



NATIONAL ASSEMBLY BENEFITS GROUP
*A Healthcare Insurance Captive Owned by Nonprofit
Members of the National Human Services Assembly*

I. Executive Summary

Starting in 2006, 16 members of National Human Services Assembly (National Assembly) reviewed options for setting up a program to assist large and small nonprofits with controlling and managing their escalating health insurance costs. In conjunction with the insurance actuarial services of Spring Consulting Group it was concluded that:

Participating members will benefit by providing a long term solution to their employees' healthcare needs by establishing a Reciprocal Risk Retention Group (RRRG), operating under the name of National Assembly Benefits Group (NABG), and domiciled in Washington, D.C.

The NABG program was designed to provide long term healthcare cost savings, better healthcare for its nonprofit members, and reduced rate fluctuations. This is achieved by taking advantage of the ever-expanding buying power of the NABG group as it grows in numbers and the beneficial financial structure of the RRRG (see Appendix A for a description of risk transfer). NABG members also have the choice to expand the program to cover other liabilities associated with employee benefits and/or property and casualty risks in the future.

The structure of the NABG program consists of two distinct parts:

- A self-insured health plan providing coverage for NABG participant employees
- A reciprocal risk retention group owned by the NABG participating membership

The advanced phase of this study (completed in April, 2008) determined, through detailed actuarial analysis, that the NABG program will conservatively save 7.5% or \$18.8 million, over 5 years, among the 11 national nonprofits participating. These five year projections do not take into account a number of additional factors that will further and significantly improve the financial performance of the group. These factors include:

- Reduction or elimination of the need for stop loss insurance as the group expands – currently 2.7% of overall costs
- Reduction in the cost of administration services as the group expands – currently 4.0% of overall costs

Excerpts from Spring Consulting Group report for the National Human Services Assembly, April 2008.
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- Reduction in claims costs due to:
 - i. More sophisticated plan designs
 - ii. Better medical management
 - iii. Predictive modeling
 - iv. Wellness programs
- Amortization of certain core RRRG costs over a wider group such as captive management, investment management, audit, legal, and actuarial costs
- Reduction or elimination of health plan consulting or brokerage costs
- Investment income from surplus cash and reserves in the RRRG

Members can choose to leave savings in the RRRG as additional reserves, or with the approval of the captive regulators, take surplus cash as dividends. In order to implement the new captive, members must commit to participate for a minimum of three years and to pre-fund the capitalization and three months of expected claims as specified by the RRRG regulator.

II. History

The concept of nonprofit organizations joining to insure their employer liability health needs, through an alternative funding vehicle, was spearheaded by the National Human Services Assembly, an 88 year old association in Washington DC. In August 2006 Spring Consulting Group was selected to conduct a feasibility analysis (Phase I) for sixteen interested nonprofit members of the National Assembly. Findings from that study were presented on December 15, 2006 in Washington, D.C. and indicated that a captive was an appropriate funding vehicle, with a reciprocal risk retention group (RRRG) being the best likely fit for the group.

The recommendations to the group in the December 2006 meeting were to:

- Create a long-term solution for a core membership group with the ability to expand participation over time – across all 50 states.
- Manage risk, pool experience and self insure through an RRRG captive domiciled in Washington, D.C.
- Coordinate plan designs and provide at least 4 new plan options (Nine healthcare plans were ultimately developed)
- Reduce claims over time by promoting health and wellness initiatives

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- Establish clear underwriting requirements for each participating member
- Fund the captive through actuarially established working rates, adjusting for each participant's claim experience as well as demographic and geographic variations

After the completion of Phase I, each organization discussed the concept internally and eleven organizations made the investment in Phase II of the project which included a formal review of each organization's membership, claims and plan design data; a request for proposal to the market for administrative services and stop loss services; and an actuarial analysis of working rates for each group.

III. The Health Plan

A. Objectives of the NABG Program

Nonprofit organizations, like many corporations, are continually struggling with accelerating healthcare costs and the complexities of maintaining good quality health plans. After careful review of the benefit options available within the potential participating member organizations, the feasibility study performed by Spring concluded that a single employer health plan with jointly purchased health services along with RRRG funding would be a step to combat these costs while allowing each participant to have more control. The study further identified that by using an appropriate captive insurance structure to fund the employers' contractual liability, assumed under a self-insured plan, member organizations could offer better and more cost effective health plans by unbundling risks and other service components. In addition, due to the size of the group, they could offer a wider range of health plan options all while leveraging the economies of scale through a shared risk pool.

The overall objectives of the NABG RRRG are:

- To provide an opportunity for participating member organizations, across the United States, to control and manage the costs of their health insurance plans and to positively improve the health of their employees
- To enhance the participating members' financial position by providing not only immediate short term monthly cost savings, but also long term savings and cost stability

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- To offer strategic advantages to participating members by providing higher-quality health plans which will contribute to improved employee retention and the ability to compete for talented staff
- To structure an insurance company that is owned and operated by similar nonprofit members and affiliates of National Assembly, allowing flexibility and control in design and management
- To work toward better coverage options including leveraging the RRRG to cover additional liabilities as well as to develop targeted loss prevention mechanisms to save further money

The NABG program will purchase health plan administration services and stop loss coverage to manage its healthcare risks as part of this RRRG. In 2007 a request for proposal (RFP) was distributed to a number of potential stop loss and administration providers. Based on a review of the detailed responses and follow-up discussions, Spring believed Uniprise (a subsidiary of UnitedHealth Group) was best positioned to meet the needs of NABG. At the present time, eighty percent of the employees of the initial NABG organizations use Uniprise, or one of its affiliated organizations, for their health insurance.

The quotations and ratings developed by Spring were based on the current aggregated group and the originally recommended plan designs. Deviations from the initial assumptions may impact the current shared pricing. Savings vary at the plan design level but at the group level they are advantageous for all participants.

At implementation, any updated health plan or census information will be shared with the selected provider to ensure that final rate or plan adjustments are not required. Full legal documentation will be part of implementation and signed off by each participant.

Spring has estimated the aggregated healthcare spend for the NABG as well as estimated costs for each participant organization. Spring's initial estimates are based from the current Uniprise quotation and the limited claims experience for the initial group. In order to maintain the financial security of the captive, Spring has been conservative in the initial rate calculations by incorporating a 5% contingency margin in the rates. This margin, if unused, will provide additional reserves and investment income for participants in the program.

Using this conservative analysis, the 2008 study determined the aggregate group is expected to save approximately 5.7% which equals \$2.3 million of its projected premiums for 2009 by using the proposed RRRG structure (7.5% over 5 years saving \$18.8 million). Surplus monies generated by this initial approach will accrue to the RRRG, earn investment income and will be available after three years for distribution to members.



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B. Major Advantages of NABG Healthcare Program

- Strength in numbers, resulting in increasing economies of scale over time for administrative expenses and insurance premiums
- Spread of risk over a number of employers in the nonprofit sector which will minimize the effects of members incurring higher health costs and lead to more stability and predictability over time
- Access to more sophisticated healthcare plans which offer a broader range of options normally only available to large employers
- Members of the NABG program are owners of the RRRG and a board of directors representing the owner group will be created to manage and govern the RRRG in the most economical manner
- Control over decisions will allow advanced wellness and disease management programs to be implemented helping to control and moderate healthcare costs and to some extent healthcare trend
- Economical access to better quality health plans for smaller, locally based, nonprofits which are affiliates or members of National Assembly members

C. Self Insurance and Risk Control

Each employer within the NABG program will be an owner and member of the RRRG and will operate their own single-employer *self-insured health program*. The NABG program will approve, with each member, on a self-insured retention level based on the size and risk tolerance within regulatory guidelines where applicable. Claims incurred up to that threshold will be paid by each employer (through a VEBA – Voluntary Employee’s Beneficiary Association trust based on the actual claims incurred by their employee population). Above that threshold the health provider and the RRRG will assume risk up to an established *specific and aggregate stop loss level* for the entire group. Thus even though the members are participating in a self-insured program, their exposure is controlled to a great extent by the RRRG and the stop loss provider. A more detailed explanation of the risk transfer is included in the Spring Consulting Group report.

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Appendix A: Conceptual Summary of Risk Transfer

Risk Transfer Background

For NABG participants that may not be familiar with self insurance and risk assumption in general, the differences between a fully insured and a self-insured plan are outlined below.

Under a *fully insured arrangement*, an employer pays monthly *premium* amounts to their health insurer. That premium amount represents the cost of their plan including administration fees, claim payments, taxes, insurance, company profits, etc. Those premiums are fixed for the duration of the contract and all claims incurred during the contract, regardless of when those claims are paid by the insurance company. Therefore there is no risk to the employer if claims are higher than expected and no benefit to the employer if claims are lower than expected until renewal.

Self-insurance allows employers to take more control over the health plans and fund claims using their own resources. This allows for better cash flow management and long term cost savings due to more efficient risk pooling, decreased administrative fees, and lowering of premium taxes and profit margin paid to insurance companies in fully insured arrangements. Under a self-insured plan a nonprofit can save money on premium taxes or insurance company profit, and can offer a uniform national plan which is not possible with fully insured plans due to state mandates. In addition, a self-insured plan manages claims costs more proactively with disease and demand management programs or pharmacy benefit management which can be customized to the employer or even carved out. Whatever the reason, *the core principle of self insured plans is to fund the actual medical claims as they are incurred, which is different from paying a fixed fee premium rate under a fully insured contract.*

Although the exact cost for self-insured plans is unknown at the beginning of the year, *working rates* are developed for each group to assist in budgeting and to set employee contribution strategies as well as COBRA pricing. These working rates are based on expected claims, with a small margin added. Given this, a gap may exist between the working rates set at the beginning of the plan year and the actual spend on claims in a self-insured arrangement; *precise monthly cash flow is based on the needs of the plan in conjunction with a budgeted amount.* Working rates are supplied to provide a level funding budget but an organization's actual experience may vary up or down from this estimate.

To minimize this risk, most employers (and in this case the NABG program) enter into a *stop loss contract* with an insurance company and sets a maximum liability both in terms of a *specific* dollar threshold (a maximum dollar liability per claimant) as well as an *aggregate* percent threshold (a maximum percent liability for the entire plan year). These stop loss contracts set a maximum



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liability in case catastrophic claims occur and claims are higher than expected; however, claim volatility under the stop loss levels may still exist and would be funded by the employer.

Risk Transfer in the NABG Program

The NABG program is based on all members being individually responsible for a part of their health insurance risk, with the balance being covered by the group overall or by stop loss insurance. The level of risk assumed by each entity, called the “self-insured retention level” will vary based on participant risk tolerance, size and regulatory requirements.

Under the NABG structure, participating members will each take advantage of a self-insured plan above their individual self-insured retention level. Stop loss will be provided through the selected health provider with the RRRG funding the gap between the amount of risk retained by the single employer plan and the health provider. Based on the law of large numbers, employers can save money due to decreased administrative fees and synergies that can be experienced by larger employers and the ability to pool claims to decrease the volatility of the entire group. This is designed to decrease stop loss and insurance charges and improve the experience of the group overall.

Although each participant’s self-insured retention level will vary based on their size and risk tolerance, the aggregated group will have stop loss on claims in excess of \$300,000. In addition, on an aggregate level, claims over 125% of the expected claims level for the plan will be covered by the stop loss provider. Therefore each employer will fund 100% of their expected claims through their annual payments and any claims falling into the 25% gap will be assumed by the pool of cash generated by each employer pre-funding 3 months of their payments in the RRRG.

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