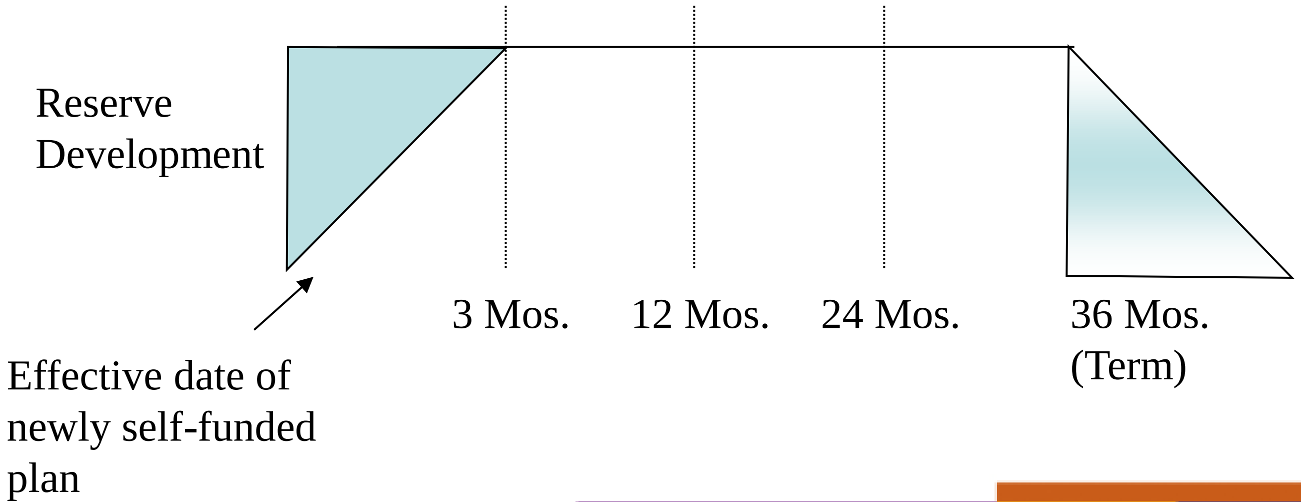
Self-Funding

- Medical, dental and vision plans can be paid for in one of two main ways;
  - Fully insured
  - Self-funded
- Neither approach is inherently better or worse
- Each has advantages and disadvantages
- Employers make decisions relative to which funding method to utilize for very different reasons
  - Typically, decisions are made based on risk tolerance vs. potential gains
- How much on average will an employer save with self-funding?
  - Pre-ACA, typically 2%-6%
  - Post-ACA, now 4%-9%
  - These ranges are over a long-term horizon; over a short-term, self-funding will cost employers more in years where adverse claims are incurred

Self-Funding
Cash Flow Timing at Beginning and End

- First year costs are "immature" due to lag in claim payments (first year medical costs may be 18% to 20% lower than a mature year) resulting in approximately 10 months of incurred and paid claims
  - Reduction in first year expense will help "fund" reserves (Incurred But Not Reported claims – IBNR)
  - Self funded plan sponsors must book this liability
- Employer gains benefit of float (weekly/monthly funding and IBNR)
- Second year costs are mature (i.e., twelve months of paid claims and expenses)



Pros and Cons of Self-Funding

PROS	CONS
Cash flow advantages: • Pay as you go approach • Maintaining reserves • Utilizing the float on claim payments	**Acknowledged claim experience:** • Worse than average claim experience • A group with bad demographics may do better under fully insured arrangement
Cost savings: • No state premium tax • No ACA premium tax • Interest on funds otherwise held by the insurer • Avoid costly state mandated benefits	**Budgeting the program:** • There will be monthly fluctuations • A strictly enforced budget could be an issue • PCORI and transitional reinsurance fee no longer bundled into the fully insured rates
Plan control: • Easier monitoring of claims costs • Claims data provided	**Increased employer involvement:** • Verifying eligibility • Maintaining banking arrangements • Additional HIPAA responsibilities • Increased HCR reporting and filling • Essential Health Benefits definition
Plan design flexibility: • Not bound by state mandates • Customized benefits for your employees	**Terminating the program:** • Self-funded back to fully insured is a double whammy; paying run-out plus paying fully insured premium
Stability of self-funding: • Employers rarely return to fully insured • Claims are claims: why pay more than what *your* claims are?	**Fiduciary Responsibility:** • Employer may need to assume full liability; although Fiduciary options are available through TPAs

Pros and Cons
Impact to Active Employees and NMSU

PROS	CONS
Employees • More choice • Potential cost savings • Can choose how to spend their own money	Employees • Provider disruption • Network access • Change in plans/benefits
NMSU • Potential cost savings • Can design own benefits • More flexibility • Ease of administration • Cash flow • Trend mitigation • Better control of healthcare cost management • Control over impact of excise tax	NMSU • Communication • Potential for push-back from employees • Fiduciary liability • Establish reserves