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Identifying and Controlling Risk in Employee Benefits Programs

Public Risk Management Association Conference – June 14-17, 2020



Agenda

- Introduction
- Summary of Traditional Sources of Risk and Risk Management Techniques
- Sources of Risk in Employee Benefit Plans
- Employer Cost/Risk Management Strategies and Trends
- Supplement – Strategy and Benchmarking Data
- Questions and Answers

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INTRODUCTION

Introduction

- Employers develop a comprehensive employee benefits program in order to:
  - Attract new employees
  - Retain existing employees
  - Reward high performing or key employees
  - Protect employees and their families

Introduction

- Cost – and the associated risk – are the biggest factors that makes these objectives difficult for employers
  - Understand all the drivers of cost (risk)
  - Manage what you can manage
  - Educate, educate, educate and then educate
    - Employees, managers, public officials

Introduction

- In most cases, an employee benefits program is subject to collective bargaining and utilizes a multi year contract
- It is important to understand the risks of your employee benefits program now and projected in the future
- The risk manager and/or finance department should be involved in employee benefits program strategy development, execution, and evaluation

Sources of Risk – “Top 5”

- Administrative
- Contractual
- Compliance and Regulatory
- Fraud – (member and provider)
- Cost

Risk Management Techniques

- Avoid
- Reduce/Control
- Transfer
- Retain
- Hybrid Approach – most employee benefit plans and plan sponsors utilize this technique



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SOURCES OF RISK IN EMPLOYEE BENEFIT PLANS

Administrative Risk

- Plans and plan sponsors may utilize administrative procedures that produce exposures – especially paper based administration or “static” enrollments
  - Enrollments not being processed and verified with carriers
  - Payroll deductions taken for an employee not enrolled in plans and vice versa (i.e., voluntary plans, etc.)
  - Billing reconciliation of premiums and enrollments

Contractual Risk

- Contracts with employee benefit providers may not match plan documents
  - Reinsurance contracts
  - Exclusions, eligibility
- Contracts may not allow plans/plan sponsors to assert certain rights
  - Right to audit
  - Access to records and information (e.g., detailed claims data)

Compliance and Regulatory Risk

- Most employee benefit programs are subject to direct/indirect federal and state regulations
  - ERISA/DOL/IRS
  - Non-discrimination rules
  - State paid leave acts
  - State Divisions/Departments of Insurance (e.g., COVID-19)
- Penalties are severe and also costly to correct

Fraud Risk

- Employees can enroll ineligible “dependents” in employee benefit plans
  - Former spouses (e.g., still enrolled as current spouse)
  - Relatives not eligible per the plan document(s)
- Claim fraud
  - Members or providers submitting claims for services not performed
  - Administrators/insurers paying claims not according to contract terms

Cost Risk

- When an employee is hired and employee benefits are offered – especially health insurance, no information is obtained [nor can it be] regarding potential exposures
  - Number of persons in family
  - Employee and family health status
  - Prior claims history
  - Specific medical providers or prescription drugs utilized

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EMPLOYER COST/RISK MANAGEMENT STRATEGIES AND TRENDS

Introduction

- Employee benefit program costs are determined by several factors [most costly is the medical program]
- The main factors that could be addressed and have a meaningful impact on costs include:
  - Eligibility – who, and how many employees/retirees are eligible for the plans
  - Price – how much is paid for services provided (limited)

Introduction

- Utilization of services – how many services are consumed by the members
- Intensity of services – the level and degree to which the services are provided
- Location of services – the setting where the services are provided (e.g., hospital vs. free standing facility)
- Who is paying for the services

Introduction

- The cost factors that [medical] plans and plan sponsors have limited or no ability to control
  - Technological advances
  - Prescription drug prices
  - Legislation and regulations
  - Taxes, fees, and assessments
  - Insurer “losses”

Introduction

- In many cases, the most important employees [retirees] to review and monitor are those that are not enrolled in your plans
  - They are most likely receiving their employee benefits from other (e.g., spouse) employers. As those plans evolve over time, the employee [retiree] will enroll in your plans if they are better financially/contractually for them

Employer Strategies and Trends

- Traditional employer strategies to deal with increases in health insurance premium rates
  - Increase copayments and deductibles
  - Add copayments or coinsurance on certain services
  - Incent employees to enroll in the HMO plan (historically the lower cost option); increase ee contributions
  - Switch health insurers or administrators

Employer Strategies and Trends

- The Affordable Care Act (ACA) has limited the amount members can pay “out of pocket”
- The ACA also has limited what employees can pay “out of paycheck” (affordability)
- Fewer health insurer options and plan designs offered
  - Health insurer consolidation

Employer Strategies and Trends

- Offering a High Deductible Health Plan (HDHP) / Health Savings Account (HSA) option or only plan offered
  - A HDHP has minimum deductibles of $1,400 single and $2,800 family on ALL non preventive services [2020]
  - A HDHP has maximum out of pocket amounts of $6,900 single and $13,800 family [2020]
  - Preventive care is covered with no member cost share

Employer Strategies and Trends

- Non preventive prescription drugs are subject to the deductible (most prescription drugs)
- Lower premiums and lower trend rates due to deductible applying to all non preventive services and prescription drugs [generally]

Employer Strategies and Trends

- Offering a “Participating Funding Arrangement” or PFA
  - Employer purchases a plan from an insurer with the largest deductible/out of pocket amount available (e.g., $8,150/$16,300) [2020]
  - Employer utilizes a third party administrator to administer a plan under the deductible/out of pocket amount (similar to layering)

Employer Strategies and Trends

- Savings and cost controls are generated in two ways:
  - Premiums for insurance portion are lower due to including the highest deductible/out of pocket maximum available
  - The employer funds the desired amounts under the deductible/oop and is able to “save” dollars on the claims that are not incurred that would otherwise be paid in fully insured premiums

Employer Strategies and Trends

- The majority of members incur less than the deductible in annual medical claims
- Guaranteed costs are also available from third party administrators for the amounts under the insurer deductibles
- Closest approach to the PFA is partially self insuring or utilizing a Health Reimbursement Arrangement (HRA)
- The PFA is an HRA “on steroids”

Employer Strategies and Trends

- Offering a “limited network” plan
  - In a limited network plan, the underlying plan design may be exactly the same as the current plan design (i.e., copayments, deductibles, coinsurance and covered services)
  - However, certain high cost and/or lower quality providers are excluded (no coverage is available if those providers are utilized) from the plan

Employer Strategies and Trends

- Premiums are lower due to the network restrictions (better contract rates at these providers)
- Sometimes “popular” providers are excluded
- An alternative would be a “buy up” option in which the member would pay the difference in cost between the provider cost in the plan and the provider they chose

Employer Strategies and Trends

- Offering a pharmacy “carve out” plan
  - Typically utilized by larger employers
  - Allows employers to customize formulary – decide which drugs to cover and what copayment or coinsurance is applied
  - If unable to “carve out”, the pharmacy benefit can be modified – better contracts and terms

Employer Strategies and Trends

- Adding a fourth tier for specialty drugs
- Apply a higher copayment, separate deductible, or coinsurance
- Add stricter medical management – pre-authorization, step therapies, utilization of a separate specialty pharmacy

Employer Strategies and Trends

- Offering Direct Primary Care (DPC)
  - A fixed fee is paid to a physician (or physician group) for all primary care services
    - Under ACA, preventive visits are no member cost share
  - Insurance is still needed/required for other services (DPC providers do not accept insurance)
    - Also DPC is not “MEC” under the ACA

Employer Strategies and Trends

- "Doing the Math" is necessary to see if this makes sense for an employer
  - If cost is $75 per month per person ($900/yr) there would need to be savings or reductions in medical expenses => cost
- Accessibility/availability is an issue in certain locations

Employer Strategies and Trends

- Offering a wellness or population management program
  - Wellness has different connotations – typically the program should improve employee or member health and reduce claims
  - These programs take time to impact claims and claim trend rates
  - Important to target only a few areas and they need to be relevant to the population (if you offer a smoking cessation program, be sure you have smokers in your population)

Employer Strategies and Trends

- Diabetic programs have had positive results
  - Program provides all diabetic medicine (insulin) and supplies (blood test strips) at no member cost
  - Also provides electronic blood glucose monitors and/or scales
  - Member must commit to comply with program requirements – blood test schedule, visits with PCP, filling of prescriptions

Employer Strategies and Trends

- Claims are measured for the population prior to the program beginning and compared to claims each year
- Program has produced lower medical costs per managed member and lower ER and I/P visits

Employer Strategies and Trends

- Requiring employees to complete wellness activities in order to enroll in the “richer” plans or receive the best employee contribution rate
  - Employer requires an employee and their spouse to complete biometric screenings before they enroll in the lowest deductible plan

Employer Strategies and Trends

- Employer requires an employee to complete a Health Risk Assessment (HRA) in order to receive lowest employee cost for plan (if no HRA completed, plan cost would be $XX higher per month)
- This strategy needs to be coupled with a plan for employees to take action based on their test/assessment results

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Employer Strategies and Trends

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- Utilization of Reference Based Pricing (RBP)
  - Utilized by self-insured employers
  - Employers set a cap on what they will pay for a certain medical service that usually has a wide price variation
  - Examples are joint replacement surgery, colonoscopies, bariatric surgery, MRI, etc.

Employer Strategies and Trends

- Needs to be designed to be ACA compliant with the out of pocket cost maximum limitation
- Third party database used to set cap or limit to ensure adequacy of limit

Employer Strategies and Trends

- Offering “Minimum Essential Coverage” (MEC) plans to all full-time employees to avoid the $2,570 [2020] penalty and employee measuring responsibilities ($3,860 [2020] penalty still applies if employee receives a subsidy or cost sharing reduction on exchange)
  - MEC plans only need to cover certain preventive services with no member cost sharing. Employee only rates are usually less than $100/month

Employer Strategies and Trends

- MEC plans can be 100% employee paid
- As of now, this is allowed under the regulations (stay tuned) if premiums meet affordability safe harbor

Employer Strategies and Trends

- Offer a “Minimum Value” (MV) Plan
  - MV plans need to have a 60% or greater “actuarial value”
    - Calculator provided by HHS
  - Most traditional union and public sector plans are in the 80%+ range for actuarial value

Employer Strategies and Trends

- If employee contribution for self-only coverage is at the safe harbor level of 9.78% of W-2/rate of pay and offered to 95% of full-time employees no penalties would apply [FPL safe harbor is $101.79 max monthly contribution] – [2020]

Employer Strategies and Trends

- Switching to self insurance or “captive” arrangement
  - Pooling of risks for similar employers [captive]
  - Potentially more risky for smaller employers
  - PCORI fees still apply
  - Lower administrative fees
  - Flexibility in offering Essential Health Benefits (EHBs)
  - Non-discrimination penalties less impactful than on fully-insured plans (when they become effective)

Employer Strategies and Trends

- Private Exchange or Marketplaces
  - Employers can utilize a “defined contribution” approach to health insurance
  - Employer sets a fixed dollar contribution and employees can choose from multiple plan options (usually more than would be available otherwise)
  - Other benefits can be made available – dental, life, disability, vision, etc.

Employer Strategies and Trends

- Most utilize a single carrier for medical plans
- Employees who are “over insured” can buy down
- Individual Health Care Reimbursement Arrangements (IHCRA) are a version of this strategy
- Limits OPEB liability as well

Employer Strategies and Trends

- Introduce Cost and Pricing Tools
  - Massachusetts “has” an online comparison aggregator
  - http://www.getthedealoncare.org
  - As of today, it is still blank
  - Each carrier also has their own website to provide cost comparisons for members
    - Prices vary widely – ranges used most of the time

Employer Strategies and Trends

- Other Cost Control Programs
  - Second surgical opinion
  - “Steerage” with incentives to lower cost/high quality providers (e.g., MRI, lab, x-ray)
  - Claims data analytics needed to determine success and measure program

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Employer Strategies and Trends

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- Medicare Considerations
  - If a retiree (not an active employee) is not eligible for Medicare, but is age 65 or greater
  - Review claims paid for those retirees (or group of retirees)
  - It may be less expensive to pay for Medicare coverage for that member (A & B) so they can enroll in the Medicare supplement/Advantage plans offered

Employer Strategies and Trends

- Medicare becomes primary coverage (payor)
- Communication and education is needed for this strategy to work
- Medicare education for those eligible could also be helpful for those close to retirement

Employer Strategies and Trends

- Coverage for Spouses
  - Employers not required to provide coverage for spouses under the ACA [children to age 26 still required]
  - Employers are charging more for family plans (no affordability requirement)
  - Employers are surcharging family rates if employee has access to coverage through spouse

Employer Strategies and Trends

- Employers are charging “per dependent” covered
- If an employer’s waiver count is high, other employers’ strategy may impact participation rate if no changes are made to their plans or dependent coverage strategy

Employer Strategies and Trends

- Spousal Incentive Plan
  - Offer an incentive for those employees who have access to a spouse/other plan
  - Employer reimburses up to 100% of the difference in employee cost between the plans (or up to 100% of the actual spouse cost)
  - Employer reimburses up to 100% of the difference in out of pocket costs (or up to 100% of the actual out of pocket costs)

Employer Strategies and Trends

- Employer savings is the avoided employer cost/claims of the plan for the employee, less reimbursements
- Wait, what?
- Your employees spouse's plan could be doing this and making your plan "free" to them
  - Cost controls/cost sharing ineffective
  - Contribution strategy is nullified

Employer Strategies and Trends

- Membership Audit
  - Require birth certificates for children
  - Require marriage certificates for spouses (annual enrollment should include requirement to notify upon final divorce)
  - One time spot audit and then ongoing new enrollments
  - Audit to ensure eligibility – full time, ACA eligible, per the plan document (you do have one, right?)

Employer Strategies and Trends

- Claim Audits
  - For self insured employers to ensure claims paid only for eligible members, per plan provisions, for covered services and at the right contracted reimbursement rate
    - Also detect fraud by members or providers
  - Prescription drug audit – rebate sharing, contract terms and pricing focus
    - Pharmaceutical manufacturer price assistance review

Employer Strategies and Trends

- Not Offer Health Insurance (Pay Instead of Play)
  - Penalty is $2,570 [2020] per full-time employee [less 30] per year (not tax deductible)
  - If compensation is increased to assist employees pay for coverage on their own other costs could increase
    - Payroll taxes, worker's compensation, life and disability, 401k, profit sharing or defined benefit plan costs
  - Health Care Flexible Spending Account (FSA) would not be able to be offered

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Employer Strategies and Trends

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- Due to an individual responsibility provision in some states, all employees would need to have health insurance or pay an individual penalty
- Rates on the Marketplaces vary widely by age and family size
  - Plan designs typically incorporate high deductibles and higher copayments and/or coinsurance
- Many employees would pay full price, with after tax dollars [would not be subsidy eligible due to household income]

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2019 GALLAGHER BENCHMARK SURVEY

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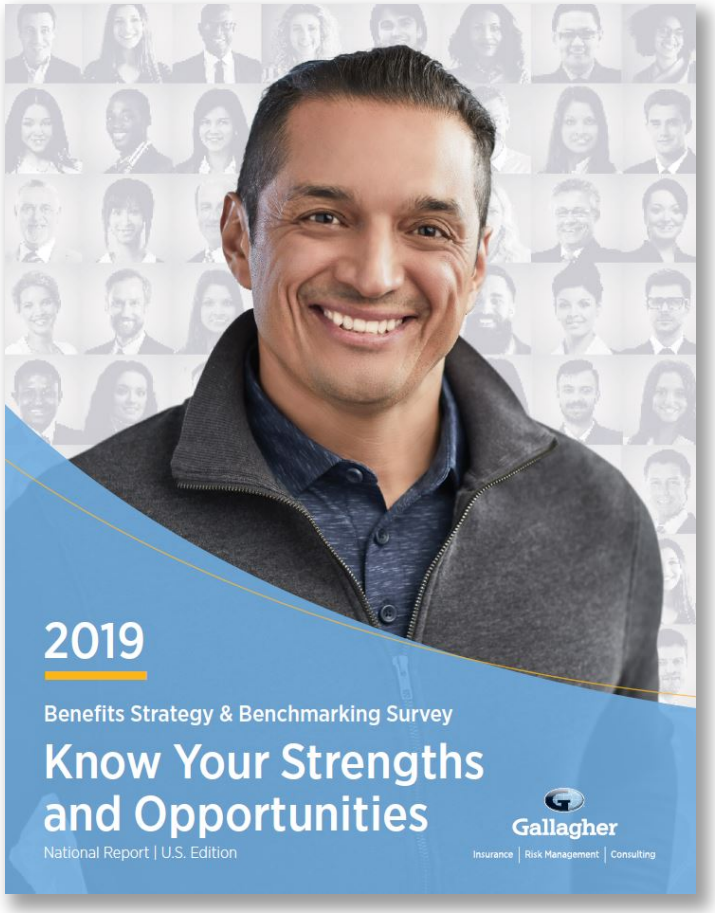
HUMAN CAPITAL STRATEGY AND SELECTED BENCHMARKING DATA

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Survey Overview

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Better organizational outcomes through better benchmarking



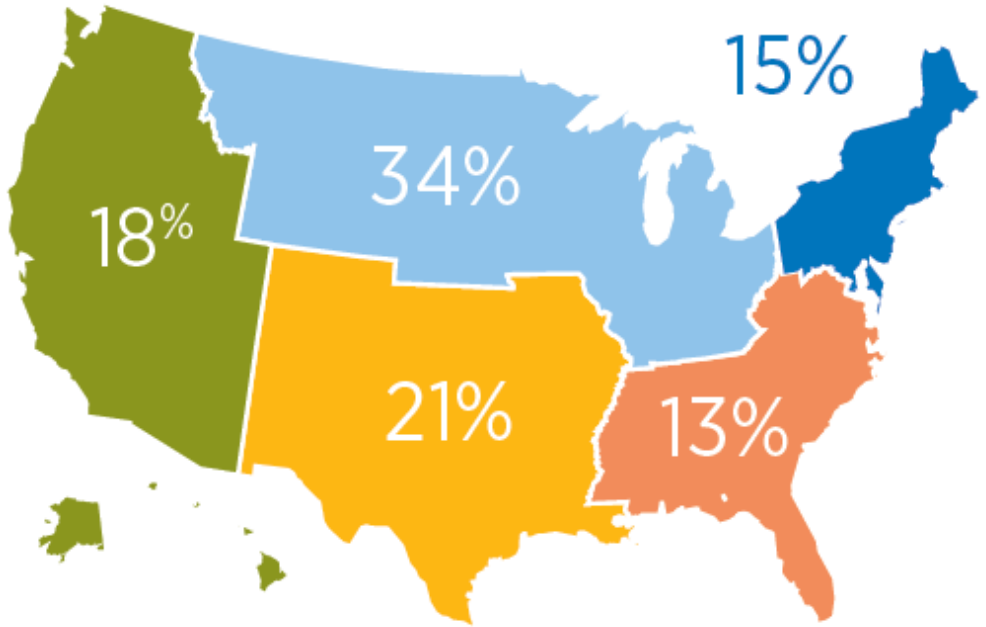
- Conducted January to May 2019
- 4,155 participating organizations
- More than 300 questions covering the total compensation spectrum

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Participant Breakdown

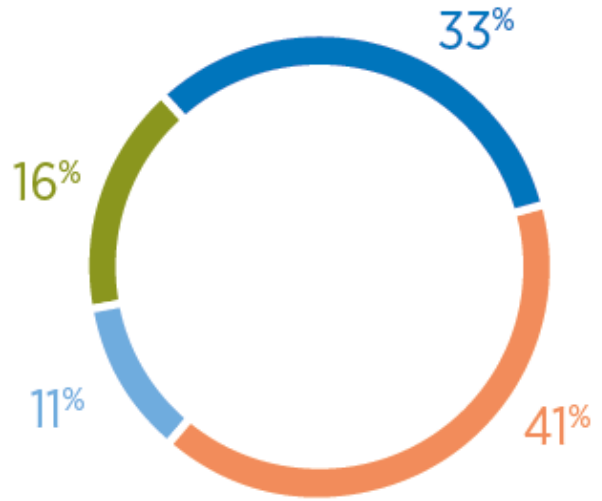
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GEOGRAPHY*



- Northeast
- Southeast
- North Central
- South Central
- West

WORKFORCE SIZE — FULL-TIME EMPLOYEES (FTEs)*



- Small employer — under 100 FTEs
- Lower midsize employer — 100—499 FTEs
- Upper midsize employer — 500—999 FTEs
- Large employer — 1,000 or more FTEs

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Participating Industries

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MANUFACTURING
505



PUBLIC ENTITY
504



HEALTHCARE
488



BUSINESS SERVICES
325



K–12 EDUCATION
304



FINANCIAL SERVICES
250



TECHNOLOGY
234



CONSTRUCTION
220



SOCIAL SERVICES
217



HOSPITALITY/RESTAURANT/
ENTERTAINMENT
183



RETAIL
166



ENERGY
149



WHOLESALE
113



ASSOCIATIONS
101



HIGHER EDUCATION
99



RELIGIOUS INSTITUTIONS
90



TRANSPORTATION
90



LAW
82



PHARMACEUTICAL
35

Industries that will have an addendum.

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Strategic Planning

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More than a third of employers use multi-year benefits and compensation cycles

BENEFITS AND COMPENSATION PLANNING HORIZON

BENEFITS	
1 year	62%
1–2 years	23%
3+ years	15%
COMPENSATION	
1 year	63%
1–2 years	22%
3+ years	15%



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Healthcare Cost Management

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High medical and prescription drug costs rank as top management challenges

BIGGEST CHALLENGES IN MANAGING HEALTHCARE COSTS

67%

HIGH COST OF MEDICAL SERVICES



42%

HIGH COST OF PRESCRIPTION DRUGS



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Healthcare Cost Management

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Growth in the use of all cost-management tactics is expected by 2021 — at some level

CURRENT USE AND PROJECTED GROWTH OF THE TOP HEALTHCARE COST-MANAGEMENT TACTICS

Current use (2019)	
Telemedicine	52%
Increase employee contribution to the cost of premiums	42%
Wellbeing incentives	41%
Increase cost sharing through plan design changes	37%
Change of plan carriers	33%
Healthcare decision support	28%
Increase deductibles and offer employee-paid supplemental benefits	26%
Disease management programs	26%
Cost-transparency tools	24%
Eligibility audits	16%

Projected growth (2021)	
Cost-transparency tools	22%
Wellbeing incentives	21%
Increase cost sharing through plan design changes	21%
Increase employee contribution to the cost of premiums	19%
Healthcare decision support	19%
Increase deductibles and offer employee-paid supplemental benefits	17%
Change of plan carriers	14%
Disease management programs	11%
Eligibility audits	11%
Surcharge or exclusion for spouses with access to other coverage	11%
Claims audits	11%

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Financial Wellbeing

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A growing number of employers are taking action to help employees reach financial health goals

41%

INCREASED PRIORITIZATION OF FINANCIAL WELLBEING SINCE 2017



- **69%** OFFER FINANCIAL ADVISOR SESSIONS
- **54%** FINANCIAL LITERACY EDUCATION
- **24%** DEBT COUNSELING SERVICES

Employee Engagement

Employee engagement now ranks as a top three HR priority

1. Attract and retain workforce (78%)
2. Control employee benefit costs (47%)
3. Engagement and productivity (40%)

41%

CONDUCTED AN ENGAGEMENT SURVEY WITHIN THE LAST TWO YEARS



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Absence Management Strategy

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Most employers have yet to develop an absence management strategy

57%

LACK AN ABSENCE MANAGEMENT STRATEGY



14%

EXPECT TO HAVE
A STRATEGY BY 2021

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Enhanced Leave Policies

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Well over a third of employers have strengthened their leave policies

57%

RATE COMPLIANCE WITH FEDERAL, STATE AND MUNICIPAL REGULATIONS AS A TOP CONCERN



40% CONSISTENT ADMINISTRATION

39% MANAGER EDUCATION

37% ACCURATELY TRACKING TIME OFF

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Short-Term Disability (STD)

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STD insurance or salary continuation benefits are a total rewards staple for most employers

SHORT-TERM DISABILITY SNAPSHOT	
Offer short-term disability	74%
Benefits level as a percentage of pay	60%
Weekly dollar max	$1,200
Duration period of 13 weeks	40%
Duration period of 26 weeks	35%

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Long-Term Disability (LTD)

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LTD insurance coverage is mostly offered at 60% of pay and a $7,500 monthly maximum, but employers diverge on other provisions

LONG-TERM DISABILITY SNAPSHOT	
Offer long-term disability	77%
Benefits level as a percentage of pay	60%
Monthly dollar max	$7,500
Duration period of 2 years	12%
Duration period until normal retirement age	70%

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QUESTIONS AND ANSWERS

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