Financial Stewardship and Risk Oversight in Employee Benefit Plans

Harindra Sebastian
Chief Actuary

Financial Management of Healthcare Plan

- Financial governance & fiduciary Role
- Long-term cost focus
- Manage financial risk

Benefit Plan Financial Management

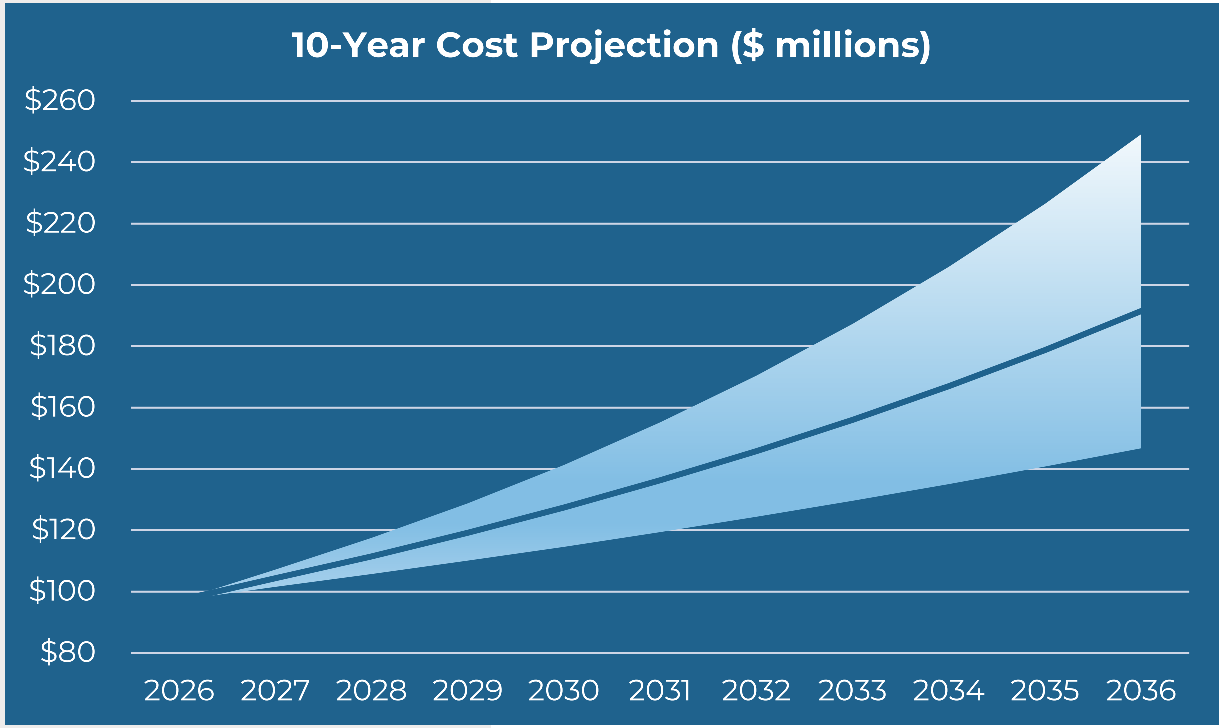
- Establish fiduciary committee and structure
- Develop reporting to meet management needs
- Data and insights support informed decision making
- Focus areas:
  - Duty of loyalty
  - Duty of prudence
  - Monitoring
  - Strategy
  - Documentation

Sample Financial Governance Framework

Item	Timing	Notes
Financial Monitoring		
Experience reporting	Quarterly	Report typically available about 45 days after the end of the period
Population health / data analytics	Semi-annually	Understand cost drivers to support plan strategy
Budget Forecasting		
Initial budget for following plan year	Annually	Typically set in conjunction with rate setting
Budget update(s)	• Post enrollment • In conjunction material changes in program • Depending on emerging experience	As needed, update to reflect changes such as significant change in covered population and material differences in actual experience compared to budget
Rate Setting and Reserving		
Rate setting	Typically, 2 to 5 months prior to beginning of plan year	Finalize rates after decisions on program changes, and prior to completion of enrollment booklets and administration setup
Reserve (IBNP) determination	Annually	Incurred but not paid (IBNP) reserve liability to be held on balance sheet

Long-Term Cost Perspective

- Incorporate long-term financial planning to benefits strategy
- Plot actual results against expected performance
- Change the plan based on what is working



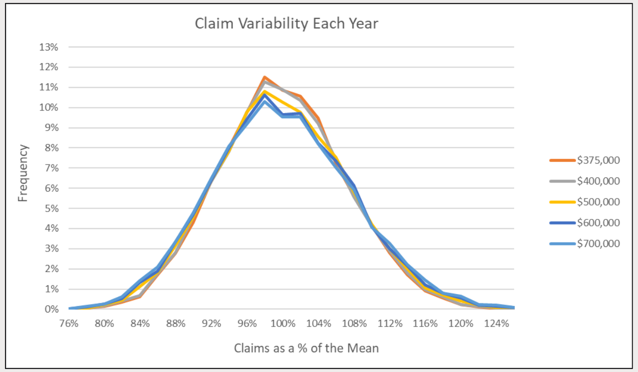
Managing Financial Risk

COMPANY NEEDS

- The organization's risk level across all areas of the business
- Internal risk mitigation mechanisms (e.g., cash on hand, reserves, access to funding, captives)
- Cash needs and cash flow stability

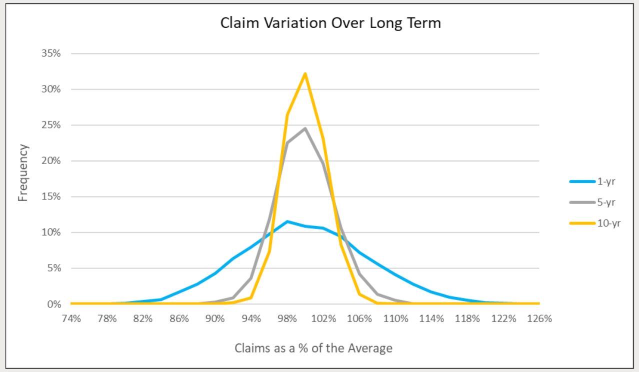
CLAIMS VARIABILITY BY STOPLOSS DEDUCTIBLE

- How does a change in stop loss deductible impact financial risk



CLAIMS VARIABILITY OVER TIME

- Cost variability is relatively lower over the long-term



Key Questions

Financial Governance	Long-Term Focus	Risk Management
Do we have the right level of decision makers?	What are the long-term financial goals?	How confident are we in the financial forecast?
Does the team have enough information to make prudent decisions?	What scenarios have been looked at?	What is the cost under 95% of economic scenarios?
What are the core values driving decisions?	What is the ROI of each initiative?	What is the optimal stop loss level for the organization?

Contact

Harindra Sebastian
National Chief Health Actuary

Harindra.Sebastian@aleragroup.com
470-747-9320

ALERAGROUP

S3