



CONSIDERATIONS FOR SELF-FUNDED HEALTH PLANS

Is your school district considering offering self-funded health plans to your employees? This document outlines things to consider when making this decision.

TRS ADMINISTERS THE HEALTH PLANS FOR SCHOOL EMPLOYEES IN TEXAS

This includes procuring the best medical plan administrators, providing high-quality and comprehensive physician and facility networks, negotiating and contracting with pharmacy benefit managers to acquire drugs at the lowest available cost, monitoring and acting on detected fraud, waste, and abuse within the health plans, and providing high-quality customer service.

As part of the TRS-ActiveCare program, you are currently able to leverage the preferred pricing and partnerships that are achieved by the size and scale of TRS. If you decide to offer a self-funded health plan on your own, your district will need to provide the same services for your employees as well as manage and negotiate with all vendor partners to ensure the most cost-effective and competitive offering available on a stand-alone basis.

TRS PAYS THE BILL FOR ALL HEALTH CARE COSTS

Whenever a TRS health participant uses a health care service—whether it is an annual checkup, a trip to the emergency room or a prescription refill — it is paid from the TRS-ActiveCare fund. While the state government (not TRS) contributes some money toward the funding of TRS-ActiveCare, most of the money comes from employee and district contributions.

If you decide to offer a self-funded health plan, your district will pay the cost of all health care services. You will need to ensure that your budget is actively tracked and managed in partnership with your district's finance teams to account for any fluctuation in claims utilization or experience.

CONSIDER THE FACTS

1) 95% OF EVERY DOLLAR SENT TO TRS GOES TO PAYING FOR HEALTH CARE

Every health plan costs money to run, and TRS-ActiveCare is no different. Because of the size and market leverage of TRS, we can consistently provide some of the lowest administrative costs in the industry. In TRS-ActiveCare, 95% of every dollar received goes to pay for health care. The remaining 5% pays for TRS program staff and services provided by TRS' medical administrator and pharmacy benefit manager, including claims processing, provider and pharmacy contracting, anti-fraud activities, and customer service.

If you choose to move to a stand-alone self-funded plan, you will need to develop and budget for administrative expenses, a comprehensive benefits team, and added outside resources necessary to effectively manage the health and welfare offering.



95% of every dollar received by TRS-ActiveCare goes toward paying for health care.

The remaining 5% pays for TRS program staff and services.



2) RATES OFTEN INCREASE AFTER THE FIRST YEAR

Brokers and insurance carriers outside of TRS-ActiveCare sometimes offer enticingly low rates for the first year of a contract in an effort to “buy the business” and entice districts to leave TRS-ActiveCare. These rates are often not actuarially sound or based on the district’s actual risk and claims experience, requiring steep increases in future years. While these lower rates may continue into the second year, districts often see steep rate increases in future years, especially if any unexpected high cost claims occur.

TRS-ActiveCare is structured to manage plan costs for the long term, eliminating large rate spikes in future contract years and keeping costs low and well within trend. We actively monitor claims experience to accurately project and manage costs on behalf of our TRS-ActiveCare districts.

3) TRS OFFERS STABILITY AND DECREASES VOLATILITY THROUGH SIZE

Because of our size, we can manage any claims experience or volatility that may occur within our health program without the need for reinsurance or stop-loss coverage by spreading it over the entire TRS membership. As a small or even large district on your own plan, you would need to ensure stop-loss coverage is in place to protect against financial exposure to high cost claimants. These coverages can be extremely expensive and often come with contractual stipulations called “lasers,” which can set extremely high deductible levels for certain individuals on your plans with rare or expensive conditions.

For example, you might have an employee who takes a drug with an annual cost of \$1.5 million. Your stop-loss partner can laser this member and require your district to pay up to the first \$1 million in claims. With the rise of high cost and catastrophic claimants over the last few years, it has become increasingly common to have these provisions in place as well as to see 30-50% increases in premium from year to year for stop-loss coverage.

Because TRS-ActiveCare has hundreds of thousands of members, we are able to easily spread the risk and absorb the cost of these catastrophic claimants without impact to our budget or the need for reinsurance, providing substantial savings and risk mitigation for our participating districts.

4) RATES AND CARRIER FEES ARE NOT THE ONLY COSTS TO CONSIDER

To offer the same level of benefits as TRS-ActiveCare, your district may have to contribute more to employee health care than it does today.

You can expect to pay **broker commissions** on top of the administrative costs charged by the insurance company. Broker commissions for large employers in Texas exceeded \$8 per member per month in 2018 (Kaiser Family Foundation, Broker Compensation by Health Insurance Market). If your district has 1,000 enrolled, that adds up to nearly \$100,000 in expenses not going to pay for health care.

Pharmacy **rebates and discounts** are provided based on the size of an employer. If you choose to operate a plan outside of TRS-ActiveCare, you would likely receive materially smaller rebates and less favorable contract terms and discounts. TRS receives lower prices than most employers can offer their employees on a stand-alone basis.

Districts that self-fund will need **to take ownership of the plans** and augment their teams through internal staff or external consultants. Without oversight from a dedicated team of health care analysts, you may be vulnerable to financial games that reduce your gains.



5) LARGE TEXAS DISTRICTS OUTSIDE TRS-ACTIVECARE PAY MORE

In 2019, 1,088 districts participated in TRS-ActiveCare, and 137 districts offered their own coverage to employees.

We looked at plans most similar to TRS-ActiveCare 1-HD for districts that do not participate in TRS-ActiveCare. Across the state, large districts that offer health benefits outside TRS-ActiveCare contribute significantly more to reduce the cost of their employees' health coverage.

\$298

\$407

Average amount contributed by TRS-ActiveCare districts per employee per month

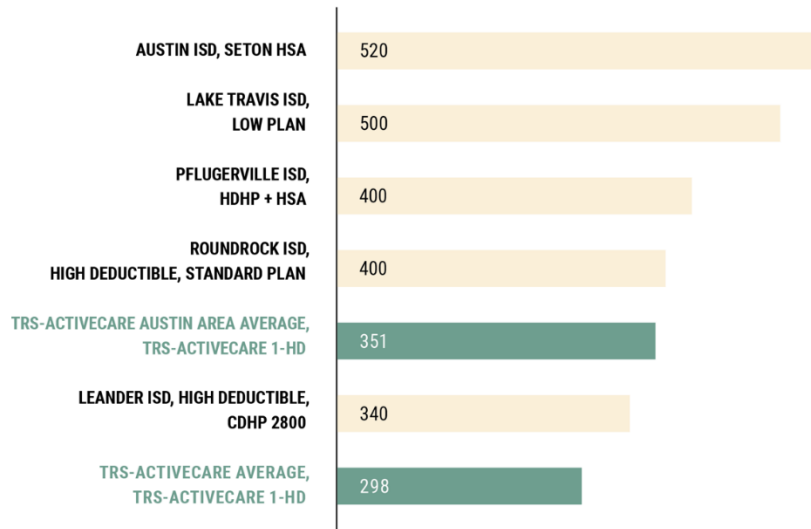
Average amount contributed by districts outside TRS-ActiveCare per employee per month

EXAMPLES FROM ACROSS THE STATE

AUSTIN AREA

Five districts do not participate in TRS-ActiveCare, while twenty-four districts in the region participate in TRS-ActiveCare.

Four out of five districts outside of TRS-ActiveCare contribute more than the average participating Austin area TRS-ActiveCare district.



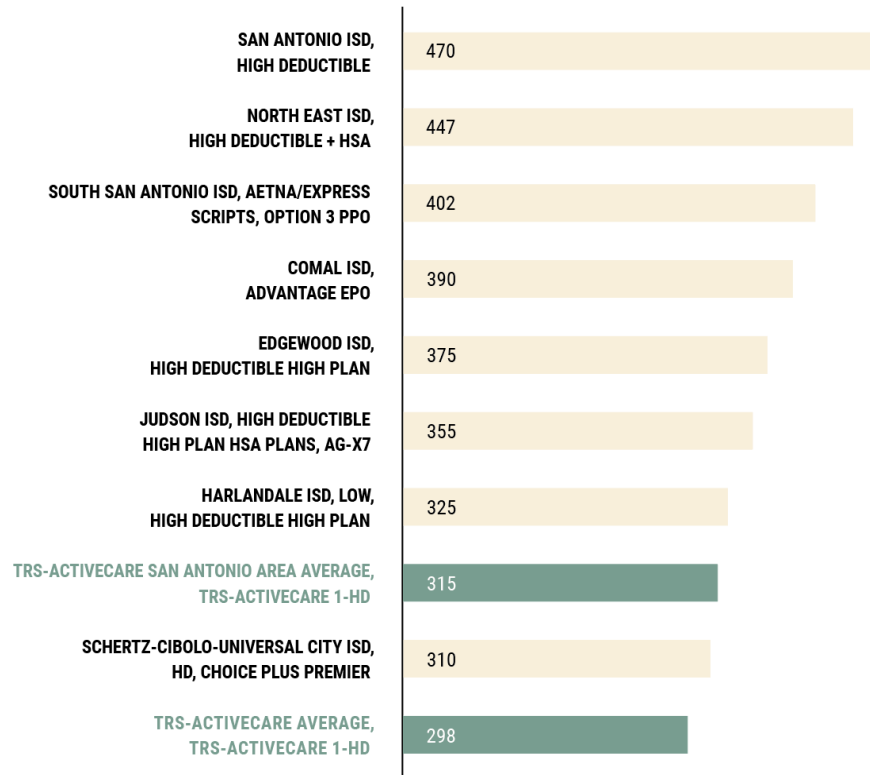


SAN ANTONIO AREA

Nine districts do not participate in TRS-ActiveCare, while thirty districts in the region participate in TRS-ActiveCare. Data for Northside ISD contributions was not publicly available.

Seven out of eight districts outside of TRS-ActiveCare contribute more than the average San Antonio area TRS-ActiveCare district.

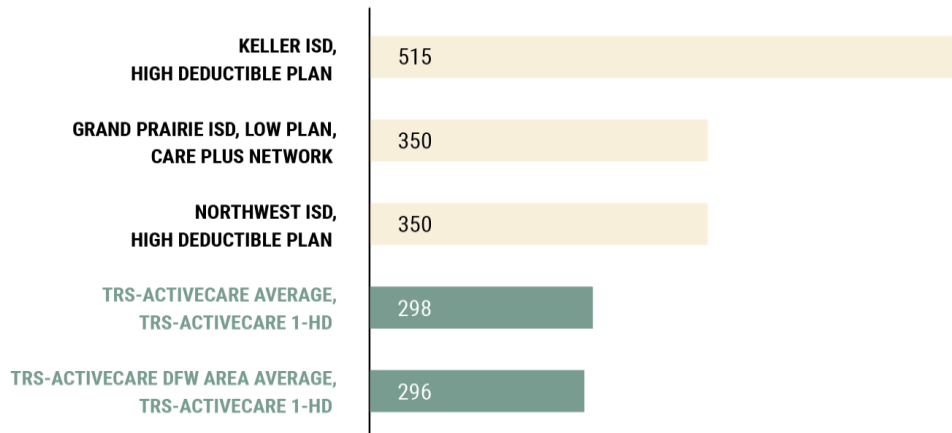
MOST NON-PARTICIPATING DISTRICTS CONTRIBUTE MORE MONTHLY FUNDING PER EMPLOYEE THAN PARTICIPATING DISTRICTS (FY 2020)



DALLAS-FORT WORTH AREA

Three districts do not participate in TRS-ActiveCare. 103 districts in the region participate in TRS-ActiveCare.

All three districts outside of TRS-ActiveCare contribute more than the average DFW area TRS-ActiveCare district.



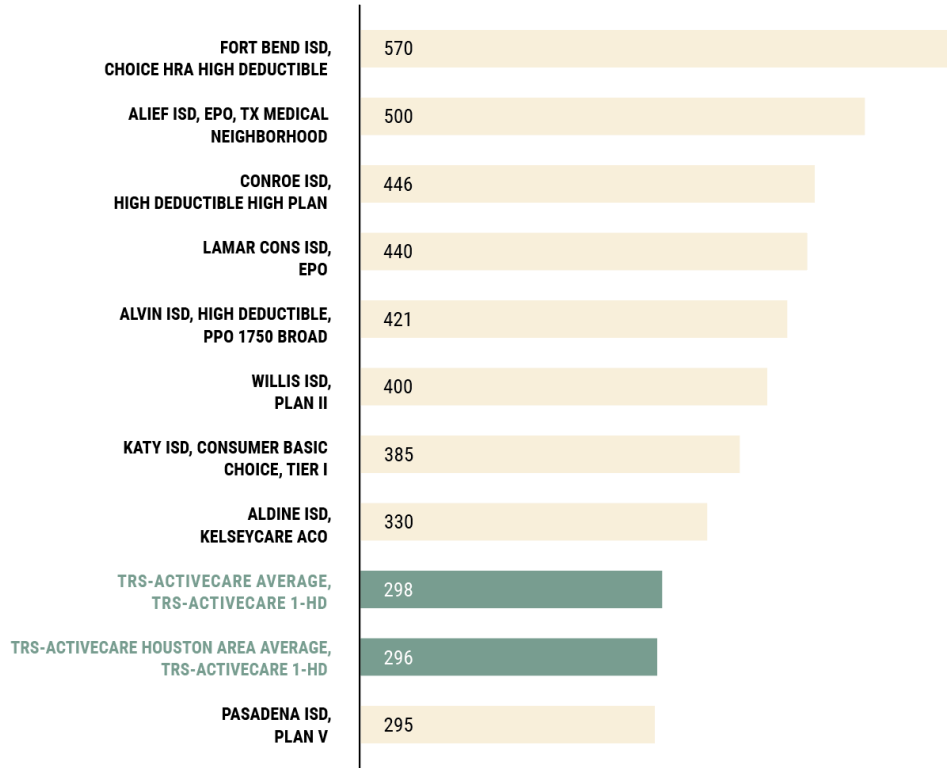


HOUSTON AREA

Ten districts do not participate in TRS-ActiveCare. 53 districts in the region participate in TRS-ActiveCare. Data for Houston ISD contributions was not publicly available.

Eight out of nine districts outside of TRS-ActiveCare contribute more than the average Houston area TRS-ActiveCare district.

MOST NON-PARTICIPATING DISTRICTS CONTRIBUTE MORE MONTHLY FUNDING PER EMPLOYEE THAN PARTICIPATING DISTRICTS (FY 2020)

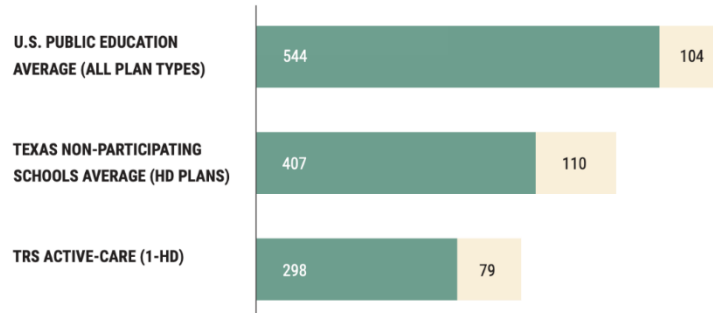




6) THE DIFFERENCE IS EVEN GREATER WHEN YOU LOOK ACROSS THE U.S.

The amount employers contribute toward employee health coverage for public education employees across the U.S. is significantly greater than TRS-ActiveCare participating districts pay.

2019-20 CONTRIBUTION COMPARISON EMPLOYEE-ONLY COVERAGE



The green portion of the bar represents what employers contribute to employee health coverage and the beige portion represents what employees themselves pay for coverage each month.

U.S. Public education data is from U.S. Bureau of Labor Statistics 2019 data.

Texas non-participating is based on 27 plans primarily from Houston, Dallas, Austin, and San Antonio regions using plan most comparable to TRS-ActiveCare-1-HD. Texas data represents average of each district. HD is short for High Deductible. Plans outside of TRS-ActiveCare may offer different plan designs which impact premiums.

KEY TAKEAWAYS

TRS-ActiveCare is a cost-effective program with low administrative costs. As part of TRS-ActiveCare, you do not pay for stop-loss insurance or commissions like other smaller self-funded groups, allowing more dollars to go towards the health care coverage. TRS manages the plans on behalf of participating districts, removing the need to hire benefits management staff and administrators at the district level.

TRS also reduces volatility and helps make health care a more predictable expense for participating districts. TRS-ActiveCare participants benefit from the size, market leverage and expertise of TRS to gain access to market-leading pricing, enhanced member service offerings, and best-in-class contract terms and provisions. In major metropolitan areas of the state, districts outside of TRS-ActiveCare must contribute more toward employee health care to offer a comparable and affordable health care benefit to their employees.