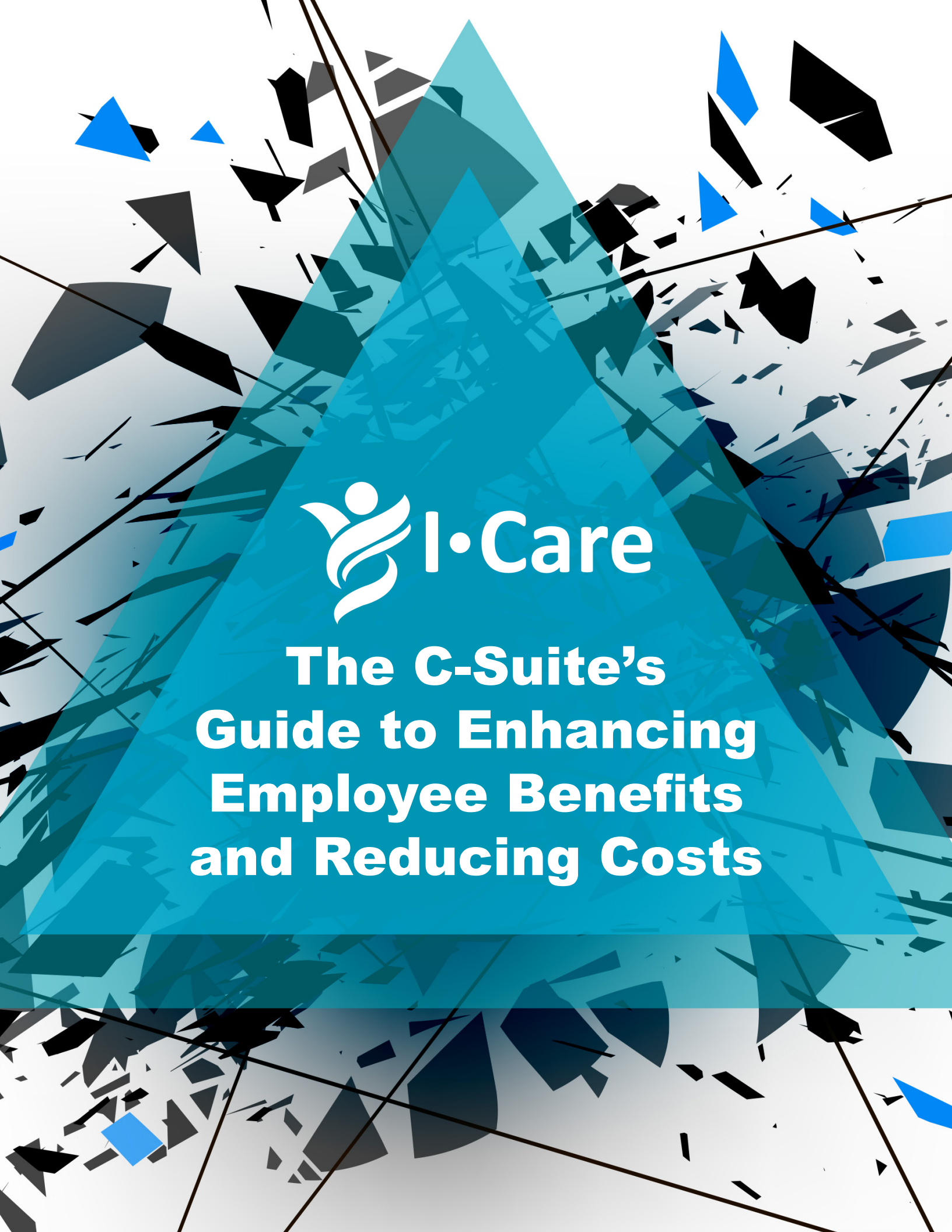


The C-Suite's Guide to Enhancing Employee Benefits and Reducing Costs

Our Guide to Buying *Less* Insurance at *Lower* Costs While *Still* Delivering Quality Benefits

It's time to state the cold, hard truth about medical insurance:

- The healthcare system is broken.
- The purchasing process is rigged for the insurance carriers to profit (handsomely) while credit unions and their employees continue to pay more.
- The 12-month cycle of evaluating and renewing medical insurance is vicious for HR and the executive leadership team.

You've been swindled to believe that the following is true, but the truth is these are flat out lies:

- My credit union is stuck in a trap and limited to only one or two insurance carriers.
- We're not big or complex enough to implement our desired changes.
- Moving to a self-funded plan is too risky for a group our size.
- We don't have the time or resources to do something different.

InterLutions, a Credit Union Service Organization (CUSO), was formed by a progressive group of credit unions that demanded us to challenge the status quo, dispel the ugly myths about purchasing competitive medical insurance, and develop an innovative, collaborative, and sustainable healthcare solution for our movement's most important asset – ***our employees***.

Question: Is there really an option to buy ***less*** insurance at ***lower*** costs and ***still*** deliver high quality competitive benefits to our employees?

Answer: Our CUSO's long and growing list of credit union clients will tell you ***YES***.
(refer to our happy clients' feedback at the end of this article)

How a CUSO is Solving the Healthcare Crisis, One Credit Union at a Time

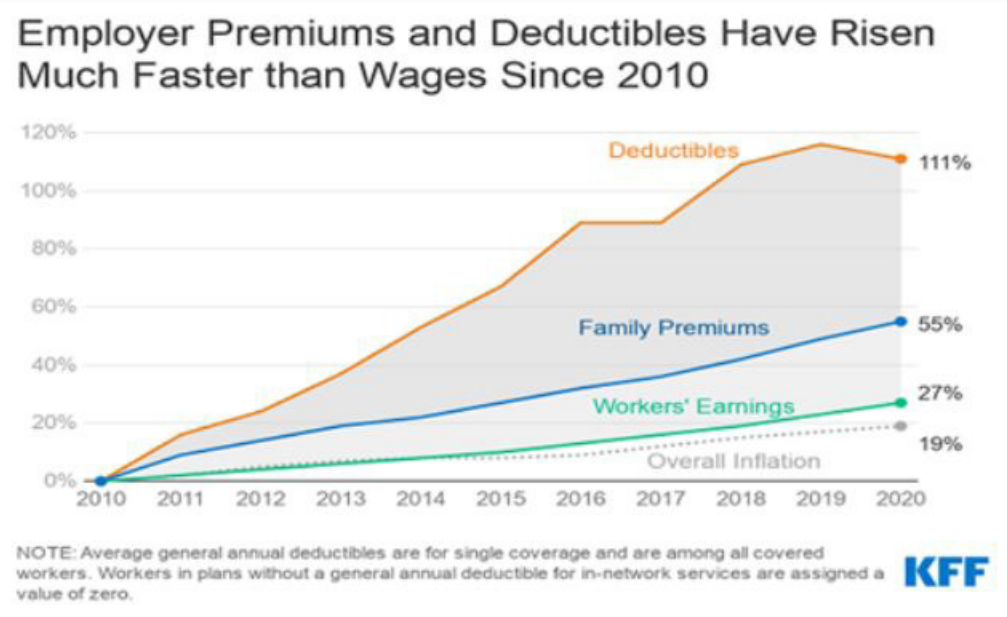
Let's begin by acknowledging a few of the key challenges our country is facing.

The Rising Cost of Healthcare

Healthcare costs have risen drastically in the U.S. over the past three decades. According to a study published in the Journal of the American Medical Association (JAMA), healthcare spending in the U.S. rose nearly a trillion dollars between 1996 and 2015.

By 2027, these costs are expected to climb to $6 trillion. This is not sustainable for credit unions or our employees.

Every healthcare spending graph you look at will show a steep line heading upwards. Here we see premium and deductible costs compared to earnings and inflation.



Unwellness?

Wellness programs are continuing to gain in popularity, but the fact remains, Americans are an unhealthy population. Chronic diseases continue to grow among the U.S. population and dramatically affect the way we live and spend our healthcare dollars. The Centers for Disease Control and Prevention (CDC) estimates that **90 percent** of national healthcare spending goes toward chronic disease management and mental healthcare.

Here are the **top eight chronic diseases** in the U.S.:

The top three risk factors contributing to chronic disease are:

- Cigarette smoking: The leading cause of preventable death and disease in the United States. More than 16 million Americans have at least one disease caused by smoking. This amounts to $170 billion in direct medical costs that could be saved every year if we could prevent youth from starting to smoke and help every person who smokes quit.

- Lack of physical activity: Not getting enough physical activity comes with high health and financial costs. It can lead to heart disease, type 2 diabetes, some cancers, and obesity. In addition, lack of physical activity costs the nation $117 billion annually for related health care.

- Excessive alcohol use: Responsible for 88,000 deaths in the United States each year, including 1 in 10 deaths among working-age adults. In 2010, excessive alcohol use cost the U.S. economy $249 billion, or $2.05 a drink, and $2 of every $5 of these costs were paid by the public. Binge drinking is responsible for over half the deaths and three-quarters of the costs due to excessive alcohol use.

We could go on and on about unhealthy lifestyles and healthcare spending, but to be honest, it's only one of the problems we are facing.

Another key issue? The traditional medical insurance plans.

The House Always Wins

Most credit unions, especially those with less than 500 employees, utilize a fully-funded health insurance plan. A fully-funded insurance plan is structured so that an employer purchases health coverage from an insurance carrier for a set premium. While relatively stable within the plan year, the premiums will fluctuate (almost always up) every new plan year based on a few factors that are typically never disclosed to the credit union. Sometimes premiums fluctuate because of your employees' healthcare usage. However, more often it is because of the community-rated pool your employees are lumped into (more on that topic in a bit).

Either way, in a fully-funded health insurance model, the house (or in this case, the insurance carrier) always wins:

- If your credit union experiences a year with higher-than-expected medical claims – guess what? Your premium goes up, sometimes way up, the following year.

- If your credit union experiences a year with lower-than-expected medical claims – guess what? Your premiums typically still go up, because the carrier doesn't think you'll have two "good" years in a row.

And, now you have a new and higher baseline every year as your premiums continue to go up.

The house is stacked against you.

Community Rated Pools

“Community rating” (also known as “pool rating”) refers to the practice of charging a common premium to all members of a mixed risk pool who may have widely varied health spending for the year. It inevitably makes healthy individuals subsidize, with their insurance premiums, the healthcare used by chronically sicker individuals. The 80/20 rule always applies – and it applies to insurance usage even more. It’s safe to say that 20% of employers are driving costs up for all employers that are subject to this community rating. Our data shows that 0.6% of individual health claims account for 38% of all claim dollars paid.

Most credit unions, especially those in fully-funded health plans, are lumped into these community rated pools – meaning they are grouped and priced together with other industries in our “pool” including manufacturing companies, construction firms, transportation companies, etc.

If your credit union is utilizing a fully-funded insurance plan and is subject to community rating, it’s a safe bet that your group is subsidizing the pool. Here’s why:

Data You Can Actually Use

Now we’re getting somewhere. One of our CUSO’s medical claims analytics report shows that credit union’s per-employee-per-year (PEPY) medical claims costs are 23% ***less*** than other industries. Are we as credit unions really 23% healthier than other industries?

Our data says ***YES***.

Industry	Gross PEPY Cost
Architecture/Engineering	$13,356
Construction	$12,401
Consulting Services	$12,673
Education	$14,505
Entertainment/Recreation	$10,911
Financial Services	$11,284
Government Services	$14,471
Healthcare	$12,222
Legal	$16,430
Manufacturing	$12,685
Retail	$9,772
Technology	$12,105
Telecom	$13,499
Transportation	$10,205
Average	**$12,609**
I-Care Captive Credit Unions	**$9,684**
I-Care Credit Unions vs. Average Industry % Difference	**-23%**

As you can see in our employer benchmarking analysis, our participating credit union employees perform 23% “better” than the average employee across other industries. Even when compared to other Financial Services employees, credit union employees still outperform their peers when it comes to gross per-employee per-year (PEPY) medical claim costs.

Why are our CUSO Clients Healthier Than Other Employers?

Two simple but effective models we live by:

1. Cost Containment: We provide our clients with enhanced claims data, innovative clinical programs, volume-based discounts, and purchasing efficiencies. Equally as important, we provide credit union HR departments with the appropriate resources to leverage the tools referenced above that have a proven history of helping employees and driving down high-cost claims.

2. Active Management: We provide our clients with effective advocacy programs. Remember the 80/20 rule? Let’s provide the employees that need us the most with proper guidance to better healthcare. Let’s guide them to the highest-rated (and often-times lower cost) health facilities for those common yet high-cost healthcare procedures (i.e. knee surgeries, hip replacement, dialysis treatment, etc.). Or better yet, let’s leverage enhanced claims data and technology to deliver our employees with the appropriate resources to prevent these high-cost claims.

Anecdotally speaking, we also believe that credit unions are a more caring industry, which leads to less stress and burnout of employees. More research is showing the negative impact stress can cause on our bodies and healthcare costs.

Is Self-Funding the Answer?

Well, the real answer is one of those dreaded “*maybe*” and “*depends*” responses.

In a self-funded plan (also known as a self-insured plan), the risk of purchasing medical insurance for employees transfers over to the employer, but so do the potential benefits. Under this arrangement, employers will partner with an insurance carrier or a third-party administrator to provide tangible employee coverage, but the employer shares responsibility for members’ claims. In comparison, the money that would normally be going to the insurance carrier in a fully-funded plan is now being spent by the employer.

At a certain point, employers will save money by switching to a self-funded plan when employees are healthy. The less claims they have, the less money they spend.

However, if employees file a lot of claims in a year, the expenses can add up quickly with the employers funding them. To mitigate this, employers invest in what’s called “stop-loss” insurance, which shifts the liability for payments back to the insurance company if costs rise above a certain deductible. On one hand, stop-loss insurance helps to relieve some of the risk of a self-funded plan, but these plans aren’t free. The trade-off between money saved thanks to self-funded plans and money spent on stop-loss insurance is a significant factor to consider when evaluating self-funded plans.

Self-funding might be your answer, and it's usually a safer transition once an employer has 500+ employees on the plan. However, you need to understand the risks associated with self-funding and go into it with your eyes wide open. It is critically important to work with a consultant that can create a financial analysis to help your credit union better define the financial benefits and consequences of this type of approach.

A Hybrid Approach

There are pros and cons to any plan you choose, but we believe there are more cons than pros in a traditional fully-funded plan and an individual self-funded plan. Given our data shows that credit union employees are 23% healthier than other industries, a hybrid benefits plan might be a better approach. Below is a high-level summary of each hybrid approach.

- **Level-funding** is an interesting alternative for credit unions to consider. Level-funded plans can move credit unions away from community-rated pools and take advantage of the purchasing efficiencies associated with self-funded plans. The risk is mitigated compared to self-funded plans but there is potential for a high claims cost year, requiring some groups to move back to their fully-funded, community rated plan. For a deeper dive into level-funded plans, please read our white paper titled, **Flexible Funding Options**.

- **Association Health Plans** (AHP) are gaining in popularity. AHPs are health plans sponsored by groups of employers with a common purpose to provide healthcare coverage to their employees. If structured properly, AHPs are an enticing alternative for smaller credit unions to offer better healthcare coverage to their employees. These are typically collaborative plans allowing employers to band together to attract pricing that is typically only offered to larger companies. Not all U.S. states allow for AHPs and they can be difficult to setup without the proper resources, market demand, collaboration, and diligence. Learn more about AHPs by reading our **AHP Credit Union Case Study**.

- **Insurance captives** are another interesting alternative. Captives have been around for years and are proven to be successful for many groups, but many captives lack the necessary resources to actually drive down long-term healthcare costs. If your credit union is evaluating an insurance captive, please read our white paper titled, **Insurance Captives: Are they Right for Your Credit Union?**

Our Recommendation for Credit Unions

We evaluated the key challenges listed above and worked with dozens of large credit union executives across the country to build a CUSO that is changing the course of rising employee benefit and medical insurance costs. We call it… I-Care.

I-Care: An innovative, collaborative, hybrid purchasing model with cost containment tools, member advocacy programs, and employee resources to help credit unions deliver high quality benefits while driving down costs.

Our Self-Funded and Exclusive Insurance Captive allows participating credit unions to pool their resources together, purchase less insurance, and buy stop-loss insurance through a ***lower*** pooled rate.

Here are the key features of our insurance captive:

- Self-funding a portion of their employees' medical insurance claims means each participating credit union is buying ***less*** insurance, compared to their prior fully-funded or self-insured plan.
- Paying premiums through an insurance captive structure means credit unions are buying ***less*** insurance. The pooled money invested in the captive is used to fund high-cost insurance claims.
- Purchasing stop-loss insurance as a larger pool means credit unions are paying ***less*** for insurance and utilizing less of it.
- The unused captive funds at the end of every year are shared back to the participating credit unions. Finally, a solution where credit unions are rewarded for their employees' health and wellness.

Best of all, our insurance captive is exclusive to progressive, proactive, like-minded groups that are working together to minimize unnecessary costs and deliver their employees the best benefits available.

Conclusion

Medical insurance costs are expected to continue rising at an alarming pace over the next ten years. The insurance carriers will continue to profit from the broken system and vicious trap.

To change the course of our healthcare, employee benefits, and medical insurance spending, credit unions need to do something ***different*** and ***better***. The power of collaboration among credit unions continues to be a core reason for our success as a movement. A collaborative healthcare model is our best strategy to combat the rising costs of medical insurance and employee benefits.

Call our CUSO today to learn how your credit union can buy less insurance at lower costs while continuing to deliver high quality benefits.

About InterLutions

InterLutions is a credit union service organization (CUSO) focused on providing innovative and collaborative employee benefit solutions to advance the credit union movement. More educational white papers about employee benefit solutions can be found on our **publications** page. Educational webinars focusing on insurance captives, healthcare technology, and collaborative employee benefits can be found on our **calendar of events** page. Please visit **InterLutionsCUSO.com** to learn more and follow us on **LinkedIn**.

Why are credit unions joining I-Care?

"With I-Care, our credit union can provide healthcare benefits at a lower cost to employees."

"We had a successful transition to I-Care, and they were with us every step of the way. It's a whole different level of support for our credit union and I'm so happy to have them as a resource going forward."

"When our credit union evaluated healthcare alternatives, I-Care was just the logical choice. The right pricing, service, and people made it a no-brainer."

"With I-Care, we reduce healthcare costs, reduce the volatility of premiums, and reduce risk."

"In order to attract and retain quality people, our credit union needs to provide quality healthcare benefits. I-Care helps us compete with the biggest banks."

"It is of utmost importance that we make the right decisions regarding our associates' healthcare. I-Care was a great option for us."

"Flexibility of plan design, along with the potential for significant cost savings and future wellness programs, made I-Care the best employee healthcare option for us."

Contact Us to Partner with I-Care