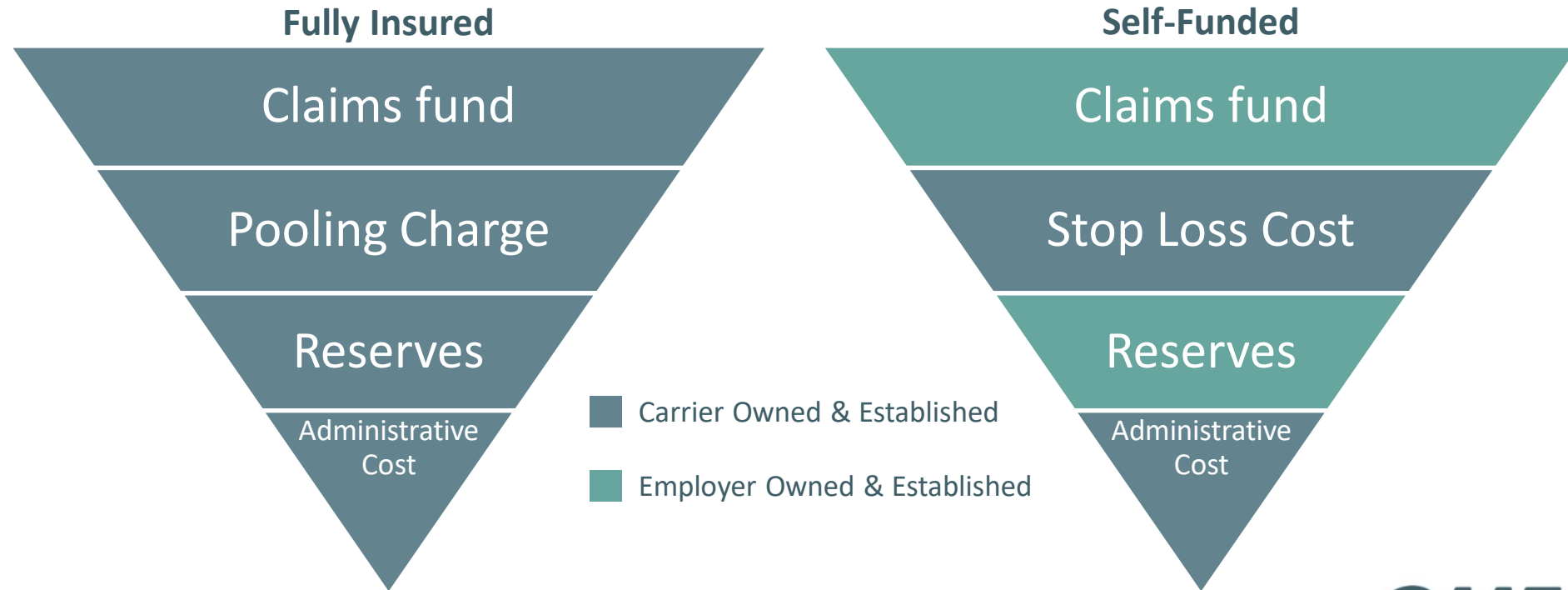


**WHAT OTHER OPTIONS  
ARE THERE?**

# SELF-FUNDING 101 – WHAT IT IS, AND HOW TO STRUCTURE

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Traditional insurance models have the same basic cost components as a self-funded plan. The insurance carrier just charges a higher margin for bundling them together and does not allow you to win when the plan performs well.



# GRABBING THE WHEEL AND TAKING CONTROL

## Self-Funding 101

April 16<sup>th</sup>, 10:00 – 11:00 AM CT





**QUESTIONS?**

**GUIDE RE**  
LIMITED

# TAKE ACTION

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Reach out with any questions and be on the lookout for additional webinars invites throughout the year to learn more on Guide Re!



**Kyle Cluskey**

Guide Re Program Manager

[kcluskey@cottinghambutler.com](mailto:kcluskey@cottinghambutler.com)

O: 563.587.5680



**James Ottavi**

Director of Sales, Employee Benefits

[jaottavi@cottinghambutler.com](mailto:jaottavi@cottinghambutler.com)

O: 608.467.0445