

COASTAL



# Self-Insured Health Plans for Beginners

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## ■ **Funding:**

- Funding is simply the means by which an employer pays for employee benefit programs
- The funding spectrum can range from Fully-Insured (premium payment) to Fully Self-Insured (employer pays all fees and claim costs)
- Forms of Partial Self-Insured Plans are most common

# Self-Insured Health Plans for Beginners



## ■ Self-Insured vs. Fully-Insured

### ■ Fully-Insured Plans:

- ✓ Premium exchanged for coverage
- ✓ State mandated benefits usually included
- ✓ Often per-determined plan design options
- ✓ Limited reporting
- ✓ Vendors are usually controlled by the carrier
- ✓ Pooled Risk

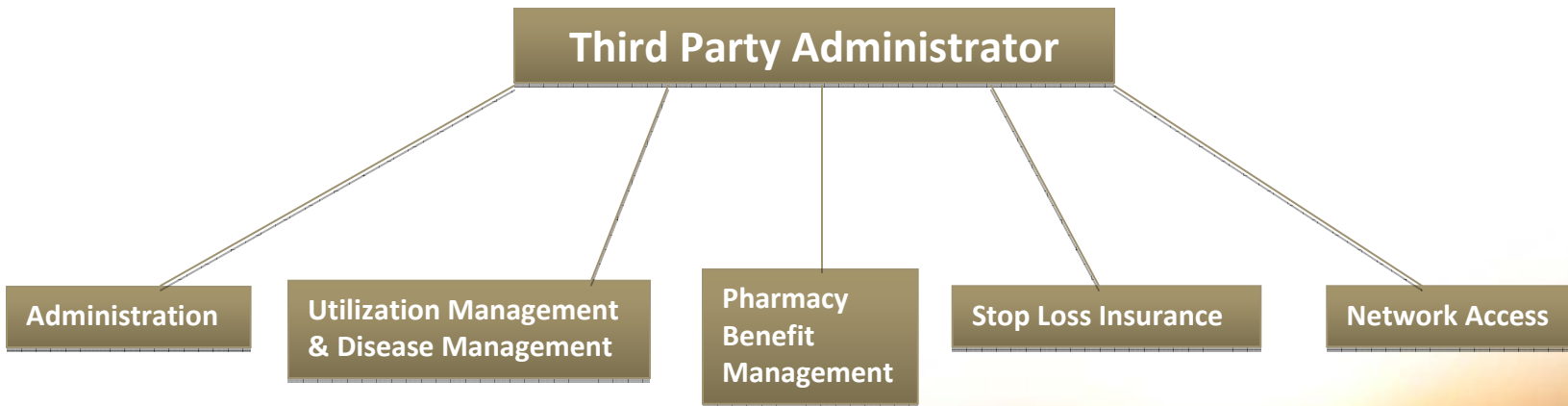
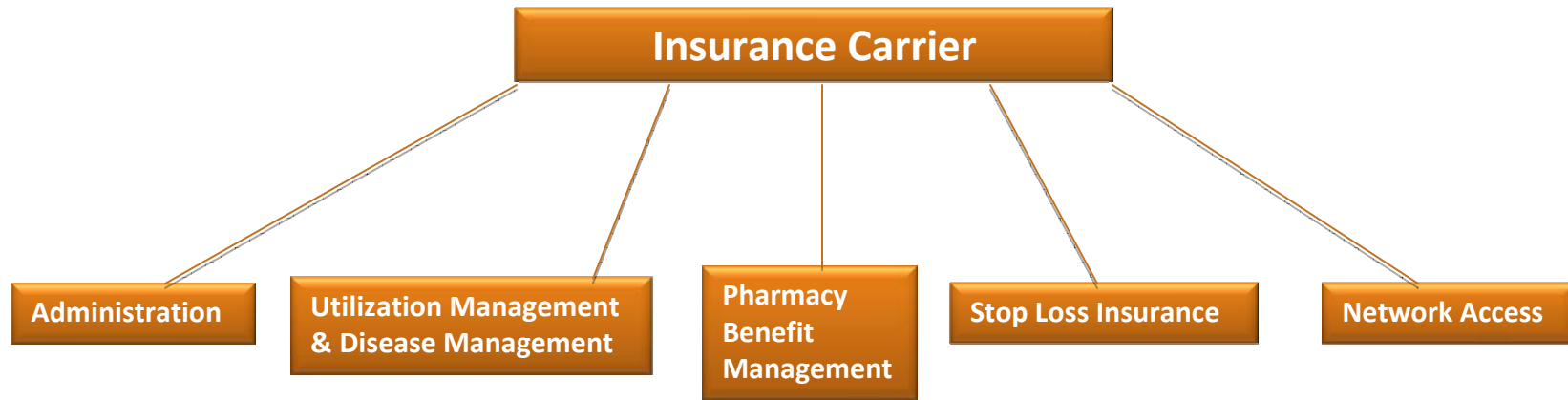
### ■ Self-Insured Plans:

- ✓ Pay as you go coverage
- ✓ Customized plan design
- ✓ Cash flow advantage/reserves
- ✓ Limitless reporting
- ✓ Vendor management/Best in Class partners
- ✓ Unbundled approach



# Self-Insured

(Bundled and Unbundled)



# Self-Insured Health Plans for Beginners



## ■ Advantages:

- RISK – Lower costs if claims less than expected
- Create a cash flow vehicle (claims funded when)
- Flexibility of Benefit Design
- Portability
- Access to detailed claims information
- Ability to manage large claims & focus utilization to obtain best contracts/pricing/outcomes
- Integrate best in class providers/vendors
- Elimination of most premium taxes
- Exemption from certain legislative mandates

# Self-Insured Health Plans for Beginners



## ■ Disadvantages

- RISK – Higher costs if claims greater than expected
- Employer pays claims expenses
- Fiduciary Liability is the responsibility of the employer
- Employer must be actively engaged in the Plan, monitoring claim reports, vendor performance and legislative activity preparation of employee communications (booklets, ID cards, open enrollment materials)
- Access to detailed claims information (HIPAA concerns)

# Self-Insured Health Plans for Beginners



## ■ **Self-Insured Components:**

- A Self-Insured Plan has 3 types of Costs (just like a Fully-Insured Plan)

### **Fixed (known) Costs**

- ✓ Administration Fees (TPA, PBM, UR/UM)
- ✓ PPO Network Access Fees
- ✓ Stop Loss (Reinsurance) Premium
- ✓ Broker / Consultant

### **Funding Costs – Vary Month to Month**

- ✓ Claims Payment

### **Reserves (Carriers refer to “Retention”)**

- ✓ Balance Sheet Liability for claims incurred but not reported (IBNR)

# Self-Insured Health Plans for Beginners



- **TPA Coordinates Process by Putting the Pieces Together:**
  - Sets up the Plan
    - ✓ Gives it a name (example: ABC Company Health Benefits Plan)
    - ✓ Manages the health care budget
    - ✓ What is its risk tolerance? The lower the premiums, the higher the Employer's Deductible
    - ✓ Chooses the types of benefits to cover, such as medical, dental, prescription drugs, vision
  - Choose its vendors (TPA/Consultant requests proposals and recommends service vendor/partners)
    - ✓ PPO Provider Network(s)
    - ✓ Pharmacy Benefit Manager
    - ✓ Utilization Review, Case & Disease Management
    - ✓ Stop Loss Insurance Coverage Options



# Self-Insured Health Plans for Beginners



## ■ Terms and Definitions:

- ✓ **Third Party Administrator (TPA).** A company that provides day-to-day administrative services to the Plan (via the employer). Manages eligibility, customer service and claims processing.
- ✓ **Stop Loss Carrier.** An Insurance Company that provides Stop Loss coverage. After an employer has met a Specific Deductible, the Carrier pays the eligible claims over the Deductible.
- ✓ **Stop Loss.** Sometimes called “Reinsurance,” “Excess Risk,” “Excess Loss.” Stop Loss in insurance purchased by an employer to protect the Plan from excessive/large claims. The employer pays Stop Loss Premiums whether or not there are any claims (homeowners / auto insurance).

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## ■ Stop Loss Insurance:

- ✓ **Who is at Risk?** The Employer and Stop Loss Carrier. Without Stop Loss, the employer assumes the risk of all eligible claims.
- ✓ **What to Purchase?** An employer can either purchase Specific (Individual) Stop Loss and/or Aggregate Stop Loss, usually both. Large employers might choose Specific only because their claims are considered more predictable.
- ✓ **Credible Claims Experience.** The smaller the number of covered employees, the less “credible” the claims experience. Claims will be less predictable. Aggregate coverage becomes more important for smaller employer groups.

# Self-Insured Health Plans for Beginners



## ■ Specific and Aggregate Work Together:

### ➤ Specific Stop Loss:

- ✓ Protects the Plan against large claims on any one covered individual. The employer pays a premium for this coverage
- ✓ Employer chooses a Specific Stop Loss Deductible (\$50,000 per individual) based on risk tolerance and premium affordability

### ➤ Aggregating Specific (Corridor):

- ✓ An option for a Plan that can afford to take on more financial risk in return for lower premium
- ✓ Employer must satisfy two levels of the specific deductible before the Specific Stop Loss begins to reimburse plan (multiple member claims feed into corridor)

### ➤ Aggregate Stop Loss:

- ✓ Protects the Plan against aggregated large claims during the Plan Year (12 month period) – claims that fall below the Individuals' Specific Deductible. The employer pays a premium for this coverage
- ✓ The Stop Loss Carrier set the employer's Aggregate Funding Liability at the beginning of the Plan Year. Claims fluctuate up and down every month and should be monitored by TPA. If the claims total is over the employer's Funding Liability, the Stop Loss Carrier reimburses the employer. Typically at the end of the year, if the claims total is over the employer's Funding Liability, the claims are audited by the Stop Loss Carrier

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## ■ **Types of Stop Loss Contracts:**

- **Run-In Contracts.** Provides Stop Loss protection for claims incurred before the Plan year begins but paid within the Plan Year.
- **Run-Out Contracts.** Provides Stop Loss protection for claims that are incurred during the Plan Year, but are reported after the Plan Year terminates.
- **Paid Contracts.** Provides Stop Loss protection for run-in claims (no matter when they are incurred, as long as they are paid within the Plan Year).
- **12/12 Contracts (No Run-In or Run-Out).** Least attractive, least protection, lowest price.

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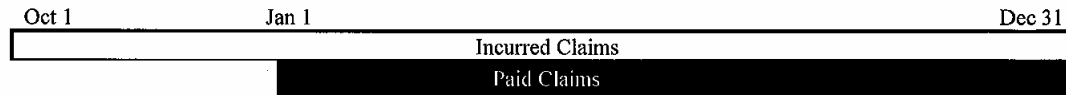
## *12/12 Coverage*



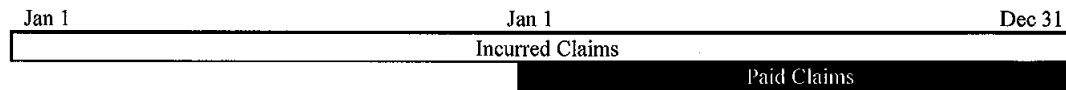
## *12/15 Coverage*



## *15/12 Coverage*



## *Renewal 24/12 Coverage \**



\* Renewal "Paid" Contract: Incurred anytime prior to or during the 12-month contract period and paid during the contract period.

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## ■ How do Underwriters Price Stop Loss?

- **Use historical data and actuarial assumptions to estimate future risk**
- **Where does the data come from?**
  - ✓ Monthly claim/enrollment reports, census, case management reports/attending physician statements
  - ✓ Plan Document, plan design, eligibility
  - ✓ Human Resources
- **Projected Claims Costs**
  - ✓ Past claims experience
  - ✓ Plus inflationary trend
  - ✓ Plus 25% margin for error
  - ✓ If group is smaller, underwriter blends group experience with total block of business (manual rates)
- **Maximum Claim Costs**
  - ✓ A 25% margin is added to the Projected Claim Costs , which is then identified as the employer's Maximum Claims Funding Liability
  - ✓ At renewal, Underwriter looks at past claims to see if employer's claims were over Expected, and if so, adjusts the renewal Funding Liability up to maintain a 25% margin

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## ■ How do Underwriters Price Stop Loss? (con't)

### ➤ Lasered Specific Deductible

- ✓ If there is a large claimant, or an expected large claimant (i.e., organ transplant) the Underwriter may inflate Stop Loss premiums on **everyone** to assume the additional risk of the claim.
- ✓ Or, Underwriter may keep premiums lower and apply a separate “lasered” Deductible on one individual (transfers anticipated risk to the employer)  
**Example:** Employer has a \$75,000 Specific Deductible on each covered person. The lasered Specific Deductible is \$350,000. The employer is only responsible for each person’s claims up to \$75,000, during the policy year, except for the one individual. The employer is responsible for up to \$350,000 on that person before the Stop Loss Carrier will begin to reimburse claims.
- ✓ Obvious premium savings, if person never experiences the large claim

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- **In Summary with a Self Insured Health Plan:**
  - Customization versus “one-size-fits-all’ plans
  - Maintain control over the health plan reserves
  - Avoid some of the conflicting state health insurance regulations/benefit mandates under federal law (ERISA)
  - Avoid state premium taxes, generally 2-3% of premium dollar
  - Employer and HR staff free to contract with best in class partners to meet their goals



# Self-Insured Health Plans for Beginners



## ■ **And Finally:**

- “Self-Insuring is far from the silver bullet to solve all health-benefit cost challenges. In fact, self-insuring a plan with really sick employees plus high dollar claims can escalate costs and invite disaster for some employers. What self-insuring provides is greater transparency that helps identify a plan’s cost drivers. That valuable information allows for intervention and targeted cost-management rather than a blind shotgun approach.” taken from California Broker, September 2011



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