

Module XVI

SURVIVAL STRATEGIES FOR BROKERS AND EMPLOYERS

Survival Strategies

Brokers

Survive

Thrive

Employers

Small Group

Large Group

Two Options:

Get Out

Stay In

Get Out!

- Are brokers really heading for the hills?
- Studies say they are
- Other brokers are selling out to larger firms with more resources



Stay In

How do people get smart?

Work harder

Make less \$\$

Work even harder

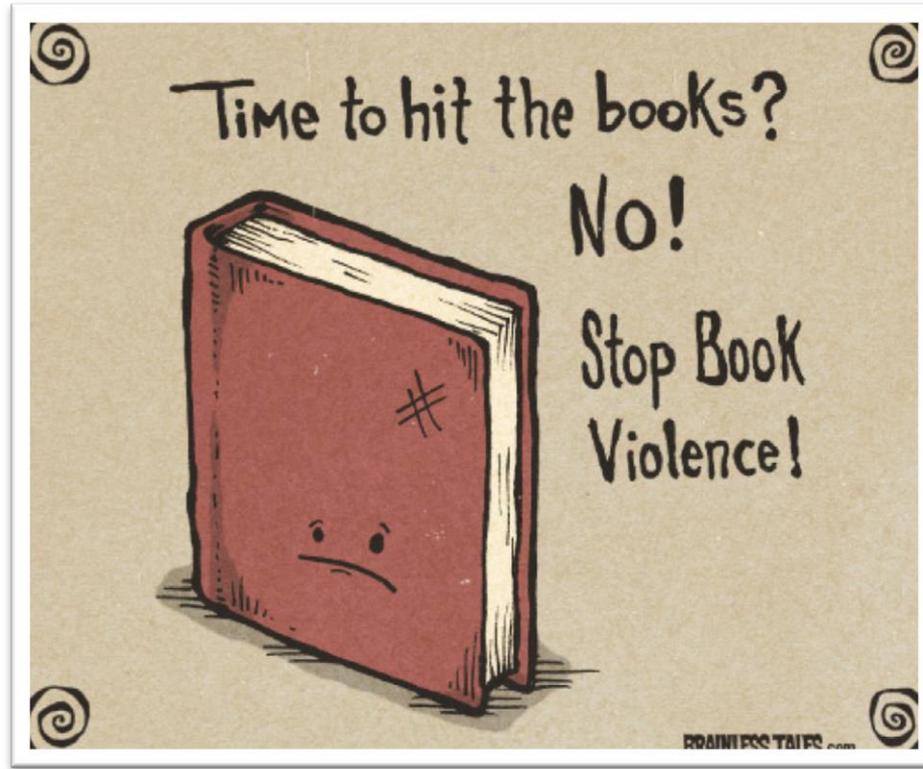
Make the same \$\$

Work smarter

Make more \$\$

How do people get smart?

**They
study!**



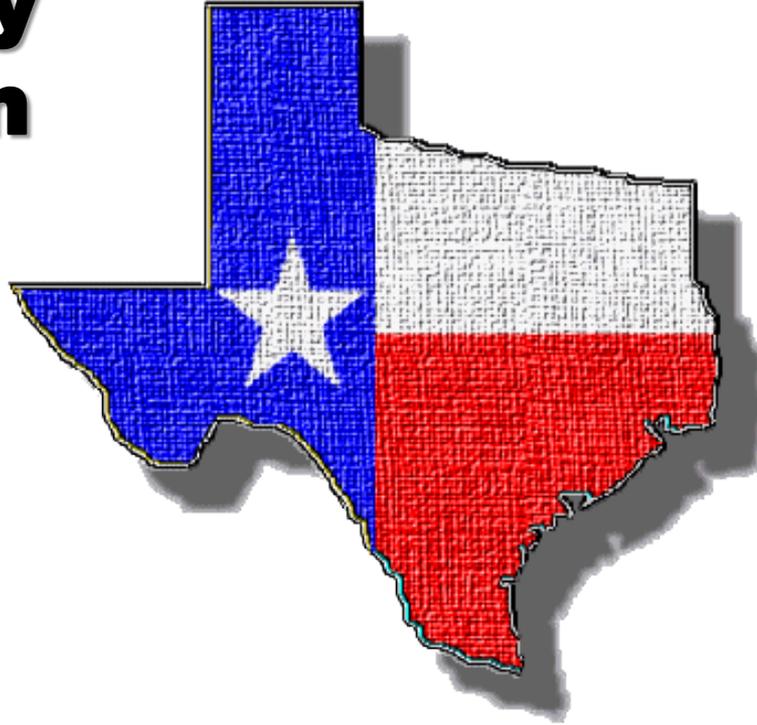
The Law

The Market

Our
Competitors

Our Competition

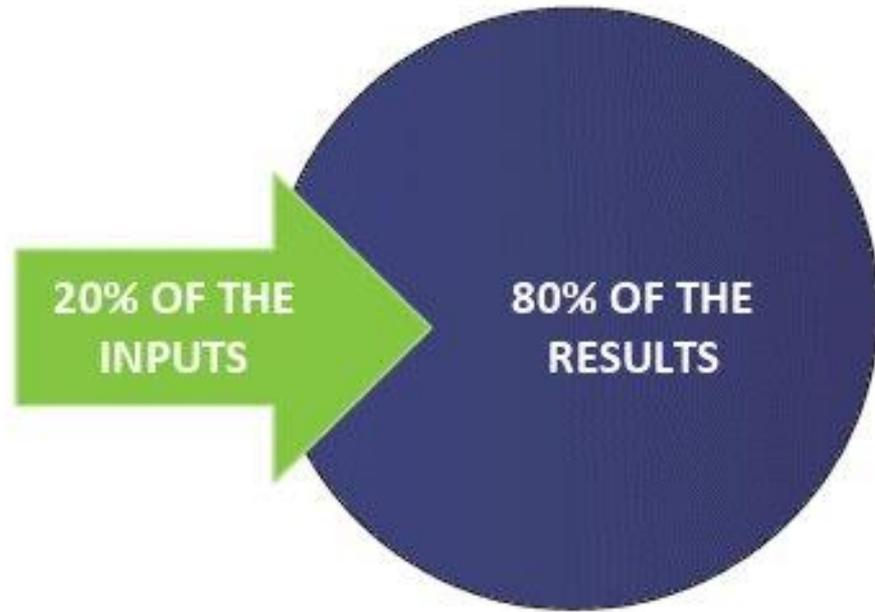
**How many
brokers in
Texas?**



60k

Pareto Principle

**80-20
RULE**



How many actually sell health insurance?

$$60\text{k} \times 20\% = 12\text{k}$$

How many study the law?

$$12\text{k} \times 20\% = 2,400$$

Do the Math

$$2,400 \times 20\% = 480$$

How many employers are getting good advice?

Not enough!

This creates an
opportunity

Do the same rules apply to each segment?



What are the three market segments?

What are the three segments?



Large Group



Small Group



Individual

Can we further divide each one?

Segmenting the Market Segments

Individual

- >400% FPL
- <400% FPL

Household Income

Small Group

- 2-9
- 10-50

Size & Health Status

Large Group

- 51-99
- 100+
- Carve Out
- No Coverage

Size, Health Status, Current Coverage

Can we further divide each one?

Individual

- >400% FPL: no subsidy; now guaranteed issue
- <400% FPL: subsidy-eligible

Small Group

- 2-9: max tax credits (small group / individual)
- 10-50: great ASO candidates

Large Group

- 51-99: transition relief; will be small soon
- 100+: must offer coverage in 2014
- Carve Out: expand or drop coverage
- No Coverage: play or pay, MEC candidates

INDIVIDUALS AND FAMILIES

>400% FPL and/or Not Subsidy Eligible

Focus on their need
for health insurance

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graph TD; A[Focus on their need for health insurance] --- B[Lots of money – something to lose]; A --- C[Medical conditions – something to gain]
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Lots of money –
something to lose

Medical conditions –
something to gain

<400% FPL and Subsidy Eligible

**Show
THEM
the
Money!!!**



Learn about Medicaid and CHIP

PRO
BONO

(not U2's lead singer)



This is your
opportunity to give
back

Remember all those
ethics courses?
Prove that you
learned something!

Don't let the
navigators be the only
ones to help these
folks.
Show the government
that navigators aren't
needed.



Sell Medicare

Lots of similarities between the Individual and Medicare markets

Guaranteed issue

Government subsidized

Annual enrollment periods that don't completely overlap

Don't depend on groups dissolving

Not happening like we expected...yet

Remember, Texas has the highest uninsured rate in the nation – lots of prospects

Nearly two-thirds of small employers don't currently offer coverage – groups of prospects (low hanging fruit)

Existing group clients – part-timers who probably qualify for subsidies

What about all those people you ran individual quotes for who didn't qualify for coverage in the past? You kept their contact info, right?

Set up a Storefront



American Health Underwriters, Downtown Fort Worth

SMALL GROUPS

12/1 Strategy

Moved younger, healthier groups (those paying below-average rates in 2013) to a 12/1 effective date

- Delayed market reforms (essential benefits, cost-sharing limitations) and allowed the government make corrections (\$2k deductible)
- Delayed modified adjusted community rating (ACR)

Moved older, sicker groups (those paying above-average rates in 2013) to a 1/1 effective date

- Underwriting eliminated
- Lowered rates

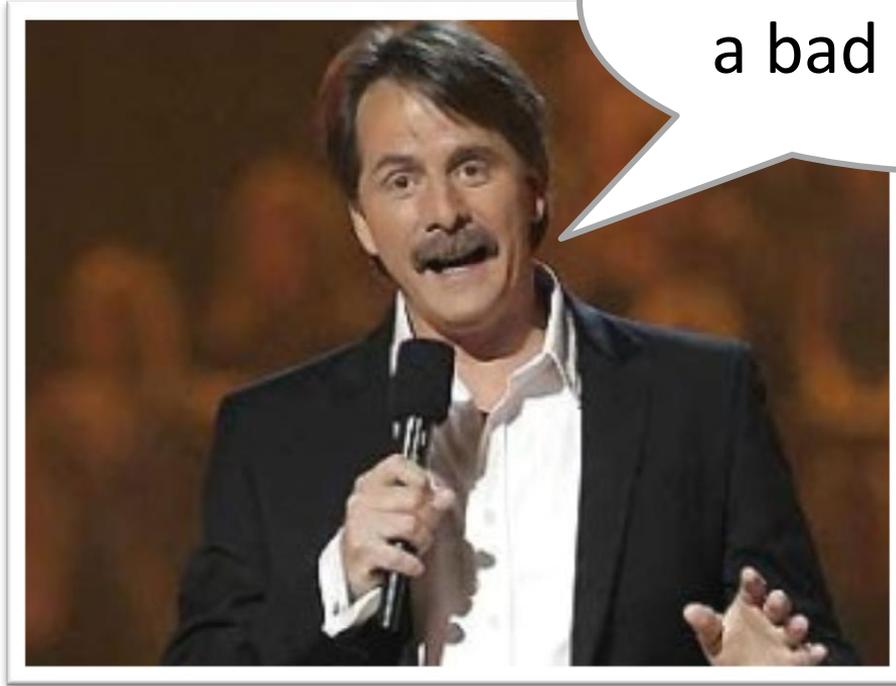
Grouped Together

For the first time in insurance history,
risk is segregated by month

Best Risks: 12/1

Worst Risks: 1/1

Groups with other effective dates



You might have
a bad broker if...

2-9 Employees

May qualify for the max tax credit of 50%
(10 or fewer employees, \$25k or less in average wages)



Tax credit was designed to encourage small employers to start offering coverage.
Is that happening?

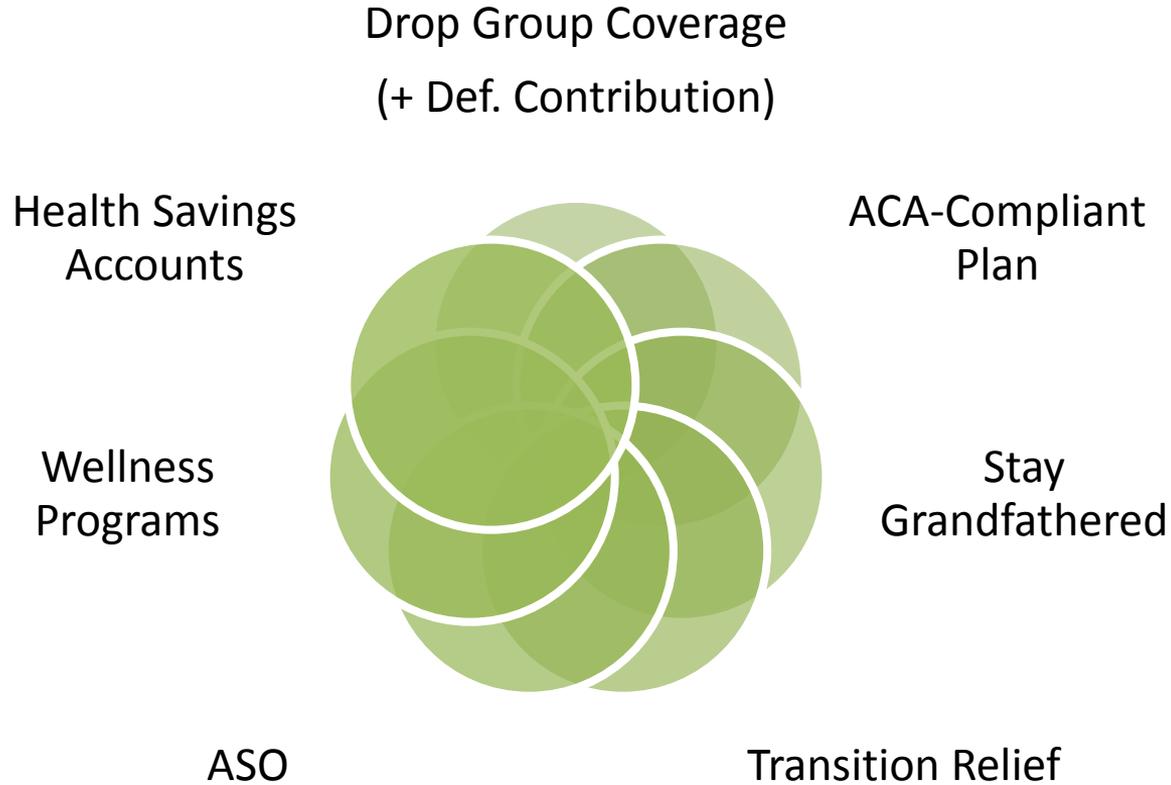


Those who do qualify for the maximum credit have very low-paid employees who would likely qualify for significant subsidies in the individual market.



Segment which is most likely to dissolve.
If it makes sense to offer coverage, do it. If not, don't.

10-50 Employees



Defined Contribution



So far in 2014

January 1 groups (older groups with more medical conditions) have moved into ACA-compliant plans and are benefiting from the law.

December 1 groups (younger, healthier groups that have historically paid below-average rates) have yet to feel the impact.

Rate Compression

- Right now the rates at the top have been suppressed, pre-supposing the bottom will come up.
- But b/c of transition relief and an aggressive ASO strategy, the bottom will never come up, so the top will move back up over time and the bottom will stay where it is.



Can load or DTQ the groups

- Similar rate bands as we had before ACA as a result of ACO

Don't sell it like self-funded!

Why large groups self-insure

- Think they can beat the market
- Cash flow advantage
- Benefit flexibility

Not same reasons for small groups

- **ACR is the only reason** – groups get to be rated by the same rules that helped them get lower rates in the past
- Goal is for the max liability to be close to where you were before – any savings is a bonus

ASO

Small groups will move in and out of ASO as their risk changes

Every fully insured group every year should be checking to see if they should go self-funded

This makes the small group broker even more important because of the strategy

They've tried to commoditize you and they've just done the opposite – made you more important

Self-funded will capture the bottom 30% of the market and help preserve the lower rates that we had before –Mark Bellman

The Threat

State or
Feds could
kill it

- Setting stop-loss too high (\$50k)

Unlikely to
happen at a
federal level

- Republican-controlled house
- NAHU guarding the wall

Unlikely to
happen in
Texas

- We're a red state



Transition Relief

Can renew with current, non-compliant plan (just like being grandfathered without being grandfathered)

Same benefits and rating rules as in the past

Unhealthy groups probably won't want to take advantage of this (they should have already move to ACA-compliant plans)

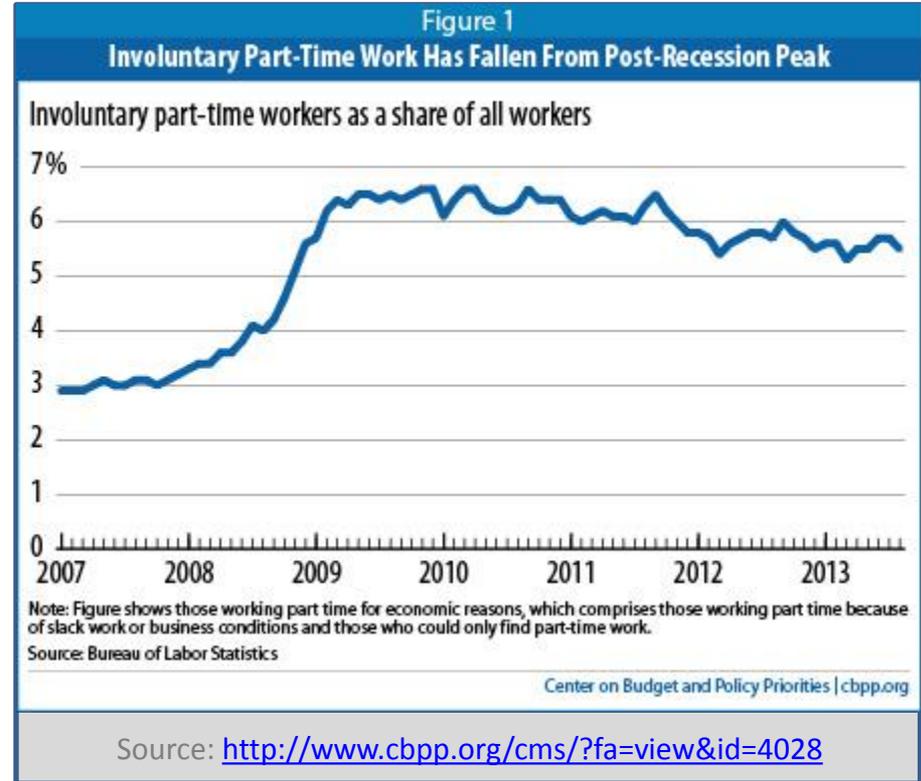
Healthy groups may have a higher renewal because carriers still need to offset the cost of the unhealthy groups who aren't paying as much now.

LARGE GROUPS

Shift Full-Timers to Part-Time

Not ok!

- ERISA says that if your only motivation in moving employees to part-time is to avoid offering them health insurance, that's a violation.
- Subject to fines and potential lawsuits.
- There are still legitimate business reasons to cut employees' hours.



Replace old employees with part-timers



Skinny Plans – 3 Perspectives



Get your money up front

MEC:

- Charge up-front consulting fee for carve-outs because they're not going to like the answer you give them
- Answers are bad or worse
- Not used to offering insurance, so they won't be happy
- You don't get paid a commission on the penalties...

No benefit for employees

Stripped-down plan doesn't really help employees



Since they don't pay attention during the enrollment meetings, they may think they have coverage they don't have



Enrolling in the plan blocks them from a subsidy



A subsidy may be better for them



Since the goal of offering the plan is to minimize employer penalties, brokers are encouraged not to explain the benefit of the subsidies

The Right Way to Sell

Explain to employer that not offering coverage hurts the company but offering MV coverage could hurt employees

Offer MEC plan to help employer avoid penalties

Pair MEC plan with a limited benefit option (excepted benefits) to create a better solution for employees

Don't block employees from a subsidy

In the enrollment meeting, explain the value of the subsidies so those who would benefit take advantage of the option

Explain the implications of signing up for the MEC plan or 125 plan

For those who don't decline the MEC plan, explain the value of the employer plan (good up-front coverage, no penalties, pre-tax)

Good news: high participation requirements mean higher commissions

51-99 Employees

Will be small groups in 2016

Ideal effective date is 10/1 to take advantage of transition relief and avoid ACR

Eventually, self-funding option will be good for this size group as well

BENEFITS COMMUNICATION

Your Job



**Increase
ROI**

**How is ROI
calculated?**

Calculating Return on Investment

$$\mathbf{ROI = Bang \div Buck}$$

Two ways to accomplish: more bang or fewer bucks

Good Communication is a MUST

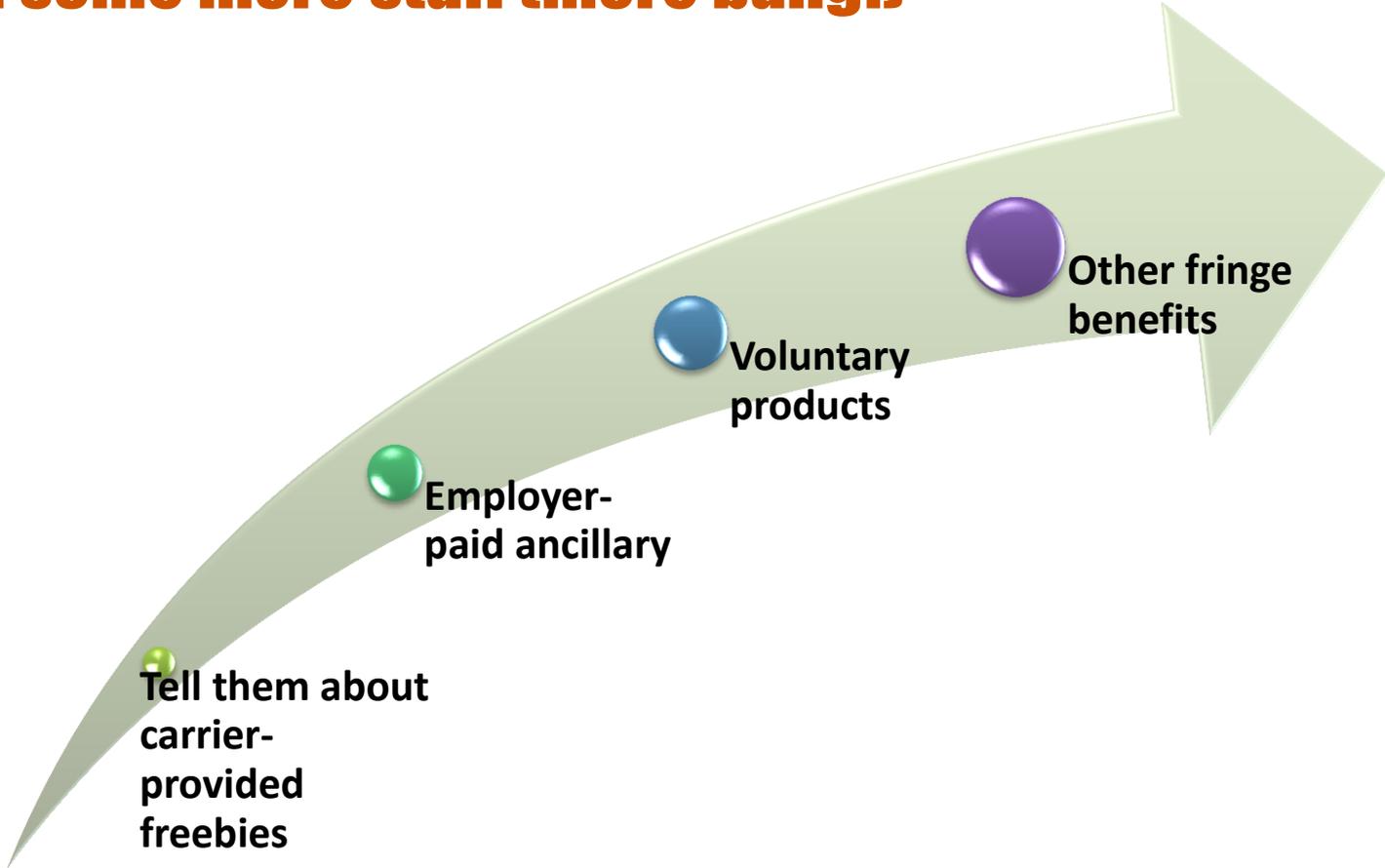


Sell the Value (the bang)

- ✓ Better benefits
- ✓ Better network
- ✓ Don't have to deal with the government
- ✓ Employer contribution
- ✓ Tax-free gift
- ✓ Pay your share with pre-tax dollars



Cram in some more stuff (more bang!)



Tell them about
carrier-
provided
freebies

Employer-
paid ancillary

Voluntary
products

Other fringe
benefits

Minimize the Negatives

Explain CHIP and hand out brochures

Throw the government under the bus

COMPLIANCE

Compliance!

That's part of
increasing ROI –
reducing
exposure to
penalties

Compliance
penalties are
much bigger than
the employer
mandate
penalties

Outsource
compliance,
especially ERISA

Use compliance
to win business
from bad brokers

IN SUMMARY

Your Two Takeaways

The
majority of
brokers are
a bunch of
idiots

Play offense
on 12/1 or
you miss
out on a
chance of a
lifetime

Go after groups with current coverage

Solve a
reasonably
fixable
problem

- 10-50 with 12/1
- 51-99 fully-insured groups

A Final Thought

Two 40-man plumbing groups with identical demographics

- One group renews 6/1, gets rate increase of 50% more
- Other group moved to 12/1, takes advantage of transition relief or ASO

Big difference!

- In the past you could dabble in benefits and your mistakes only cost 5 to 10%
- Now a mistake could cost the plumbing company the business

Compelling reason to get good brokers to take AORS, if you don't, you're doing Texas a disservice

Survival Strategies for Brokers and Employers

ANY QUESTIONS?