



August, 23 2012

SOUTHERN EMPLOYEE BENEFITS CONFERENCE

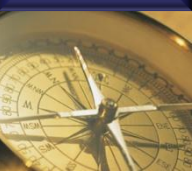
Benefits & Retirement Plans Hot Buttons

What Employers Need To Know



TODAY IN HISTORY – AUGUST 23

- 1972 - Republican convention (Miami Beach, Florida) renominates Vice President Agnew but not unanimous - 1 vote went to NBC newsman David Brinkley
- 1993 - Fred McGriff and David Justice are 6th to hit back-to-back home runs twice in same game (go Atlanta)
- 1993 - Dow Jones index reaches record high of 3,638.96 points



TODAY'S DISCUSSION – ANSWER 2

GENERAL TOPICS

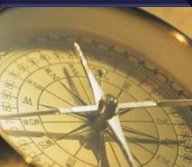


1) Self-insurance vs. Fully Insured Benefit Plans – what is the difference?

- Should my company self-insure our medical and dental plan?
- What are the pluses and minuses ?

2) Why would a company self-insure their plans?

- My employees are healthier than the average





FUNDING OPTIONS

What are the types of funding options?

- Fully funded insured contracts (risk held by the insurance carrier)
 - Guarantee cost
 - Experience rated/dividend eligible
- Minimum Premium contracts (risk held by the insurance carrier)
 - Insured contract that is alternate funded
 - Expenses paid monthly with claim funding as claims are presented for payment (funded through a bank account – not premium taxes paid on monies run through the bank)
 - Terminal liability (run-off claims) held by the client (normally)



FUNDING OPTIONS

- Self-insured contracts (risk held by the client)
 - With reinsurance protection – individual large claim and/or aggregate coverage
 - Without reinsurance protection
- Self-insured contracts enjoy the same cash flow advantages as the minimum premium contract.
 - Expenses are less due to the elimination of the “risk” charge





THE KEY DECISIONS

- Risk – who holds it?
 - What does “risk” mean?
 - In the case of a bankruptcy where do the plan members go to get their claims paid?
 - Insured plans – the insurance company
 - Self-insured plans – inline with the other “unsecured” creditors under the direction of the bankruptcy court





THE KEY DECISIONS

- Benefit considerations
 - Is it important to have the same benefits across state lines?
 - State mandated benefits under “insured” contracts will prevent same benefits across state lines
 - Self-insured plans follow ERISA rules, so all employees can be offered the same benefits across state lines





THE KEY DECISIONS

- Company stability
 - If the company is in a growth mode the financial picture will appear to be better than it is in reality
 - Claims are never “mature”
 - If the company is in a decline mode the financial picture will appear to be worse than it is in reality
 - Due to the reducing employee count, some of the “paid claims” are “run-off” claim





THE KEY DECISIONS

- Cash Flow
 - Insured contracts have 30 days with which to pay the premium; longer if negotiated
 - Self-insured contracts have 2 funding requirements
 - Plan expense – 1st of the month
 - Claims – weekly (usually)
 - If the claim payment request isn't met, claims are 1) not released for final payment or provider checks are returned for insignificant funds



PREMIUM OR ACCRUAL RATES

What is premium or an accrual rate?

- Simply, it is what funds the plan
- The components of premium are the same – insured or self-insured
 - Expenses
 - Reinsurance – individual and aggregate
 - Claim costs – paid claims and terminal claims (Incurred and not Reported or run-off)



PREMIUM OR ACCRUAL RATES

How is premium determined?

- Depending on the account size – insurance company manuals, actual experience and/or a combination of both
- The smaller the account, the higher weighting will be given to the carriers “manual” rate calculation
- Generally, an employer with over 500 employees and \$3m in claims will be totally experienced rated for “premium setting”



PREMIUM OR ACCRUAL RATES

The process is THE SAME regardless of funding options – insured or self-insured plans

- Premium is premium –

Key Decisions

1. Risk
2. Cash flow
3. Benefit design



OTHER CONSIDERATIONS

1. How easy is it to “go self-insurance”?
 1. Answer: very
2. How easy is it to go FROM self-insurance to insured?
 1. Answer: not easy – the underwriter will ask “why” and “what are they not telling me”
3. Can I get around PPACA with a self-insured contract?
 1. Answer?



OTHER CONSIDERATIONS

The answer is:

- Not really
- There are provisions that will apply to insured contracts that do not apply to self-insured
- Check with your benefit consultant or benefit lawyer



THANK YOU

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