Presenters

Roger Ladda  
Vice President  
Alternative Risk and Captive Practice Leader

Joe DiBella  
Executive Vice President | Managing Director  
Health and Benefits Consulting Practice
Agenda

- Current Market Landscape
- Insured v. Self Insured Model
- Benefits Stop Loss Captive Overview and Value Proposition
- Key Considerations
- Next Steps
### About Conner Strong & Buckelew

<table>
<thead>
<tr>
<th>Founded:</th>
<th>1959</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status:</td>
<td>Private company</td>
</tr>
<tr>
<td>Premiums:</td>
<td>More than $1 billion placed annually</td>
</tr>
<tr>
<td>Team:</td>
<td>300 insurance, benefits and risk management experts</td>
</tr>
<tr>
<td>Reach:</td>
<td>Clients in all 50 states and abroad</td>
</tr>
<tr>
<td>Offices:</td>
<td>New Jersey, Pennsylvania, Delaware, and Florida</td>
</tr>
<tr>
<td>Differentiator:</td>
<td>National firm resources, engaged ownership</td>
</tr>
<tr>
<td>Affiliates:</td>
<td>AIM Benefits, Conner Strong Captive Strategies, PERMA Risk Management Services, J.A. Montgomery Risk Control</td>
</tr>
</tbody>
</table>
Conner Strong Captive Strategies is an independent division of Conner Strong & Buckelew

- Create and implement captive solutions for clients
- Provide consulting services to over 20 captives
- Property & casualty and employee benefits
- Manage 5 large health benefit pooled plans for governmental entities in NJ with more than 120 groups, 30,000 lives and $250 million in annual spend
Integrated Benefits Delivery Model
<table>
<thead>
<tr>
<th>Past, Present and Future</th>
<th>1992</th>
<th>2014</th>
<th>The Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual cost to provide coverage for a family</td>
<td>$4,000</td>
<td>$22,000 +</td>
<td>At current trend rates, annual costs will double in 10 years</td>
</tr>
<tr>
<td>Average employer share of premium</td>
<td>76%</td>
<td>78% - 80%</td>
<td>Remain steady?</td>
</tr>
<tr>
<td>Health spending as % of GDP</td>
<td>11%</td>
<td>17%</td>
<td>20% by 2017</td>
</tr>
<tr>
<td>Number of Americans with a chronic condition</td>
<td>118 million in 1992</td>
<td>141 million in 2011</td>
<td>164 million in 2025</td>
</tr>
</tbody>
</table>
Plan design alterations are key but you can only cost shift so much and so far. Significant increases in copayments and deductibles may have the reverse effect and create barriers to needed care.

Increases in employee contributions are necessary but unreasonable changes may create adverse selection and negatively impact the workforce.

Funding changes and vendor management are key, but after the appropriate changes have been implemented additional savings and benefits become more limited.

Employers need to construct a sustained and contemporary approach to benefit plan management that adopts best practices in key areas but integrates an effective focus on health and productivity management.

**Flexibility in the management and funding of the benefit plan so the employer has total control over their own destiny.**
Current Landscape for Middle Market Companies
Easy to budget: rates X census = premiums

Insurance company takes full risk

Insurance company manages all service vendors

Community rating elements, blending in an unknown pool of risk

High fixed costs (approximately 10%-15% of premium)
  - Premium Taxes
  - PPACA Health Insurer Fee
  - State mandated benefits
  - Carrier risk and reserve charges
  - Retention
  - Profit
Unfavorable claims drive an increase to premium, favorable claims rarely result in a premium decrease: typical outcome not in group’s best interest

Few carriers – lack of competition

Wellness strategies typically good for “culture”, but minimal impact on claims credits

Limited claims and utilization data

Renewal “surprises” with little time to react before renewal effective date

Undesirable Rx terms and add-on charges to purchase separate from medical carrier

PPACA “Insurer’s Fee” of 2.5% to 3.5% of premium that is only applicable to insured plans.

No dividend sharing (Insurer retains excess reserve and capital at year’s end even if groups performance is better than premium collected)
Limited strategies to bend the cost curve in a fully insured plan

- Change insurance carriers
- Change/cut benefit levels
- Change/increase contribution schedule
- Change culture
Self Funding 101
Another Option - Self Insuring

- Pay for what you use
- Actionable data
- Lower fixed costs
- Control over plan
- Wellness initiatives have a direct impact on claims
- Studies show lower trend and lower costs
Self-Funded Basics

- Provides actionable data to make strategic decisions
- Projected “total spend” is typically 9.5% – 10.5% lower than fully insured alternative
- Successful wellness and disease management strategies have direct impact on claim spend
- Pay actual claims experience: decrease in claims equal lower costs for employer, not higher margin for insurer
- Total flexibility when designing plan options and do not need to follow state mandates
- Manage and oversee all service vendors, thereby exercising more control over the type and quality of care, as well as the cost of care provided
Savings generated from moving to a self funded arrangement due to lower fixed costs, not dependent upon claim-spend

- PPACA Health Insurer Fee 2.5% - 3.5%
- Premium Taxes 2.0%
- Risk & Reserve 2.0%
- Removal of State Mandates Variable
- TPA Fee vs. Fully Insured Retention 3.0%

9.5% to 10.5% +
Self Funded Concerns for Middle Market

- Due to size, many middle-market employers are reluctant to move self funded:
  - Concern over taking additional risk
  - Volatility and large claims can have substantial impact on mid-market group
  - Lack of guaranteed costs: monthly costs fluctuate due to variability in claims
  - Challenges with “lasering” a future “known claim spend”
  - Stop loss mitigates risk but a “comfortable” level of protection can be costly
  - Complete transition to self funding can be concerning with limited data
  - Concern over complexity of plan management
The Solution: Benefits Stop Loss Captive
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.
Benefits Stop Loss Captive

- Lower risk and volatility – easy entry into self funding
- Ability to purchase a “conservative” claims limit (ISL)
- Like-minded employers share in cost of large claims
- Pool with better risk
  - Selective underwriting
  - Wellness & disease management requirements
- Mitigate challenges with lasers
- Dividend eligible
In addition, in the captive you have access to all of the benefits of self funding:

- Cost advantages of being self funded
  - Negotiated administrative fees
  - Cost avoidance for the largest PPACA tax (2.5% moving to 3.5% and higher)
    - Do not pay premium tax and other retention charges
- Full access to medical and prescription claims data
- Health and wellness has a direct impact; can contain and manage costs
- Full control over plan design and vendor selection
A Better Way to Insure

- **Catastrophic Insurance & Program Expenses**
- **Captive Layer**
- **Self-Insured Layer**

Axes:
- Unlimited
- Per Claim
- Captive Limit
- Specific Stop Loss
- Frequency
- Aggregate Stop Loss
- Group Stop Loss

Brands:
- Captive Strategies
Captive Model

Employer A

Employer C

Employer B

Employer D

Group Captive
Captive’s Function

- The captive’s principal function is to reduce volatility
- Claims in the captive layer are pooled – including at renewal
- Excess funds in the captive are returned on a pro rata (to premium) basis
- Claims that would otherwise be “lasered” are shared
- Provide a better way to fund benefits for the short and long term
Captive Advantages

- Hybrid funding arrangement allowing for:
  - Control over risk and volatility through shock absorption layer
  - Pool with like risks rather than unknown risks
  - Manage costs and impact claims
  - Access to claims data - develop strategies based on true experience
  - Avoid imbedded fully insured costs (9.5% to 10.5% reduction in fixed costs)
  - Cash flow management
  - Ability to recover unused dollars typically retained by carrier as profit
  - Flexibility and control over plan design
Conner Strong & Buckelew has selected Pareto Captive Services as our benefits stop loss captive partner. Pareto is a leading national benefits captive manager. They are the selected Conner Strong & Buckelew captive partner. Experts in captive management and insurance. Manages 8 benefits stop loss captives. Manages the Contrarian Re and Paradigm Re heterogeneous benefits stop loss captives. Oversees the day to day operations of the captive.
Contrarian Re Highlights

- Tennessee licensed and regulated insurance company
- Owned by employers/group members
- Managed by Pareto Captive Services
  - Audited financial statements
  - Quarterly member reports
  - October 1\textsuperscript{st} program date (started 7/1/12)
  - Members Meeting in Nashville
Contrarian Re Highlights

- Over 100 member groups/companies
- Average member/group size is 100 employees
- 100% Renewal rate for existing members
Captive Requirements

- First Year:
  - Health Risk Assessment
  - Annual physical
  - Biometric screening
  - Tobacco Affidavit/Cessation Program

- Second Year:
  - Build on above, i.e. add spouse
  - Implement HDHP w/ Qualified HSA/HRA
Members in the Captive have a chance to receive a decreased premium based on implementing certain population health management programs.

<table>
<thead>
<tr>
<th>Bucket A</th>
<th>Bucket B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing Transparency (plan design only)</td>
<td>Pricing Transparency (data only)</td>
</tr>
<tr>
<td>Incentive Based Disease Management</td>
<td>Medical Tourism</td>
</tr>
<tr>
<td>Onsite Health Clinic</td>
<td>Telemedicine</td>
</tr>
<tr>
<td>Direct Hospital Contract</td>
<td>Health Advocacy</td>
</tr>
<tr>
<td>HSA &gt; 80%</td>
<td></td>
</tr>
</tbody>
</table>
Key Requirements

- Contract with your preferred medical and Rx TPA (or use Conner Strong & Buckelew’s preferred partners)
- Commit to progressive health and wellness strategies
  - Health Risk Assessment
  - Biometric Screenings
  - Tobacco Cessation
- 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
- Upfront capital
Considerations

- You can keep your current plan design
- You will do very little of the work for wellness, etc.
- You will get data on employees “de-identified” – so you won’t know personal information
- You are sharing risk already – just with people you don’t know, many of which aren’t interested in improving themselves
- There is not lots of additional work for your staff; this will require some additional engagement and effort on behalf of ownership/management
- You don’t need to get everyone to be healthy to save money – this is simply about grabbing the low hanging fruit – you’re not going to change some people
- You don’t have to enter a program at your normal renewal date
Next Steps

- Groups must make application to be considered for entrance
- October renewal date
- 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
Help

- Work with your Conner Strong & Buckelew account representative for assistance
- Work with Conner Strong & Buckelew sales executive for assistance
- Unsure:
  - Joe DiBella
    856-552-4618
    jdibella@connerstrong.com
Thank You