STAY AHEAD OF THE CURVE:
Emerging Techniques in Employee Benefits

Introducing the Paradigm portfolio of solutions

January 23, 2013
Agenda

- **Welcome & Introduction**
  Michael Tiagwad, President/CEO, Conner Strong & Buckelew
  Joe DiBella, Managing Director, Employee Benefits, Conner Strong & Buckelew

- **Paradigm Benefits Exchange, powered with Bright Choices**
  Ashok Subramanian, CEO and Co-Founder, Liazon

- **Paradigm Benefits Captive, powered with AIG**
  Chip Studer, Vice President, AIG

- **Questions | General Discussion**
Latest Trends in Employee Benefits
Top Concerns

- Weak economy
- Rising cost of employee benefits
- Future of health insurance reform and the impact on costs
- Cost shifting and plan changes can only go so far
- Chronic illnesses driving up premiums and driving down productivity
It’s really “insurance” reform, not healthcare reform. We’re just covering more things and more people

- Employers get the bill
- Pay or Play mandate
- A likely 4% increase for 2014 just due to reform taxes and mandates
- $8 to $14 billion a year in new taxes on insurers
- $25 billion in new taxes for employers over 3 years in fees to subsidize public exchanges
Unhealthy Population

Obesity* Trends Among U.S. Adults *(BMI ≥ 30)*

1994

2009

Note: 1994 was the first year information was available for all 50 states.
Health Care Costs Per Worker

2007 Total Cost = $8,597
- $6,620 Employer Paid
- $1,977 Employee Paid

2012 Total Cost = $11,664
- $8,900 Employer Paid
- $2,704 Employee Paid
Emerging Strategies & Solutions

- Adoption of contemporary health and wellness strategies based on outcomes
- Migration to consumer-directed, account-based plans
- Custom provider networks based on provider quality and outcomes
- Transparency tools around cost
- Value-based benefit designs
- On-site primary care services
- Pharmacy cost containment approaches
- Expanded contribution arrangements by family size
- Claim and Dependent Audits
- **Defined contribution plans in place of defined benefit programs** – Private Exchanges
- **Self Funding and Captive Strategies**
Paradigm Benefits Exchange powered by Bright Choices
Paradigm Benefit Exchange

- Conner Strong & Buckelew’s “private exchange”
- Similar to retirement plans moving from defined-benefit plans to defined-contribution plans, such as 401ks, employee benefits can operate the same way
- Carefully selected Liazon, a powerful exchange platform
- Elite Partner
  - Preferred exchange tools
  - Carrier agnostic
  - Benefits administration solution
Employers Face 3 Difficult Choices Every Year

- Pass more costs onto your employees
- Cut or decrease benefits
- Spend even more on benefits
Exchanges Offer an Alternative that Works Differently

Part 1: Defined contribution
- Employers provide money
- Get out of picking people’s plans and defining their costs
- Longer-term financial control & predictability

Part 2: Private Exchange
- Employees shop in an online benefits store
- Technology combines products to yield better, more personalized coverage
- Personal recommendations based on individual needs and live support

Employer role for all benefits starts to look more like 401k
Will Market Buzz Translate to Adoption?

Very few employers (accounting for just 5% of employees) plan to drop employer-sponsored coverage in the future.
- Oliver Wyman 2012 survey of 1,300 employers

A large percentage of businesses plan to offer their employees benefits through a private exchange in the next few years.

80% of employers are willing to choose a private exchange model in the future.
- Oliver Wyman 2012 Survey

47% of employers plan to move to a private exchange model.
- J.D. Power and Associates 2012 Study

- Massive shift in enrollment, by 2020, 36-80 million individuals are projected to use open marketplaces and exchanges of all types to select health plans.
  - Deloitte 2011 Study
Here’s a Way to Sort it Out

Who runs it?

- Exchange Type
  - Public (Ind & SHOP)
  - Private
  - Hybrid

What are the products in the store?

- Insurance Type
  - Individual
  - Group
  - Medicare
- Store Offering
  - Medical Only
  - Health
  - All Benefits
- Providers
  - Open/Multi
  - Closed/Multi
  - Closed/Single

What’s the shopping experience?

- Location
  - Clicks
  - Decision Support
  - Administrative
- Tools
  - Bricks
  - Education
  - Billing
- Support
  - Year-round Portal
  - Personal

Where’s the money coming from?

- Funding
  - Personal
  - Defined Contribution
  - Payroll
Bright Choices Demo
Video: http://www.liazon.com/

Key Product Features:

- 1 billion+ insurance product combinations can be purchased online through Bright Choices™
- Decision support to help people choose the right benefits for them
- Personalized education with videos, articles, and alerts
- Completely automated enrollment & benefits management
People Buy Differently When They Have Choices

- They choose a broad range of health plans and other benefit options
- What people like...
  - Higher deductibles – ~65% opt for HSA-qualified plans
  - Narrow networks – ~40% when available
  - Network only plans
  - Gatekeepers
- People really like purchasing other products
  - 65+% adoption of ancillary benefits
  - 35+% adoption of supplemental benefits
  - Why? Purchasing power from medical buy-down, risk arbitrage, convenience

~80% Different health insurance plan
- 90% buy something cheaper
- People rarely cluster into one or two plans

CONNER STRONG & BUCKELEW
Why is Defined Contribution Relevant?

### Advantages
- Employer can fix its benefits budget w/o simply cost shifting
- Employer stops picking plans
- Employer can easily offer “Fortune 1000” benefits
- Employee can set their own “price of admission”
- Employee buys what they want
- Employee finally understands and appreciates the true value of what employers spend on benefits

### (Perceived) Disadvantages
- Cost shift
- (Some) people don’t like to / want to make their own decisions
- Carriers still learning about the impact on their business
The Future is Retail

Employers embracing the change?
Liazon Partnership

- Liazon is the premier, independent exchange organization
- Provides the exchange technology and benefits administration system
- Single technology solution
  - Founded in 2007
  - Ranked #132 fastest-growing company in the US
  - 2,000 clients
  - Bright Choices exchange platform technology
Paradigm Benefits Captive powered by AIG
ABCs of Traditional Insurance

- Employer receives premium rates from the insurance carrier who provides coverage for the contract period.
- Employer pays this premium monthly to the insurance carrier to pay claims, but receives no data as to how $ is being spent (claims, administration, reserves, margins, taxes, etc.).
- Any money left over after expenses is kept by the insurance carrier.
- At 10%+ annual trends, premium costs will continue to increase.
In a fully-insured plan, for most, the strategies can be limiting and short term:

- Change insurance carriers
- Changes/cut benefit levels
- Change/increase contribution schedule
- Change culture/takes time
Traditional health insurance includes little to no incentive for controlling costs.

Little to no information about an employer’s costs.

Things like care and disease management help but don’t control.

Traditional insurance does not allow the employer to completely take advantage of their improved performance.

All Fortune 100 and most Fortune 500 companies self-insure some or most of their benefit plans.
Due to their smaller size, many mid market employers are reluctant to move to self-funded plans:

- Concern over taking additional risk
- Lack of guaranteed costs
- Limited data
- Concern over complexity of plan management

Stop-loss insurance can be used to provide specific and aggregate protection but many are concerned that the costs may be too great and outweigh the value of being self-funded.

Concerns over the management of self-funded plans
There is a ..........
Until now, there have been few financially feasible methods for mid-sized companies to self insure and responsibly take the risk.

A new solution is to allow employers to band together to purchase and manage their stop loss risk differently through a captive.

Such security can give mid-sized companies the kind of control and cost transparency enjoyed almost exclusively by large employer groups.

Meet the Paradigm Benefits Captive.
Why use Captives for Benefits?

- Pool and spread the risk of large claims – but with a pool of like-minded employers, using the same cost management tools as you, who’s experience over time should be better than less “managed” plans

- Participate in the potential underwriting profit and investment income of the traditional Stop Loss carrier

- Influence, control and manage the Stop Loss renewal process and approach

- Smooth potential volatility associated with single employer Stop Loss plans
What is *Paradigm Benefits Captive*

- *Paradigm Benefits Captive* is actually an insurance company owned and controlled by its members – in this case the self-funded plan sponsors participation in the program.
  - It is governed by its owners and operated in conjunction with an insurance and captive management partners Conner Strong & Buckelew and AIG, who provide accounting, policy issuance, underwriting, claim service and various insurance treaties that allow the program to operate.
  - The group Stop-Loss Captive model provides a viable choice between the extremes of purchasing a fully-insured product and going self insured as a single, stand-alone plan sponsor.
How it Works

- Form a pool of preferred plan sponsors
  - Each uses the same type of risk management tools
  - Each adheres to the same type of benefit philosophies
- Each plan sponsor maintains their own plan, but they share a layer of claim risk
  - *Low claims* go to each plan sponsor (claims below the individual stop loss deductible)
  - *Medium claims* go to the “shared pool”
  - *Catastrophic claims* go to the re-insurance partner
- Surplus from the shared layer of risk can generate plan sponsors
Process Flow of Captive

**Level 3: Traditional Stop-Loss**
Carrier pays all covered individual claims above $250,001

- Stop-loss carrier assumes the responsibility for paying all individual claims above $250,001, plus aggregate on captive

**Level 2: Pooled Stop-Loss**
Companies share cost of individual claims between $25,001 and $250,000

- Member companies pay premium to purchase stop-loss coverage for individual claims between $25,001 and $250,000, plus aggregate for each employer
- Stop Loss captive absorbs risk and pays claims
- Member companies share in economic (claims and surplus) results

**Level 1: Company Responsibility**
Company incurs all costs for individual claims under $25,000

- Company assumes all specific claims under $25,000
- Company maintains full control at this level
- Claims are not shared/pooled among member companies
Risk Allocation Example

Total Stop Loss Premium
$5,000,000
12 Companies

To AIG

- $1,460,000
- All claims over $250,000
- Administrative Costs
- Captive Management
- Reinsurance Costs

To Paradigm Benefits Captive

- $3,222,000
- All Claims between $25,000 and $250,000 from all participating companies
- If experience runs as expected, there is a $320,000 surplus for the captive as a whole to distribute on a pro-rata share basis
Advantages

- A 4% to 6% reduction in fixed costs
  - Premium tax
  - Insurance company risk charges and profit
  - Unused administrative services
- Access to claims data that can be used to make informed decisions
- Greater control over benefit design
- Cash flow management
- Flexibility in plan design
- Increased control
- Access to underwriting gains / dividends available at the captive level
Employers are required to front an initial collateral investment of approximately 3% of their total benefit spend to “start” the captive Contract with your preferred medical and Rx TPA (or use Conner Strong & Buckelew’s preferred partners)
Commit to progressive health and wellness strategies
Employers are responsible for claims under the stop-loss deductible, plus:
- TPA administrative fees/other administrative costs
- Premium to Stop-Loss Captive for Captive Layer coverage and aggregate coverage per client
- Premium for Stop-Loss policy for amount outside of the captive
Unique Features

- To manage underlying claim costs, there are unique features built into Paradigm Benefit Captive
- Optional access to the Conner Strong & Buckelew Preferred Client Pharmacy Coalition with Express Scripts
- Optional access to preferred administrative terms with Aetna for medical plan administration
- Required features:
  - Onlife Health for telephonic Health and Wellness Coaching services
  - Best Doctors for high-end sophisticated physician to physician second opinion
  - Tele Doc for convenient and low cost tele-medicine to drive down ER visits and unnecessary office visits
  - Health and Wellness incentive features
Preferred Clients

- **Paradigm Benefits Captive** is an exclusive program:
  - A captive utility for medical and pharmacy benefits
  - Target audiences are closely held companies with 100-500 employees interested in going self funded but “on the fence”
  - Participant companies must have engaged owner and/or c-suite leadership buy-in
    > Willingness to invest in benefits long term
    > Serious commitment to health and wellness
    > Comfortable taking reasonable risk
  - Commitment to long term solutions, not short term fixes
  - Entering clients could be insured or self funded
Captive Management Experience

- Conner Strong Captive Strategies:
  - 28 years experience in pooled program management services
  - Manages 7 (seven) Health Insurance Trusts operational in New Jersey today for benefits
  - Manages 17 (seventeen) separate property and casualty trusts and several P/C captives
  - Manages the nationally recognized Municipal Excess Liability (MEL) Fund, the second largest Property and Casualty JIF in the United States
  - 150 separate pooled product benefit clients
  - $250 million annual benefits budget
  - 30,000 lives
  - Below market annual rates of increase
AIG Partnership

- AIG is the Paradigm Benefits captive and stop-loss partner
- Provides the stop-loss captive platform and regulatory functions
- Provides the stop-loss coverage for the large claims covered outside the captive
  - More than 50 years of Property and Casualty
  - Manage in excess of 250 Captive Programs
  - Stop Loss Business since 1974
  - 19 Employee Benefits Captives Since 2008
Groups must make application to be considered for entrance into Paradigm Benefits Captive

April 1, 2013 is “start” date for entrant employers

January renewals thereafter

Require “preferred risk solutions and best practices” to enter platform:
- 3 years of claims experience / rate history
- Census
- Benefit design information
- Completion of entrant application
More solutions for effective benefits management

Paradigm Benefit portfolio of solutions:
- Paradigm Benefits Captive
- Paradigm Benefits Exchange

The Captive and Exchange models *can be used together* to provide a unique and powerful platform for superior benefits delivery

Change the *paradigm* in benefits
Questions & Answers