



# State of Idaho

## Self-Funding Model: Financial Aspects

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# Meeting Agenda

- **Introduction**
- **Self-Funding Trends**
- **Advantages and Disadvantages of Self-Funding**
- **Department of Insurance Requirements**
- **Projected Costs**
- **Timing**
- **Questions**

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# Introduction

## Overview of Funding Arrangements

- Fully Insured Plan
  - Employer pays the insurer a premium
  - Claims are paid by the insurer
  - Insurer keeps a portion of the premium for expenses
  
- Self-Funded Plan
  - Claim payments and expenses are paid directly by the employer
  - A trust is created for this purpose
  - Employer may purchase stop-loss coverage to insure against large claims
  - Employer usually contracts for administrative services only (ASO)

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# Introduction

## Overview of Funding Arrangements

- Minimum Premium Contracts (Hybrid)
  - Fully insured plan
  - Employer deposits funds into an account
  - Funds are transferred out of the account by the insurer
  - Insurer is liable for claims above expected amount (similar to stop-loss)

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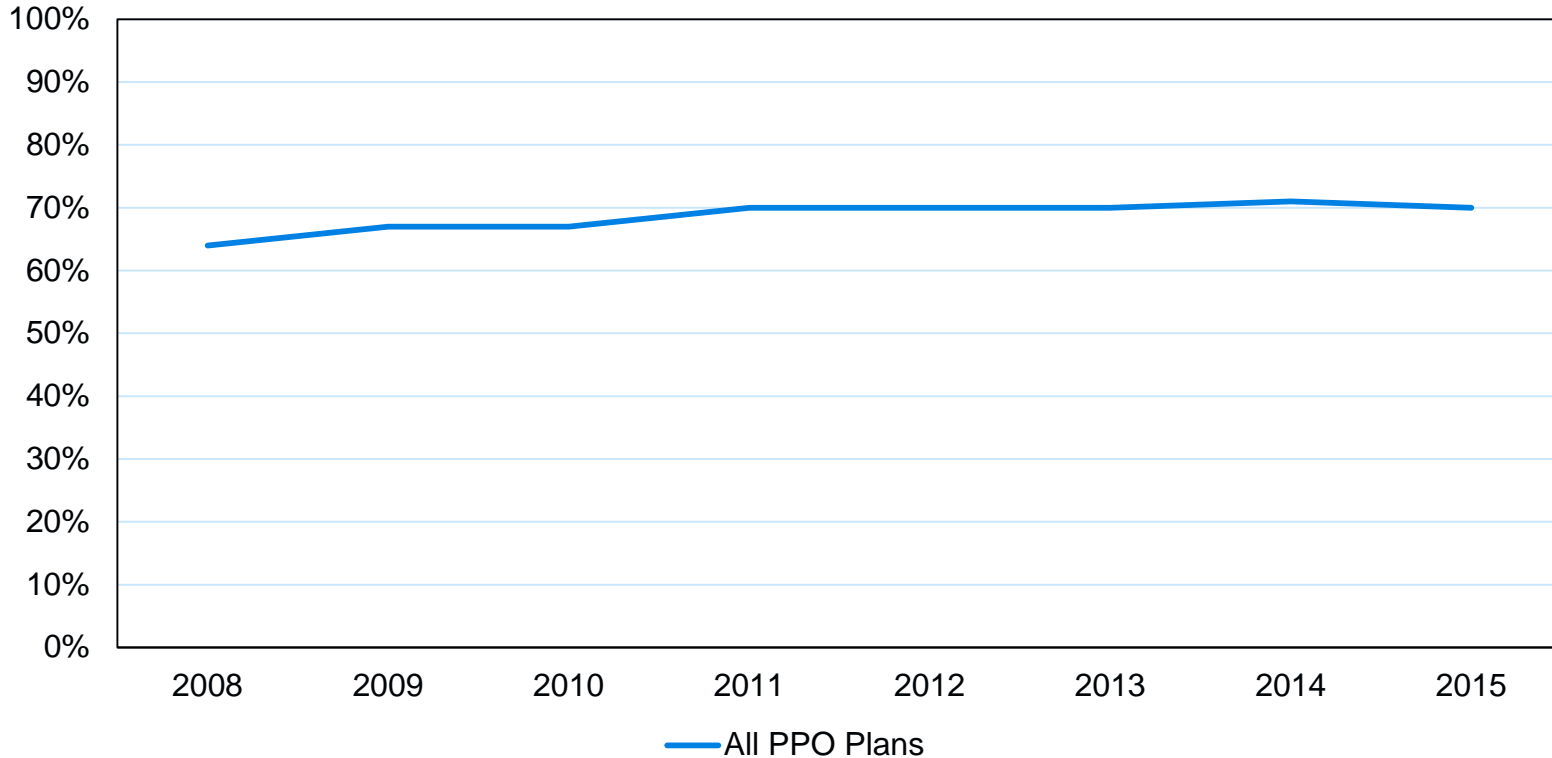
# Introduction

## Current State of Idaho Funding Arrangement

- The State of Idaho (SOI) has a fully insured plan
- Monthly settlement with Blue Cross of Idaho (BCI)
- BCI requires reserves of 10% of premium
  - Used for unexpected claims
- The SOI's maximum liability is 110% of annualized premiums
- Fees for fully insured plan
  - Health Insurer Fee under the Affordable Care Act (ACA)
  - State premium taxes which go to the Idaho general fund

# Self-Funding Trends

## Percentage of Employees in Self-funded PPO Plans



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

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# Advantages of Self-Funding

- **Reduced State Premium Taxes**
  - 1.5% of premium if fully insured
  - \$0.04 per member per month if self-funded
- **Eliminate Health Insurer Fee under the ACA**
  - 1.1% of premium in FY2014
  - 3.1% of premium in FY2016 with future increases likely
- **Improved Cash Flow**
  - The SOI would hold IBNR reserves
  - Opportunity to earn interest and retain more funds

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# Disadvantages of Self-Funding

- Governance by Independent Board of Trustees rather than the Legislature
  - A change in this requirement would make self-funding easier
- Assumption of Risk
  - SOI would assume risk of higher than anticipated claims
  - Mitigated by holding reserves and stop-loss coverage
- Legislative Approval is Required
- Transitional Costs
- Ongoing Operating Costs



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# Idaho Department of Insurance Requirements

- Two code sections
  - Chapter 40 (self-funded plans)
  - Chapter 41 (joint public agency self-funded plans)
- General requirements
  - Board of trustees
  - Registration with DOI
  - Annual audited financial statement
  - Actuarially certified reserves
  - Minimum surplus (Chapter 40 only)

# Fully Insured Projected Costs

FY2018 – FY2020

	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>	<u>Total</u>
Paid Claims	\$ 286.4	\$ 312.1	\$ 340.1	\$ 938.6
Administration	10.4	10.9	11.4	32.7
Premium Tax	4.2	4.6	5.0	13.8
ACA Fees	11.8	12.8	13.9	38.5
Operations	3.5	3.8	4.1	11.4
Reserves	<u>2.2</u>	<u>3.0</u>	<u>2.9</u>	<u>8.1</u>
Total Funding	\$ 318.5	\$ 347.2	\$ 377.4	\$ 1,043.1

All figures are in \$ millions.

# Self-Funded Projected Costs

FY2018 – FY2020

	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>	<u>Total</u>	<u>Change</u>
Paid Claims	\$ 267.0	\$ 310.2	\$ 338.0	\$ 915.2	\$ (23.4)
Administration	11.0	11.6	12.1	34.7	2.0
Premium Tax	-	-	-	-	(13.8)
ACA Fees	0.3	0.1	-	0.4	(38.1)
Operations	4.1	4.4	4.7	13.2	1.8
Reserves	<u>32.8</u>	<u>17.3</u>	<u>18.6</u>	<u>68.7</u>	<u>60.6</u>
Total Funding	\$ 315.2	\$ 343.6	\$ 373.4	\$ 1,032.2	\$ (10.9)

All figures are in \$ millions.

After FY2020, there are estimated annual savings of \$15.8 million.

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# Timing

- The June 30, 2016 report evaluated a self-funding scenario effective FY2018
- Need one to two years to implement
  - Legislative Approval
  - Establish Governance
  - Establish a Trust
  - Implement Transition Plan with Stakeholders

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# Questions



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# Caveats

- The statements of reliance and limitations on the use of this material are reflected in the June 30, 2016 Self-Funding Analysis Report and apply to this presentation.
- These statements include reliance on data provided, on actuarial certification, and the purpose of the June 30, 2016 Report.
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