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SESSION 1 | FUNDING HEALTHCARE

# Healthcare Benefits as a Business Strategy

## A Leadership Guide to Managing One of Your Largest Operating Expenses

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**Better Benefits Decisions Start with Better Business Decisions.**

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# Leadership Pulse Check

POLL #1

## Which statement best describes your organization's approach to healthcare today?

1. We receive renewals and react.
2. We receive regular performance reporting.
3. We have some data but aren't sure what actions to take.
4. We actively manage healthcare year-round.

Your input helps make this a valuable discussion for everyone.

**Please take 30 seconds to vote.**

Take 30 seconds to vote. | We'll share the results and discuss together.

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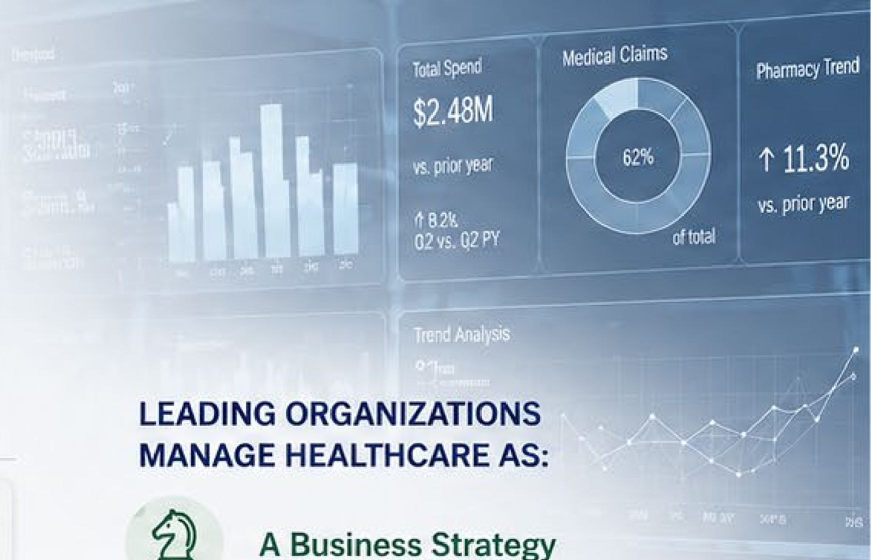


# Why This Conversation Matters

***Healthcare has become one of the largest and least understood operating expenses for many organizations.***

## THE TRADITIONAL APPROACH

1. Renewal Notice Arrives
2. Negotiate Rates
3. Make Plan Changes
4. Communicate Changes
5. Repeat Next Year

Reactive and largely driven by external factors

VS.

## THE STRATEGIC APPROACH

1. Understand Funding
2. Measure Performance
3. Identify Risks and Opportunities
4. Implement Solutions
5. Continuously Improve

Proactive and driven by data and business objectives

## LEADING ORGANIZATIONS MANAGE HEALTHCARE AS:

- A Business Strategy
- A Financial Asset
- A Workforce Investment
- A Year-Round Management Process

Funding options are available for organizations of all sizes— ***starting with as few as 2 lives.***

**THIS SERIES WILL HELP LEADERS:**

- Understand healthcare financing options
- Measure health plan performance
- Improve employee experience and financial outcomes

**Better Benefits Decisions Start with Better Business Decisions.**

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# Meet Bay State Manufacturing

*A fictional company based on the challenges we see many employers facing today.*

## COMPANY SNAPSHOT

PRECISION MANUFACTURING

250 EMPLOYEES

MASSACHUSETTS

$70 MILLION ANNUAL REVENUE

$2.6 MILLION ANNUAL HEALTHCARE SPEND

14% RENEWAL INCREASE

## LEADERSHIP TEAM CONCERNS

**CEO**
“Healthcare costs continue to rise and we’re not entirely sure why.”

**CFO**
“I can budget for healthcare, but I can’t explain what’s driving the increases.”

**HR LEADER**
“I need to protect employee benefits and remain competitive without simply shifting costs to employees.”

**Throughout this series, we’ll follow Bay State Manufacturing’s journey from renewal frustration to strategic healthcare management.**

FROM RENEWAL FRUSTRATION → TO DATA-DRIVEN DECISIONS → TO BETTER OUTCOMES

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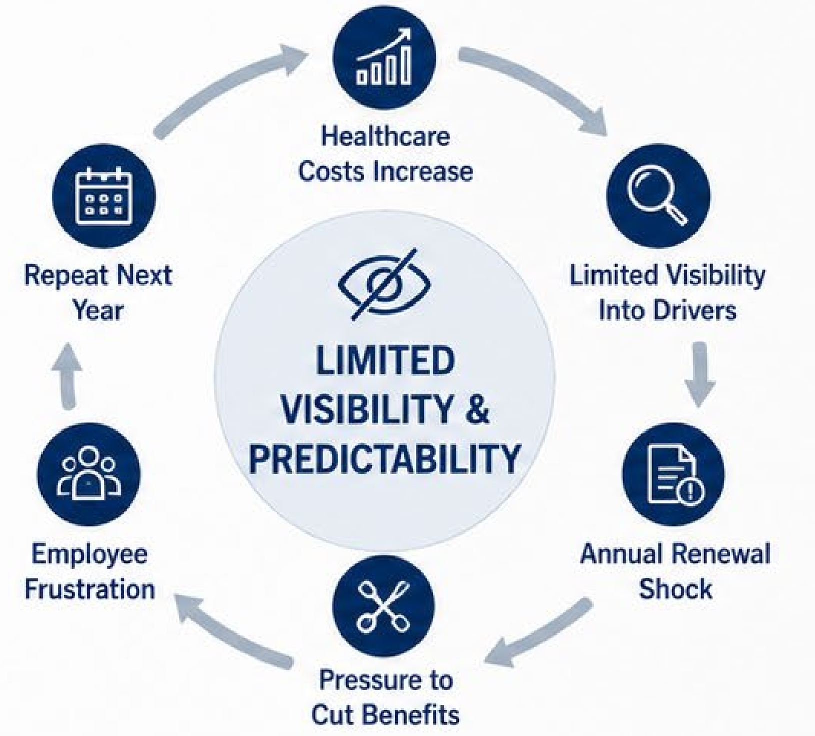
# Why Healthcare Often Feels Out of Control

*For many organizations, healthcare is one of the largest expenses with the least visibility and control.*

## QUESTIONS WE HEAR EVERY DAY

- Why did our renewal increase 14%?
- What is actually driving our costs?
- Are our costs reasonable?
- Is there anything we can do besides shifting costs?
- What should we expect next year?

## THE EMPLOYER FRUSTRATION CYCLE




## WHAT LEADERS COMMONLY EXPERIENCE

- Double-digit renewals
- Limited claims information
- Little confidence in what next year's renewal will look like
- Pressure to manage costs without harming benefits
- Difficulty explaining healthcare costs to executive teams and boards

**You can't strategically manage what you can't clearly understand.**

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# Audience Benchmark

*Understanding the experience in the room*

## Which of the following healthcare funding strategies have you worked with or evaluated?

1. Fully Insured
2. Level Funded
3. Stop Loss Captive
4. Direct Self-Funded
5. HRA
6. ICHRA
7. PEO

Your responses will help us tailor today's discussion.

**Please take 30 seconds to vote.**

Take **30 seconds** to vote.

We'll share the results and discuss together.

Your experience will help shape today's conversation.

# Healthcare Funding Is a Spectrum, Not a Binary Choice

*Different funding models provide different levels of predictability, transparency, flexibility, and financial participation.*

**MORE PREDICTABLE** ⟷ **MORE FLEXIBLE**

### Fully Insured
Carrier assumes all financial risk.

Most predictable premiums.

### Level Funded
Monthly payments based on expected claims.

Reconciled at year-end.

### Stop Loss Captive
Employer retains more risk and potentially shares in savings.

Protected by stop loss insurance.

### Direct Self-Funded
Employer funds claims directly.

Maximum visibility, control, and potential financial impact.

**INCREASING VISIBILITY & CONTROL →**

**INCREASING LEADERSHIP ENGAGEMENT & FINANCIAL PARTICIPATION →**

## OTHER STRATEGIES TO CONSIDER

### HRA
Employer assumes a defined amount of claim risk while maintaining a fully insured medical plan.

### ICHRA
Defined contribution approach that gives employees flexibility in choosing individual coverage.

### PEO
Combines benefits purchasing with HR, payroll, and administrative services.

**Every funding strategy involves tradeoffs.**

**The question isn't:** *"Which funding model is best?"*

**The question is:** *"Which funding model best supports our organization's goals?"*

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"As a CFO, I never asked whether something was 'good' or 'bad.' I asked whether it was the right solution for our business given the information we had. Healthcare funding is no different."

We'll explore each funding model in detail and see how the right approach supports better outcomes for your organization and your people.

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# Leadership Pulse Check

*Pulse Check #2*

***Based on what you've seen so far,***

## how confident are you that your current funding strategy is the best fit for your organization?

1. **Very confident.** We have the right model and the right data to back it up.
2. **Somewhat confident.** We feel good about our approach, but want to strengthen our data and insights.
3. **Not very confident.** We know we need more information to make the right decision.
4. **Not confident at all.** We're not sure our current strategy is the best fit.

Your perspective helps us understand where leaders are today—and where the biggest opportunities may be.

**Please take 30 seconds to vote.**

Take 30 seconds to vote.

We'll share the results and discuss together.

This input helps make today's discussion more valuable for everyone.

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# Fully Insured: Simplicity and Predictability, with Tradeoffs

*The most common funding approach, but often the one that provides the least insight into what is driving healthcare costs.*

## HOW IT WORKS

**EMPLOYER**

Fixed Monthly Premium

**INSURANCE CARRIER**

Pays Claims

**PROVIDERS & MEMBERS**

*The carrier assumes claim volatility in exchange for a fixed premium.*

## WHY EMPLOYERS CHOOSE IT

- Budget predictability
- Administrative simplicity
- Familiar approach
- Minimal governance requirements
- Works well for many organizations

## COMMON LIMITATIONS

- Limited claims visibility
- Less plan design flexibility
- Limited ability to identify cost drivers
- Little confidence in forecasting future costs
- Renewal decisions often feel reactive

## BAY STATE MANUFACTURING TODAY

Current Funding Model:
**Fully Insured PPO**

Annual Healthcare Spend:
**$2.6M**

2025 Renewal Increase:
**14%**

Leadership Question:
*"Are our costs increasing because claims are increasing, or because pricing assumptions are increasing?"*

Today, leadership doesn't know.

## WHAT HAPPENS IN A GOOD CLAIMS YEAR?

If claims are lower than expected, you may see a smaller premium increase at renewal.

The carrier retains the profit.
You do not share in the savings.

Predictability is valuable. Visibility is valuable too. *The challenge is finding the right balance for your organization.*

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# Level Funded: Predictability with Greater Visibility and Shared Opportunity

***A hybrid approach that combines predictable monthly payments with increased transparency and the potential to share in favorable plan performance.***

## HOW IT WORKS

**EMPLOYER**
→ Fixed Monthly Payment

**CLAIMS FUND**
Pays for eligible claims

**STOP LOSS PROTECTION**
Protects against high claims

**PROVIDERS & MEMBERS**
Receive care and services

**Monthly payment generally includes:**
- Estimated claims funding
- Administrative expenses
- Stop loss protection

## WHY EMPLOYERS CHOOSE IT

- More claims visibility
- More predictable cash flow
- Lower barrier to entry than traditional self-funding
- Potential surplus opportunities
- Introduction to data-driven plan management

## COMMON CONSIDERATIONS

- Not all level-funded arrangements are structured the same
- Refund opportunities vary by carrier and contract
- Limited customization compared to self-funding
- Employers still participate in claim performance
- Requires more engagement than fully insured plans

## COULD BAY STATE BE A CANDIDATE?

Current State:
**Fully Insured PPO**

**250** Employees

Annual Healthcare Spend:
**$2.6M**

2025 Renewal Increase:
**14%**

Leadership Question:
***"Would greater visibility and the opportunity to participate in favorable plan performance justify exploring another approach?"***

## WHAT HAPPENS IN A GOOD CLAIMS YEAR?

Portion of unused claims fund may be returned to the employer.

Future pricing may also reflect favorable experience.

Greater visibility into performance drivers.

The employer begins participating in both the information and the financial outcomes of plan performance.

**COMMON MISCONCEPTION**

Level funded does not simply mean "fully insured with a different billing arrangement."

It is a funding approach that begins to align plan performance, transparency, and financial outcomes.

**Different funding approaches create different tradeoffs.** *The key is choosing the right strategy for your organization.*

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# Captive Funding: Shared Protection with Greater Opportunity

*Employers retain responsibility for their own claims while pooling catastrophic risk and gaining access to solutions, pricing, and resources that may not otherwise be available.*

## HOW IT WORKS

**EMPLOYER CLAIMS**
Claims are incurred by your employees.

**EMPLOYER PAYS OWN CLAIMS**
You pay for all eligible claims up to your stop-loss structure.

**INDIVIDUAL STOP LOSS PROTECTION**
Protects your plan from large individual claimants.

**CAPTIVE POOL SHARES CATASTROPHIC RISK**
Multiple employers combine to share extreme claims.

**REINSURANCE PROTECTION**
Excess coverage protects the captive from severe, aggregate claim events.

**Employers remain financially responsible for their own claims up to their stop-loss structure while sharing catastrophic protection through the captive.**

## WHY EMPLOYERS CHOOSE IT

- Greater claims visibility
- Access to advanced cost containment solutions
- Purchasing power and pricing advantages
- More stable stop-loss environment
- Long-term strategic partnership
- Access to data and performance insights
- Greater control over plan performance

## COMMON CONSIDERATIONS

- Requires long-term commitment
- Participating employers generally follow certain program requirements
- Governance and accountability increase
- Success depends on engagement and disciplined management
- Captive structures can vary significantly

## COULD BAY STATE BE A CANDIDATE?

Current State:
**Fully Insured PPO**

250 Employees

Annual Healthcare Spend:
**$2.6M**

2025 Renewal Increase:
**14%**

Leadership Question:
***"Would greater control, purchasing power, and access to additional solutions improve our long-term healthcare strategy?"***

## IMPORTANT NOTE

**Not all captives work the same way.**

- Some captive arrangements function similarly to traditional self-funding with shared catastrophic protection.
- Some provide surplus or premium refund opportunities based on performance.
- Participation structures and requirements can differ significantly.

## WHAT HAPPENS IN A GOOD CLAIMS YEAR?

- Claims remain below stop-loss thresholds.
- You never spend claims dollars that never occur.
- Savings remain with the organization.
- Dollars can be reinvested in benefits, programs, or other business priorities.
- Favorable experience may also improve future stop-loss performance.

**KEY TAKEAWAY:** *In most stop-loss captive arrangements, employers retain the benefit of favorable claims experience because they are paying their own claims.*

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# Self-Funded: Maximum Flexibility, Transparency, and Financial Participation

*Organizations pay their own claims, retain favorable experience, and gain the highest degree of visibility and customization.*

## HOW IT WORKS

**EMPLOYER**
Establishes claims fund and pays eligible claims.

**CLAIMS FUND**
Funds are used to pay claims as they occur.

**TPA ADMINISTRATION**
Processes claims and provides reporting and analytics.

**STOP LOSS PROTECTION**
Protects against large individual and aggregate claims.

**PROVIDERS & MEMBERS**
Receive care and services.

The employer funds eligible claims as they occur while purchasing stop-loss protection to limit catastrophic exposure.

## WHY EMPLOYERS CHOOSE IT

- Maximum claims visibility
- Highest degree of plan design flexibility
- Ability to implement targeted cost-containment strategies
- Greater control over vendor selection
- More accurate forecasting and budgeting
- Alignment between plan performance and financial outcomes
- Ability to retain favorable claims experience

## COMMON CONSIDERATIONS

- Variable monthly cash flow
- Increased governance and engagement requirements
- Requires strong data and reporting capabilities
- Vendor and stop-loss management become increasingly important
- Stop-loss renewals can be significantly more volatile than captive arrangements
- Greater potential upside also comes with greater renewal risk

## COULD BAY STATE BE A CANDIDATE?

Current State:
**Fully Insured PPO**

**250** Employees

Annual Healthcare Spend:
**$2.6M**

2025 Renewal Increase:
**14%**

Leadership Question:
*"Would greater control, transparency, and the ability to directly benefit from favorable experience improve our long-term strategy?"*

## WHAT HAPPENS IN A GOOD CLAIMS YEAR?

| | |
|---|---|
| Expected Claims Budget | $2,600,000 |
| Actual Claims Paid | $2,200,000 |
| **Remaining Dollars** | **$400,000** |

The employer never spends dollars associated with claims that never occur.

Savings remain with the organization.

Future stop-loss pricing may also benefit from favorable experience.

Dollars can be reinvested in any business priority:
- Future healthcare costs
- Enhanced benefits
- Employee programs
- Capital investments
- Debt reduction
- Other business needs

## RISK AND REWARD INCREASE TOGETHER

**GREAT YEAR**
Maximum participation in favorable claims experience. You keep essentially all of it.

**CHALLENGING YEAR**
Greater exposure to stop-loss pricing changes, new lasers, or higher renewal increases.

## COMMON MISCONCEPTION

Self-funded does not mean unlimited financial risk.

Most employers purchase specific and aggregate stop-loss protection that establishes known financial boundaries.

## FUNDING APPROACH SPECTRUM

Volatility vs. Upside Comparison

MORE STABLE / LOWER VOLATILITY — MORE VOLATILE / HIGHER VOLATILITY

FULLY INSURED → LEVEL FUNDED → CAPTIVE → SELF-FUNDED

**KEY TAKEAWAY**
Traditional self-funding offers the greatest opportunity to benefit from exceptional performance, but also exposes employers to the full impact of adverse experience and stop-loss market conditions.

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# CHOOSING THE RIGHT FUNDING STRATEGY

*The right choice aligns your risk, resources, and goals to drive better financial and employee outcomes.*

**Understand your true claims data**
You can't manage what you don't measure.

**Assess your risk tolerance**
How much volatility can your organization absorb?

**Evaluate cash flow and balance sheet impact**
Consider short-term predictability and long-term flexibility.

**Consider administrative capacity**
Do you have the team, time, and systems to manage more risk?

**Align with overall business goals**
Your healthcare strategy should support growth, retention, and culture.

## KEY QUESTIONS TO GUIDE THE DECISION

- What level of financial predictability does our organization need?
- How much risk are we willing and able to retain?
- What resources (people, systems, time) are available to manage more complexity?
- What are our top business priorities over the next 1–3 years?

## BAY STATE LEADERSHIP CONCLUSION

**At this point, we still don't know which funding strategy is right for our organization because we don't yet understand our data.**

The next step isn't choosing a funding model. It's understanding the information needed to make a confident decision.

**Great funding decisions begin with understanding your data, your risk, and your goals.**

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# SESSION 2 PREVIEW

## We're Going to Open the Black Box

*We've explored the funding options.*
*But the best decision starts with data.*

NEXT SESSION

**Measuring Healthcare:**
***Turning Data Into Decisions***

Monday, August 18

2:00 PM ET

Session 2 will provide the data and insights you need to make confident, strategic funding decisions.

**NEXT TIME:**
We'll open the black box and show you how data creates clarity, control, and confidence.

### IN SESSION 2, WE WILL EXPLORE:

**We'll open the black box**
to reveal the information that drives results.

**What's Driving Costs**
Identify the key factors behind your spend.

**Emerging Risks**
Spot early warning signs before they escalate.

**Future Trends**
Understand what's ahead and how it may impact you.

**Hidden Opportunities**
Find actionable ways to improve outcomes and manage costs.

*Data turns uncertainty into a plan.*

**We'll use your input to design Session 2 around what matters most to you.**

Join us on **Monday, August 18** at 2:00 PM ET to turn data into smarter, stronger decisions.

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# Leadership Pulse Check

*Pulse Check #3*

## Which area would create the greatest value for your organization if you understood it better?

***Your input will help us focus Session 2 on the topics that will deliver the most impact for you.***

1. **Claims analytics and cost drivers**
   Understand what's driving spend and how to take action.
2. **Pharmacy trends and opportunities**
   Identify strategies to reduce spend and improve outcomes.
3. **Forecasting future healthcare costs**
   Plan with more confidence using forward-looking insights.
4. **Benchmarking against similar employers**
   See how we compare and where we can improve.
5. **Identifying cost containment opportunities**
   Find practical ways to manage costs without sacrificing quality.

Your voice helps shape Session 2 so we focus on what will deliver the most value for you and your organization.

**Please take 30 seconds to vote.**

Take 30 seconds to vote.

Your input helps us design more relevant, practical sessions.

We'll share the results and use them to guide Session 2 on August 18.

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# QUESTIONS & DISCUSSION

**What's one question or challenge you're facing that we didn't cover today?**

Please **share in the chat** so we can learn from each other and make the most of our time together.

**We appreciate you investing your time with us today.**

**QUESTIONS?** *Or share one insight that changed your perspective today.*

## CONTINUE THE JOURNEY

**SESSION 2**

# Measuring Healthcare:
*Turning Data Into Decisions*

Monday, August 18

2:00 PM ET

**We'll explore:**
- Understanding cost drivers
- Forecasting future spend
- Identifying emerging risks
- Finding hidden opportunities

**CONTINUE THE CONVERSATION**

Questions after today's discussion? We'd love to continue the conversation.

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*"Healthcare shouldn't be managed once a year at renewal. It should be managed like every other major operating expense."*