



**USI Insurance Services**

**House Education & Workforce Committee  
Subcommittee on Health, Employment, Labor & Pension**

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**Providing Access to Affordable, Flexible Health Plans  
Through Self-Insurance**

Testimony Delivered By

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## INTRODUCTION

Chairman Roe, and members of the committee, thank you for the opportunity to testify on the issue of self-insurance. My name is Robert Melillo and I serve as the National Vice President of Risk Financing Solutions for USI's Employee Benefits Division.

USI is a leader in the insurance brokerage and consulting market with more than 4,000 experienced and innovative professionals working with more than 10,000 employee benefits clients.

Founded in 1994, USI is a leading distributor of property and casualty insurance, employee benefits and specialty products throughout the United States. Headquartered in Valhalla, NY, the Company operates out of 100 offices in 28 states. USI combines its client-centric culture at the local level with leading edge technical resources on the national level.

USI is the 10th largest insurance broker in the U.S.<sup>1</sup>, the 3rd largest privately held<sup>2</sup>, and the 14th largest insurance broker in the world<sup>3</sup>. We are a leader in property & casualty and employee benefits. We are the #1 employee benefit communication and enrollment services provider in the U.S.<sup>4</sup>

My written testimony will include an overview of the process involved with migrating a fully insured plan to a self-insured arrangement. It will also include two case studies of plans that have converted from fully insured to self-insured arrangements, along with the results of their financing change.

*1 Business Insurance Top Broker Ranking 2013*

*2 Insurance Journal Top 100 Privately-Held Independent Agencies Ranking 2013*

*3 AM Best Top Global Insurance Brokers Ranking 2013*

*4 Internal estimates based on competitive analysis*

## SELF-INSURED PROCESS

The role of the Insurance Broker or Consultant is to educate and inform their client of the options available to them in the marketplace for delivering a competitive and comprehensive employee benefits package to their employees and dependants. For many clients, a fully insured program is the easiest option for a group to implement, but successfully managing a

groups healthcare spend requires engagement from the plan sponsor, innovation and access to utilization data. Self-insurance offers our employee benefits clients a platform to effectively and efficiently manage their healthcare spend by allowing our team to analyze the data and modifying the plan to improve outcomes and eliminate waste.

Regardless of the funding arrangement (i.e. Fully Insured or Self-Insured), the plan sponsor first hires a licensed insurance broker or consultant to represent and advise them through the purchase of their group health insurance purchase.

A fully insured arrangement bears little risk to the plan sponsor. The plan sponsor purchases an insurance policy from a licensed insurance company. The benefits within the policy are predefined and filed with the state insurance department. They pay the insurance company premium each month and the insurance company pays all eligible claims incurred during the policy period.

A self-insured arrangement can include the same services and the same benefits, but the financing of the benefits is different. Instead of paying a monthly premium to an insurance company, they fund a claim account that pays for claims incurred under their plan and they purchase stop loss insurance to manage the catastrophic risk. Self-insured plans can be customized to meet the unique goals and objectives of each plan sponsor and their employee population needs.

Before a plan sponsor converts from a fully insured program to a self-insured arrangement they must first review preparedness as it relates to five key areas:

1. Financial & Population Stability
2. Risk Management
3. Innovation
4. Engagement
5. Education & Support

By assessing a plan sponsors preparedness to convert to a self-insured arrangement relating to each of these five key areas, the plan sponsor and the broker or consultant can better determine if self-insurance is appropriate for the group. Below is an overview of the discussions a plan sponsor will have with their Insurance Broker or Consultant.

### Financial & Population Stability

A self-funded program is responsible for the funding of all eligible claims incurred and paid by the plan administrator (ASO), or third party administrator (TPA). Therefore, a plan sponsor must have access to the necessary capital to fund all claims. How financially stable, and solvent, are you today and in the future? Are you prepared to fund all claims under a self-funded arrangement?

### Risk Management

A self-funded arrangement exposes the plan sponsor to greater financial exposure than that of a fully insured arrangement. However, that additional risk comes with greater reward potential as well. This additional exposure is typically fluid, but can be managed with risk transfer vehicles (such as Specific Stop Loss, Aggregate Stop Loss, etc.). Are you prepared to manage the financial exposure associated with a self-funded arrangement and based on a three-year healthcare strategy? How comfortable are you with managing this exposure with your Insurance Broker or Consultant?

### Engagement

A self-funded program allows a plan sponsor to customize, measure, evaluate and manage each and every aspect of their benefit plan, compared to a fully insured program that typically has a pre-determined offering through a single source company. As a result, managing a self-funded program requires an elevated level of engagement from the plan sponsor if a multi-year health care strategy is expected to be successfully executed. Are you prepared to engage in the development and implementation of a multi-year health care strategy and the management of your health care spend?

### Innovation

Why are you offering the benefit plan you have today? Most fully insured programs offer a "canned" plan design, loaded with state mandated benefits packaged by the insurance carrier and often do not address your financial goals and unique needs. Many of today's health care benefit innovations have originated from the self-funded marketplace. Are you comfortable stepping outside of the box with the design and structure of your benefits program? Are you interested in designing a benefit plan with best in class vendors, in essence creating your all-star team or health care service provider?

## Education & Support

The foundation of the self-funded model was developed from the desire to leverage cash-flow, customize benefits plans, and the belief that if you manage the pennies, the dollars will take care of themselves. Managing this process takes a seasoned and committed team of internal and external professionals committed to monitoring and managing all aspects of your health care spend and the risk. Do you have the internal and external (i.e. Benefits Advisor) team in place to develop and execute a successful self-funded strategy?

Fully insured health programs not only limit a plan sponsors ability to manage their health care spend by limiting their access to claims and utilization data, they also lack flexibility and innovation. Today, more than ever, plan sponsors need to address several areas if they plan on managing future health care expenses. This worksheet is designed to help your organization determine if your plan is a viable candidate for self-funding your benefits program. Self-funding is a time tested and proven model for financing health care -- with ongoing innovative approaches leading the health care industry.

### **CASE STUDY #1 (Sheffield Pharmaceuticals)**

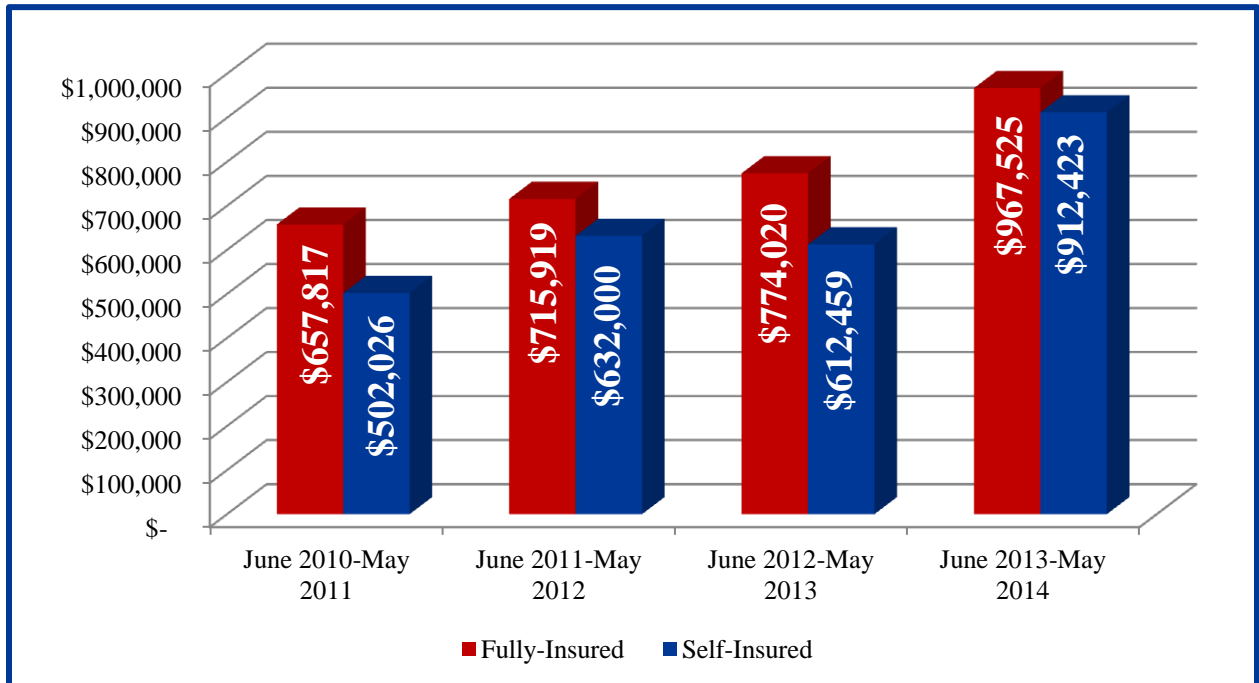
Sheffield Pharmaceuticals is a family owned, mid-sized manufacturer of over the counter toothpastes, creams and ointments located in New London, Connecticut. Over the past decade Sheffield has grown to a company with roughly \$30 Million in revenue and an employer of 162 workers. Sheffield provides health insurance to 75 of these employees and their families.

Like all big and small businesses, every year Sheffield would meet with their insurance consultant, evaluate their health care costs and send its health insurance plan out to bid to try to gather competitive quotes. While every year a modest increase was expected, starting in 2005 the increases began to average over 10% per year. At times they would look to lessen the blow of this increase by either increasing the employees' share of premiums or by cutting back on some of the benefits. This worked somewhat effectively until 2008. In that year, a small amount of employees in the company experienced significant health issues which drove our utilization up. In response, their existing health insurance provider increased their rates 25%. This was followed up in 2009 when their provider told them that due to their high utilization, their rates would increase 39% while other providers quoted higher. They began looking closely at self-insurance as a viable option with their insurance consultant. They evaluated and weighed the potential positive benefits of being able to gain greater awareness and mastery of our total

health care costs versus the potential negatives of not having a fixed cost to budget, along with the potential for a catastrophic occurrence to severely impact our costs. It was believed that due to the relatively good health of the employees, the odds of having another high utilization year were low. When we asked our insurance consultant if he expected the insurance provider to reduce premiums following a better utilization year and he answered no, the decision to move to self insurance became an easy one for the company.

Based on estimates of the yearly average increases that the traditional health care plans charged in Connecticut for plans of our size, we believe that self insuring saved the company over \$400,000 over the span of four years.

**Comparison of Actual Self Insured Costs vs. Estimated Fully Insured Costs**



This dollar figure amounts to roughly a 19% savings over the expected costs of insuring traditionally during this period. Our success with self insurance has allowed the company to realize savings which have allowed it to still provide “Gold” caliber insurance coverage to its employees that covers 75% of the total health care costs, all while holding the overall costs to the employees in check.

## **BENEFITS OF SELF INSURANCE TO SMALL BUSINESSES**

There are a number of benefits that self insurance affords to plan sponsors. Below is a brief listing of some of the benefits:

- Improved cash flow
- Reduced claims
- Access to claim and utilization data
- Ability to analyze and compare expenses and utilization patterns and trends
- Transparency helps to support employee incentives and more effective employee communication
- Creative and customizable benefit plans suited specifically for a plan sponsors employee population and their dependants.

One example of the power of transparency that comes with a self-insured plan surfaced when we met with Sheffield Pharmaceuticals to review their claims and utilization data after their first year of self-insuring. The data showed that their employees had a higher utilization of the Emergency Room visits than what should have been expected. Further analysis showed that some employees were utilizing the ER for non emergency care items that normally should be handled by a physician, who typically charges a quarter of what hospitals do. By doing this, not only were these employees unknowingly increasing the costs to themselves and the plan but also they were negatively impacting their future health by not creating a regular relationship with a primary physician. By adjusting our plan to incentivize employees to find and utilize physicians instead of the emergency room, Sheffield was able to use its health data in a way that reduced overall employee and plan costs while also benefiting the current and future health of its employees.

Many plan sponsors that self-insure begin investing in the health of its employees, by implementing programs that educate and incentivize healthy habits amongst their employees. Program may include paying for yearly physicals, reducing the cost for prescriptions for chronic conditions, or offering rewards to employees who received yearly physicals. This allows employees and their physicians an opportunity to develop a health relationship and address potential major health issues before they occur. In addition to physicals, there are reward programs for employees that work towards maintaining healthy biometric levels, including cholesterol, blood pressure, body mass index and smoking activity is a popular approach used

today. By addressing these important health factors now, it's believed that an employees' future health can be dramatically improved, and cost stabilized.

## CASE STUDY #2 (SpearUSA)

SpearUSA is a 300 employee company headquartered in Mason, OH. In 2011, they converted to a self-insured arrangement from a fully insured plan. By converting to a self-insured arrangement with the use of stop loss insurance, SpearUSA was able to reduce their three year healthcare spend by greater than \$4.4Million.

Year	Average Emp's	Fully Insured Premium (FIP)	FIP Per Emp/Per Month	FI Increase	Self-Insured Expenses (SIE)	SIE Per Employee /Per Month	Self-Insured Increase	Actual Savings
2010	328	\$3,461,320	\$879.40	N/A	\$3,461,320	\$879.40	N/A	N/A
2011	328	\$3,700,151	\$940.08	6.90%	\$2,326,814	\$591.16	-32.78%	\$1,373,337
2012	307	\$3,758,346	\$1,020.18	8.52%	\$2,125,290	\$576.90	-2.41%	\$1,633,056
2013	302	\$3,945,049	\$1,088.59	6.71%	\$2,510,857	\$692.84	20.10%	\$1,434,192
<b>Total/Average</b>		<b>\$14,864,866</b>		<b>7.38%</b>	<b>\$10,424,281</b>		<b>-5.03</b>	<b>\$4,440,585</b>

SpearUSA was risk adverse and did not want to assume much of the liability and exposure. So, we assisted them in securing specific stop loss coverage with a conservative risk threshold, (e.g. \$60,000 per individual) reducing their risk exposure under their self-insured plan and protecting them from catastrophic claims per individual greater than \$60,000. By converting to a self-insured arrangement and using stop loss insurance to manage their risk, SpearUSA was able to reduce their healthcare spend by more than 36% after three years by capturing and analyzing their claims and utilization data, and modifying their plan design to a more focused offering taking into account the specific needs of the SpearUSA employees, and improving employee communications that both empowered and educated their covered members to be smarter consumers.

Since converting to a self-insured arrangement, SpearUSA has not increased employee contributions or reduced benefits.



## **CONCLUSION**

In conclusion, I would like to thank the committee for the opportunity to speak with you about the true benefits and success that self-insurance has offered for nearly forty years. I believe a plan sponsors choice to self-insure with the use of quality and customizable stop loss insurance programs is essential if they're to have any chance of managing their future healthcare spend.

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