



2019 HEALTH
MEETING

JUNE 24-26 | PHOENIX, AZ



Session 75, Small Group Strategies for non-ACA Products

[SOA Antitrust Disclaimer](#)

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2019 Health Meeting

Session 075, Small Group Strategies for non-ACA Products

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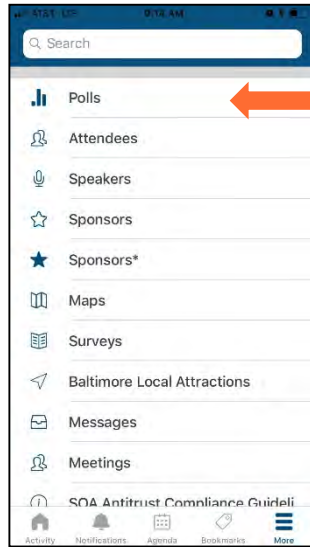
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June 25, 2019



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- **Do not** speak on behalf of the SOA or any of its committees unless specifically authorized to do so.
- **Do** leave a meeting where any anticompetitive pricing or market allocation discussion occurs.
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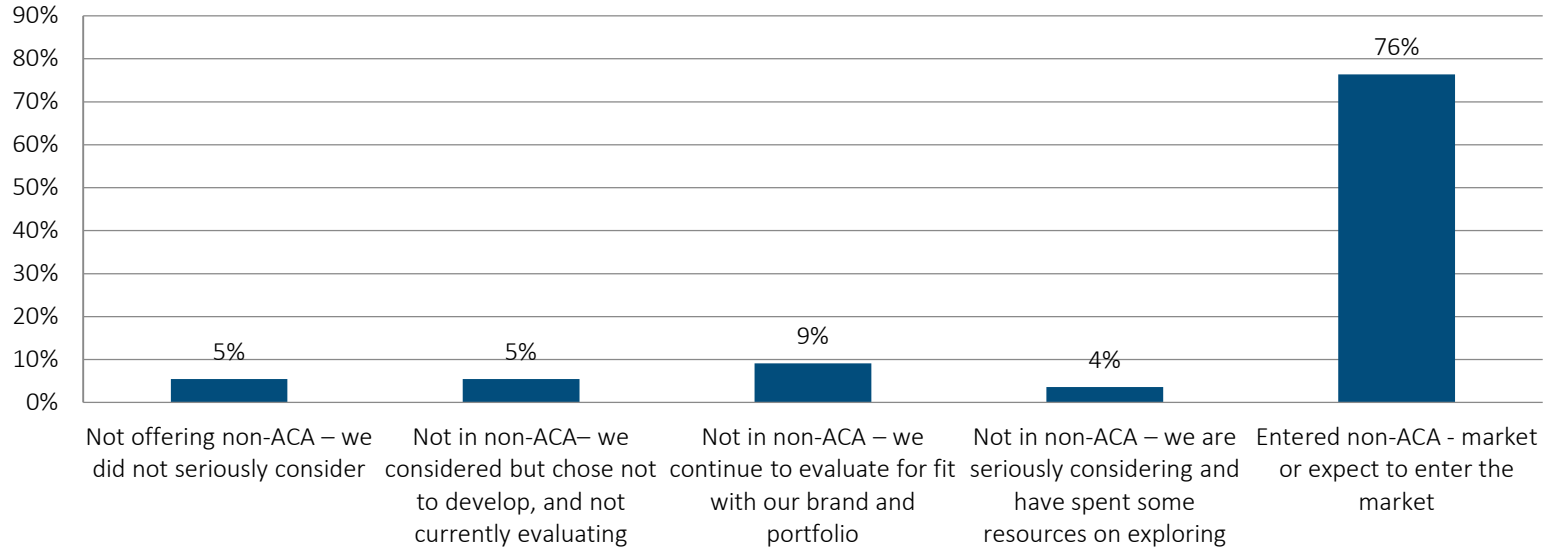
In preparing this information, the presenters relied on information provided by CMS and other external sources and accepted this information without audit. Results and conclusions may not be appropriate if this information is not accurate.



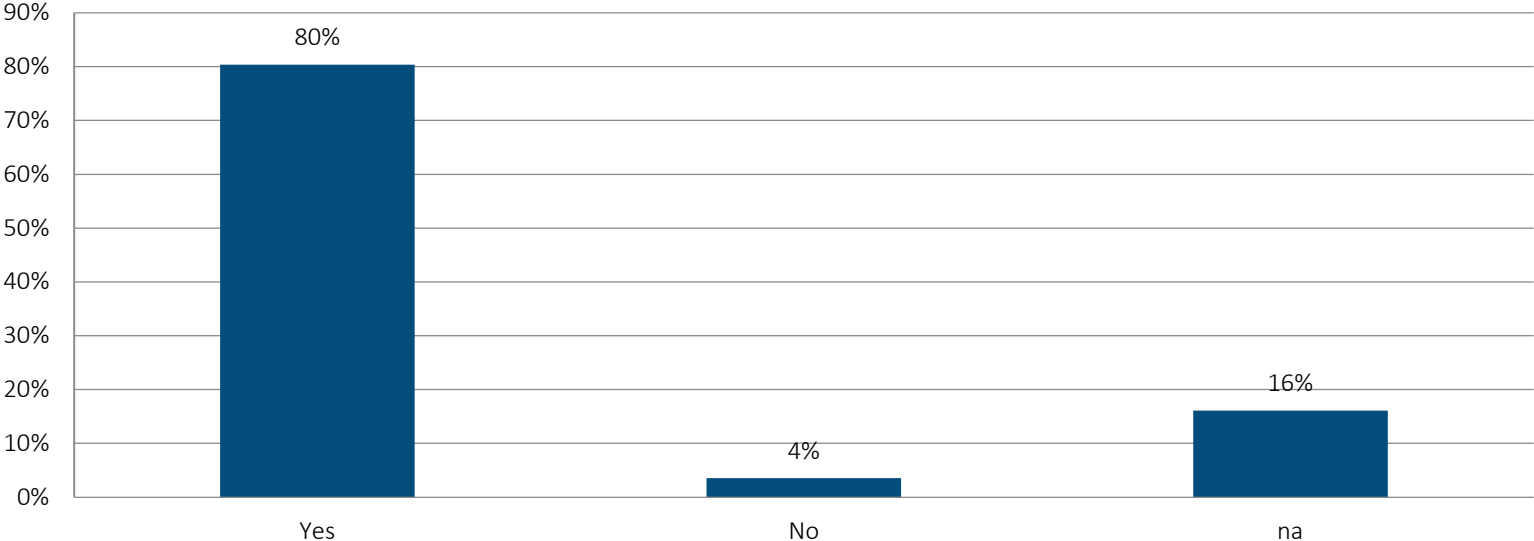
Questions and Polling – SOA Presentation Features



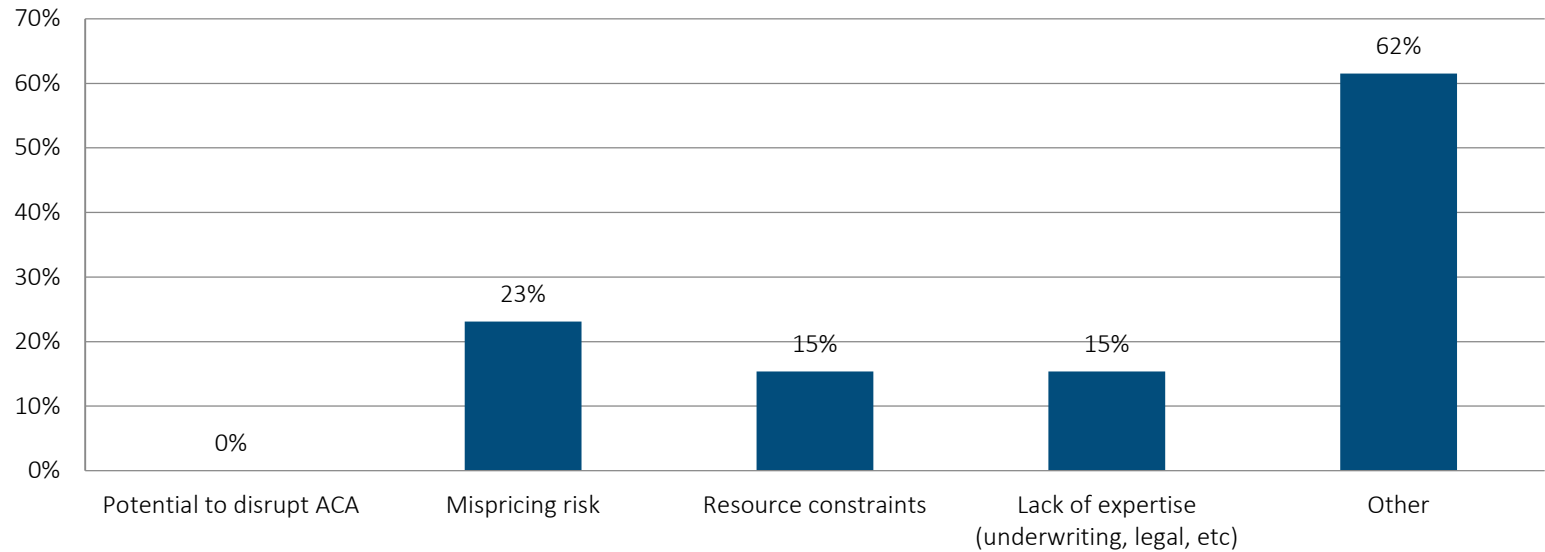
Describe your current view of the non-ACA SG market



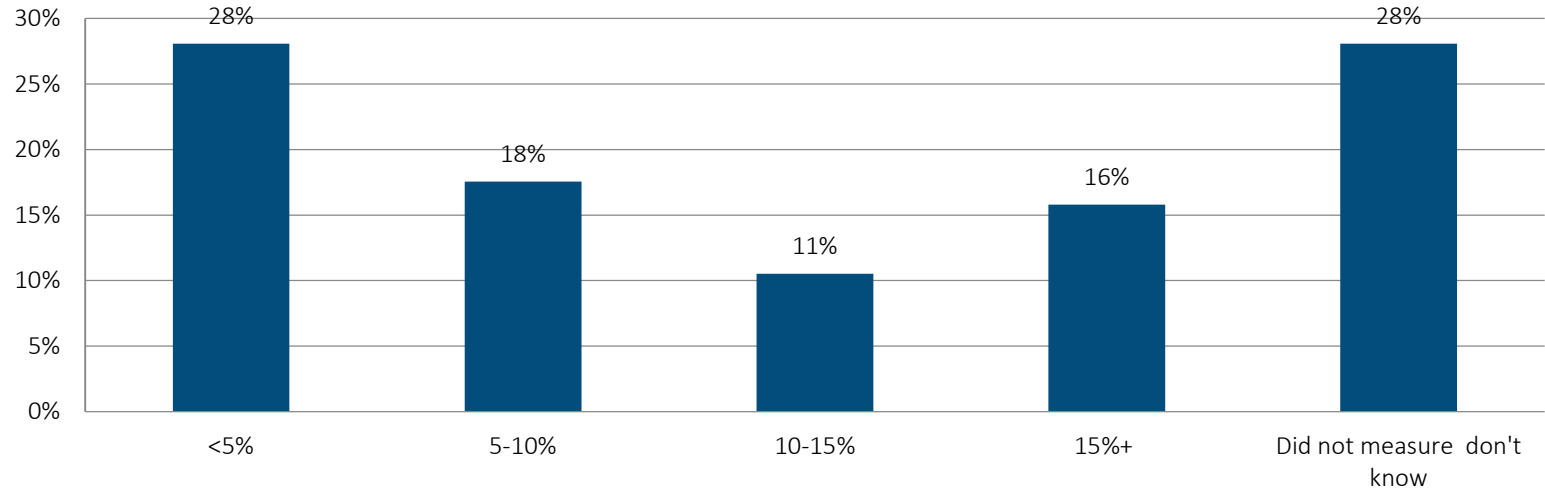
How many of you considered entering this market?



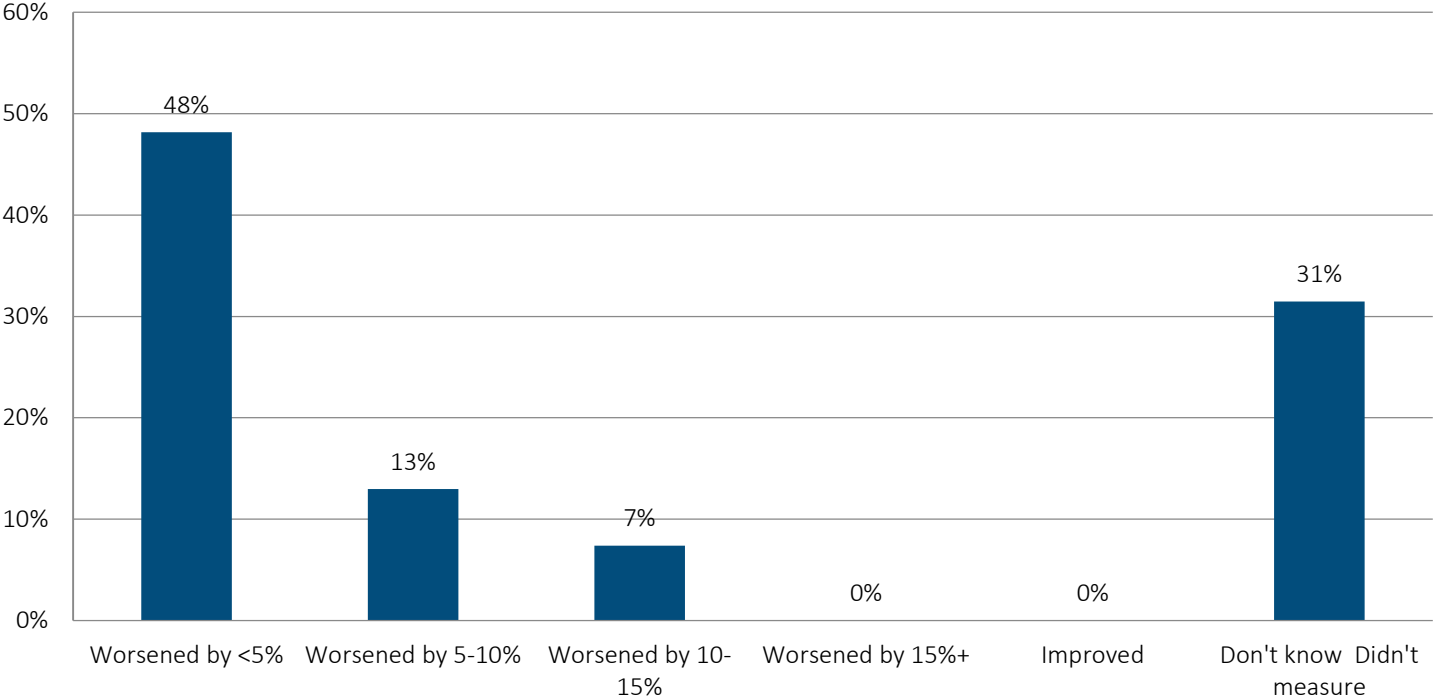
Why did you choose to not offer non-ACA SG?



What % of ACA enrollees do you think you lost to non-ACA products?



Impact of non-ACA products on ACA morbidity



Questions, Please

- ✓ Interactive discussion
- ✓ Questions at any time
- ✓ Use of SOA presentation feature “Social Q&A”
 - Allow audience to submit ?’s in real-time during the presentation and select which of those ?’s they would like presenters to answer



Live Content Slide

When playing as a slideshow, this slide will display live content

Social Q&A

Small Group Rate Development and Block Management (MEWA Focus)

Tom Garrity, ASA, MAAA
Sr. Consulting Actuary
Wakely Consulting Group



MEWA Overview

- Multiple Employer Welfare Arrangement
- Two or More Employer Groups
- Health and Welfare Benefits
- Fewer Rating Restrictions than some other SG products

Sample MEWA For Discussion

- 100 Participating Employer Groups
- Group Size Range: 2 – 99 Employees
- Self-Funded
 - Stop Loss: \$250K Specific Deductible
- Employer Specific Rating/Underwriting
- Focal Renewal

MEWA Initial Rate Development



Strategic and Risk Considerations

- MEWA Leadership
- Risk Tolerance
 - Fully Insured
 - Self-Funded
 - Stop Loss Coverage
- Solvency
- Regulations
- Underwriting Guidelines
- Conservatism vs. Volume
- Vendors

Sample Employer Contribution Rate Structures

Composite Rating

Enrollment Tier	Plan A	Plan B
Employee Only	\$435.00	\$375.00
Emp + Spouse	\$913.50	\$787.50
Emp + Child(ren)	\$826.50	\$712.50
Family	\$1,392.00	\$1,200.00

Age Band Rating

Employee Age	EE	ES	EC	EF
Under 25	\$150.00	\$315.00	\$285.00	\$480.00
25-29	\$180.00	\$378.00	\$342.00	\$576.00
30-34	\$247.50	\$519.75	\$470.25	\$792.00
35-39	\$330.00	\$693.00	\$627.00	\$1,056.00
40-44	\$420.00	\$882.00	\$798.00	\$1,344.00
45-49	\$495.00	\$1,039.50	\$940.50	\$1,584.00
50-54	\$540.00	\$1,134.00	\$1,026.00	\$1,728.00
55-59	\$600.00	\$1,260.00	\$1,140.00	\$1,920.00
60+	\$645.00	\$1,354.50	\$1,225.50	\$2,064.00

Sample Rating Algorithm

Rating Item	Item Description	Value
A	Base Expected Claim Costs	\$500.00
B	Trend to Rating Period	1.07
C	Benefit Plan Factor	0.92
D	Industry Factor	1.00
E	Demographic Adj Factor	1.10
F	Regional Adj Factor	0.89
G	Group Size Factor	1.10
<u>H</u>	<u>Underwriting Factor</u>	<u>1.05</u>
I = $\prod A:H$	Adjusted Expected Claims	\$556.55
J	Admin / Fees	\$50.00
<u>K</u>	<u>Stop Loss Premium</u>	<u>\$72.00</u>
L = $\sum I:K$	Contribution Rate	\$678.55

Rate Development - Pricing Considerations

- Age/Gender Structure
- Plan Designs Offered
- Group Size Factors / Restrictions
- Stop Loss Coverage
- Underwriting
- Contribution to Surplus
- Competitive Analysis
- Renewal Philosophy

Rates Are Finalized!

What's Next??

Small Group Block Management

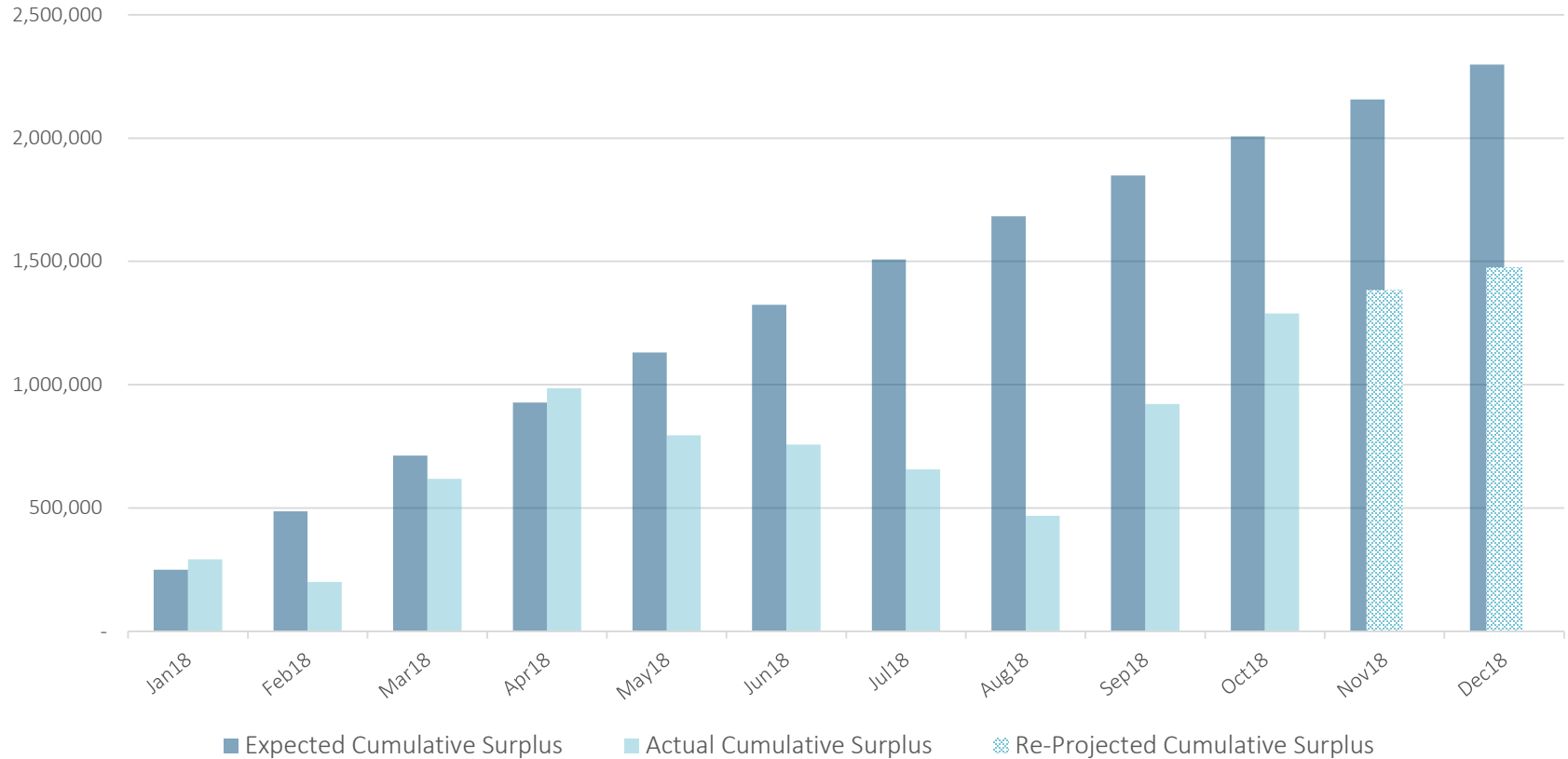


Block Management – Experience Monitoring

- Current and Projected Claims Liability
 - Gross and Net of Stop Loss Recoveries
- Surplus/Deficit
- Actual to Pricing Expectations
- Monitor Relative to Rating Characteristics
- Durational Analysis
 - Plan Design Differences
- Group and Member Specific Analysis

Cumulative Contribution to Surplus by Month

Actual through Oc18, Projected through Dec18



Region Monitoring

Region	Rating Factor	Employees	Normalized Actual to Pricing	Surplus / Deficit	
Northwest	1.05	782	1.08	(\$276,000)	✘
Northeast	1.07	261	1.17	(\$368,000)	!
East	0.95	1,565	1.01	\$735,000	✓
West	0.89	1,043	0.99	\$735,000	✓
South	1.00	1,565	0.97	\$1,471,000	✓
All Regions		5,215	0.96	\$2,297,000	

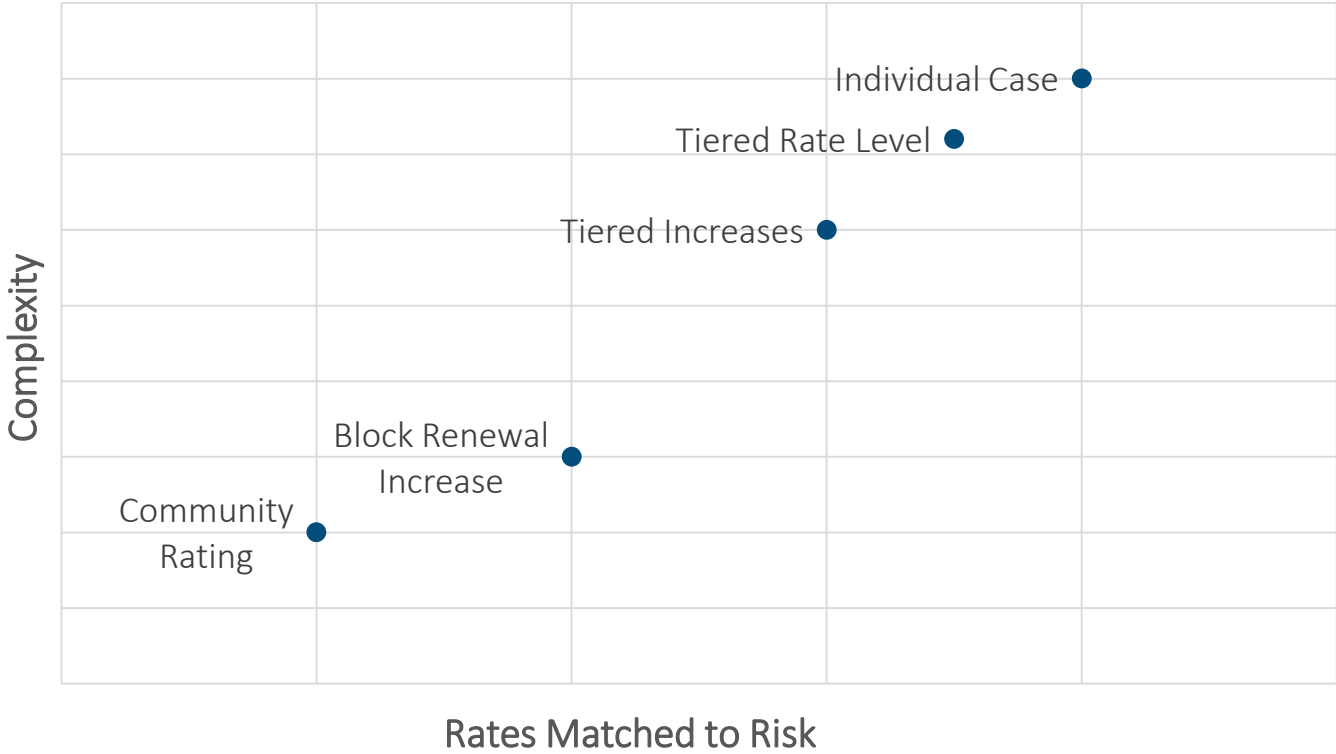
Small Group Renewals



Renewal Considerations

- MEWA Objectives
- Matching Employer Rates to Risk
- Rating and Operational Complexity
- Experience Rating and Credibility
- Stop Loss / Large Claim Pooling
- Risk Scoring
- Underwriting Wearoff

Spectrum of Renewal Strategies



Sample Renewal: Tiered Rate Increases

Renewal Tier	# of Employers	# of Employees	Loss Ratio	Risk Score
5% Reduction	6	149	45.3%	0.25
No Rate Change	8	943	54.8%	0.67
5% Increase	24	1,417	68.2%	0.88
9% Increase	35	1,827	87.0%	1.02
19% Increase	21	1,015	108.9%	1.25
29% Increase	7	232	232.9%	1.98
Total	101	5,583	82.9%	1.02

Post-Renewal Considerations

- Group/Broker Feedback
- Lapse Evaluation
- Monitor Actual to Projected
- Anti-Selection

Small Group Self Funded

Nick Calenti
Blue Cross Blue Shield of Arizona



The Basics

- Self Funded product targeted at small employer groups
- Employers pay a fixed monthly cost – just like fully insured
 - Claims Funding, Premium, and Admin all rolled up into one simple payment
- Employers have the opportunity to receive money back if they do not use all of their claims funding
 - Settlement terms differ across carriers: 100%, 75%, 50% of money back. Withhold of reserve dollars, etc.

A Comparison to Fully Insured

Fully Insured (ACA)	Small Group Self Funded
PPACA	ERISA
Community Rates	Full Underwriting
Compressed Age Sex Slope	Any Age Sex Slope
Restricted Plan Designs (Metal Level)	Unrestricted Plan Design
No Claims Reporting to Group	Full Reporting/Experience to Group
Lowest Cost “Worst Case” Scenario	Lowest Cost “Best Case” Scenario
Guarantee Issue/ Renewability	Decline to quote/renew
HIT Tax	No HIT Tax
Highly Regulated/ Extensive Filing and Review Requirements	Much lower level of regulation/ filing requirements

The Sale

- Typically sold by fully insured agents to small “inexperienced” groups
- Can compete on price, reporting, or refund potential
- Can be quoted side-by-side with an ACA policy.
 - The right choice will make sense!

Implementation



Key Differences to Traditional Self Funded

Level Funded	Traditional Spec And Agg
*Billed for Worst Case Scenario	*Billed for Premiums + Claims as they emerge
*Level, predictable monthly cost	*Monthly Cost varies with claims activity
*Need for settlement rules/ accommodations	*Large Employers are credit worthy and can absorb variable monthly cash flows

**EXAMPLE: \$12,000 annual attachment point
\$5,000 in claims the first month.**

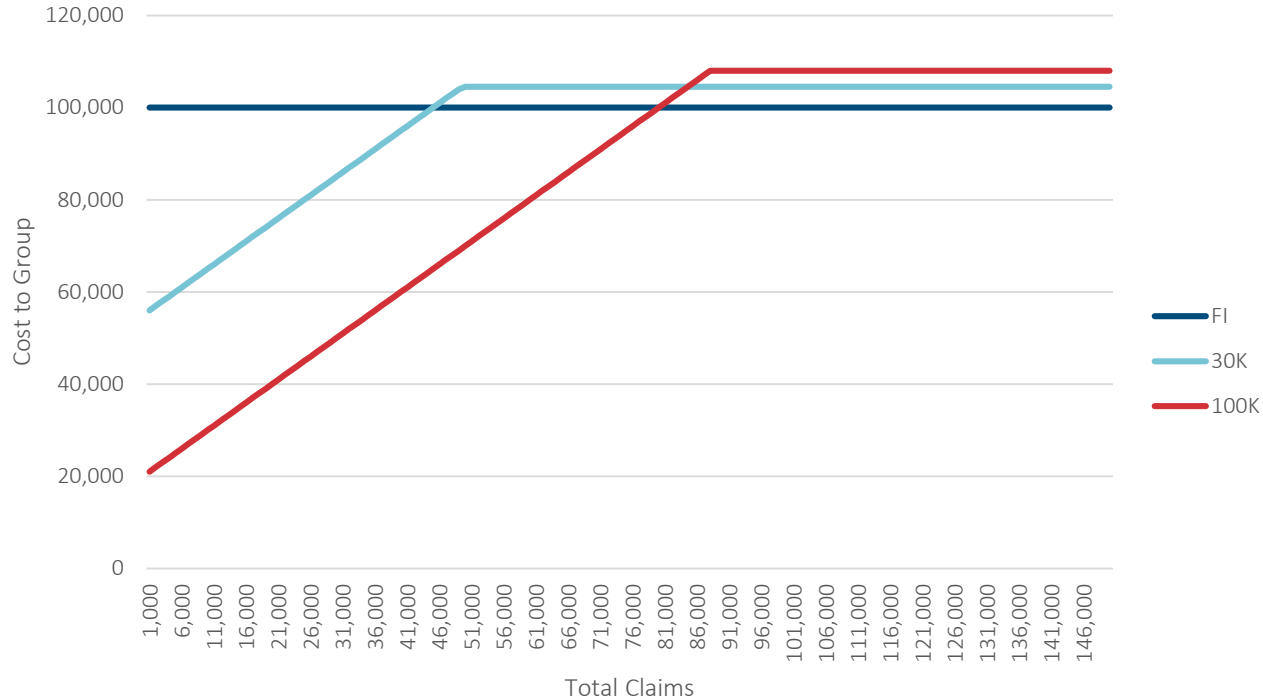
Writing the Policy

- Easily use existing stop loss policies/ ASO agreements with minor modifications
 - Accommodations language
 - Settlement rules
 - Holding employer's money in trust

Policy Provisions

- Typical Characteristics:
 - Low Spec Level, 10% Agg Corridor
 - 12/24 and the Dangers of Paid Contracts
 - Settlement Terms
- Lots of Flexibility
 - Adequate transfer of risk
 - Risk Appetite of the client

Impact of Stop Loss Levels



Aggregate Accommodations

- Modification to Stop Loss Policy or Administrative Services Agreement
- Necessary to make product “level funded”
- Spells out mechanics of loaning and repaying money to cover the cost of groups claims liability (aggregate attachment point).

Settlement Provisions

- Lots of approaches in market
- Settlement Timing vs. Contract Expiration
 - Runout/Reserve provisions
- “Recapture” of refund through differed admin fee
 - OR Only provided if group renews
 - Why I don’t like this

A Quick Word on Pricing



Expected Claims Buildup

- Enhanced Age/Gender Slopes
- Full Medical Apps
- Short Form Underwriting
- Experience Rates
- Algorithmic Risk Scoring
- Lasers
 - Unlikely to work
- Decline to quote/renew

Opportunities and Risks



Opportunities

- Risk Selection
 - Target market is young/healthy groups that can get rates lower than those available with community rating
- Popularity

Risks

- Changing regulations and NAIC guidelines
 - What is “adequate transfer of risk”?
- Bifurcation of your own small group business.
 - Not Offering <> Protection
- Lack of understanding by brokers/ small business owners



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