





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

InterLutions

Offering robust and competitive benefits to our employees is paramount to the success of the credit union movement, but at what cost? There seem to be more questions than answers to this ongoing problem.

Here's how our CUSO looks at the problem and solution:

 **Problem:** How can credit unions continue delivering competitive benefits that our employees need when the trajectory of healthcare costs is rising at such a steep pace?

 **Answer:** Collaborate with your peers to buy *less* insurance at *lower* costs.

The problem statement is simple, but the answer is not. It took our CUSO over five years to build successful, collaborative, and exclusive credit union healthcare solutions.

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

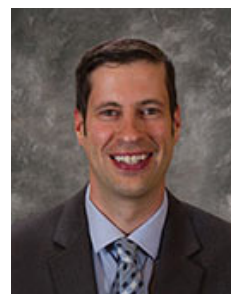
The Rising Cost of Healthcare

Healthcare costs have risen drastically in the U.S. over the past three decades. According to a March 2019 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.

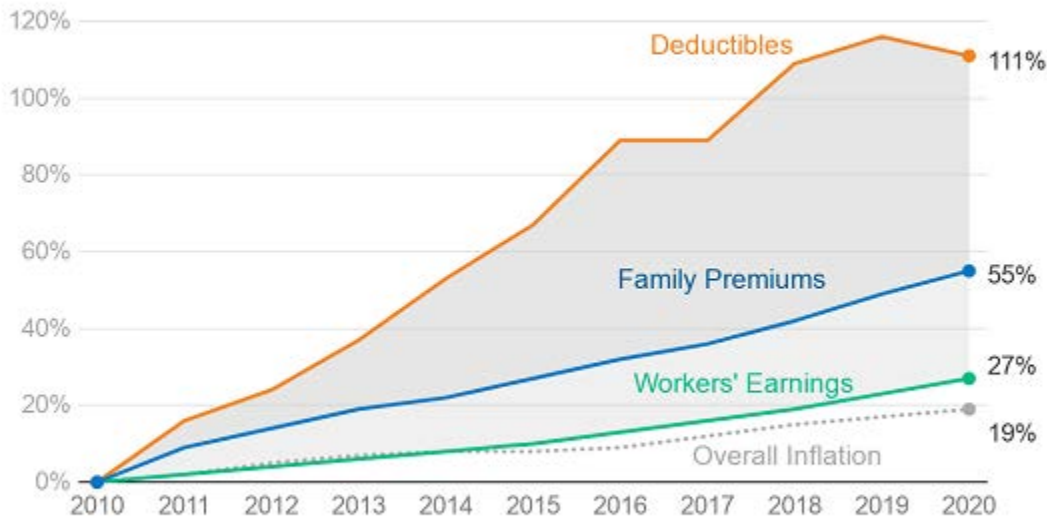
Every healthcare spending graph you look at will show a steep line heading upwards. Here we see premium and deductible costs compared to earnings and inflation.

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Employer Premiums and Deductibles Have Risen Much Faster than Wages Since 2010



NOTE: Average general annual deductibles are for single coverage and are among all covered workers. Workers in plans without a general annual deductible for in-network services are assigned a value of zero.

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Unwellness?

Wellness programs are continuing to gain 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% of national healthcare spending goes toward chronic disease management and mental healthcare.

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



Here are the top three risk factors contributing to chronic disease:

- 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 US 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 is only one of the problems we are facing.

Another key issue? 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 per-member 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 will have two "good" years in a row.

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

The house is stacked against you.

Community Rated Pools

"Community 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 chronically 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 is safe to say that 20% of employers are driving costs up for all employers that are subject to 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 employees, etc.



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

Data You Can Actually Use

Now, we are getting somewhere... One of our CUSO's latest 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 medical claim costs.

Why are Credit Unions Healthier Than Other Industries?

We still have not determined exactly why credit union employees are healthier than other white-collar industries. Our benchmarking data shows that credit union employee benefit plans are typically more rich than other industries. We also believe that credit unions are a more caring industry, which could lead to less stress, and more research is showing the negative impact stress can cause on our bodies (see the [Mayo Clinic research](#)).



Is Self-Funding an Answer?

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. No fixed premium to worry about.

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 are not free. The trade-off between money saved thanks to self-funded plans and money spent on stop-loss insurance is a factor to consider when evaluating self-funding.

Self-funding might be your answer, and it is 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; and be prepared for a "blow-up" year every 3-7 years.

Self-Funded Health Plans

A self-funded plan allows the employer to set the premium rates based off of the overall claim history of the group and adjust the plan in ways they see it working best for their members.*


Fully-Funded Health Plans

A fully-funded plan involves the employer paying a set premium to an insurance company to cover the costs of care. The yearly premium rates are a fixed charge that are based off of the number enrolled in the plan each month.*


* Information from Healthcare, Inc.


A Hybrid Approach

There are pros and cons to any plan you choose, but we believe there are more cons than pros in both the fully-funded and self-funded plans. Given our data shows that credit union employees are 23% healthier than other industries, perhaps a hybrid plan would make sense. 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's still potential for that blow-up 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, [Optimal Models to Fund Your Employee Benefits](#).



 **Association Health Plans (AHP)** are gaining 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 states allow for AHPs and they can be difficult to setup without the proper resources, market demand, collaboration, and persistence. Learn more about AHPs by reading our [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 lump different industries together, and the unhealthy groups continually drive costs up for the healthier groups. If your credit union is evaluating an insurance captive, please read our white paper titled, [Insurance Captives: Are they Right for Your Credit Union?](#)




A hybrid funding approach is something every broker should be putting in front of their credit union clients to evaluate. Every credit union has their own risk appetite, so these plans might not fit all, but they are a valuable option to consider, especially if you are not given clear data as to why your premiums continue to rise.

How to Buy Less Insurance at Lower Costs

Earlier, I mentioned that it took our CUSO over five years to build a successful, collaborative, and exclusive credit union healthcare solution. Collaboration allows credit unions to buy *less* insurance at *lower* costs.

A Self-Funded Credit Union Owned Insurance Captive allows our 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 credit union owned 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.
-  Depositing collateral monies through an insurance captive means credit unions are buying less insurance. The pooled money invested in our insurance 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 buying less of it. The need for stop-loss insurance is mitigated in two different ways:
 - 1) When each credit union is self-funding a portion of their employees' claims
 - 2) When high-cost claims are funded through the captive

These two insurance layers kick-in to fund claims before a credit union utilizes any stop-loss insurance. Plus, when stop-loss insurance is needed, it is pre-purchased at a lower rate because of the large group's negotiating power.





Any unused captive funds can be shared back to the credit unions each year. Finally, a solution where credit unions are rewarded for their employees' health and wellness.

Best of all, our insurance captive is exclusive to credit unions. Healthy, like-minded groups that are working together to deliver their employees the best benefits available.

An Association Health Plan (AHP) Managed by Credit Unions is another example of leveraging both the collaborative spirit of credit unions and the expert resources of an employee benefits-focused CUSO. With a focus of buying less insurance at lower rates, AHPs are perfect models for smaller and mid-sized credit unions.

Here are the key features of our credit union managed AHP:



Multiple credit unions banding together to negotiate lower medical insurance pricing



The buying power of dozens of credit unions delivers HR teams with better technology, enhanced systems, and higher levels of service and support typically only afforded to very large credit unions



Creating a risk pool consisting of only credit union associates



A full suite of enhanced and competitive plan design options with HSAs, HRAs, and FSAs

Another successful case study of healthy, like-minded groups working together to deliver their employees the best benefits available.

Conclusion

Medical insurance costs are expected to more than *double* over the next eight to ten years. To change the course of healthcare costs, 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.

About InterLutions

InterLutions is a credit union service organization (CUSO) focused on providing innovative business solutions to advance the credit union movement. At its core, InterLutions believes in the idea that collaboration within the credit union industry will provide more reliable and cost-efficient ways to keep credit unions strong and healthy. More educational white papers about collaborative 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](#).

