STOP-LOSS PROVIDES SELF-FUNDING SAFETY NET

Flexible options are available for the right candidates

By Dave Willis, CPIA

As the cost of health care continues its upward trend, many employers are seeking flexible options that will give them more control over their health benefits strategy. "Employers have a lot to think about when they choose how to fund their employees' medical benefits," explains Brad Nieland, vice president of stop-loss at Sun Life Financial U.S. "There are a couple of ways to go—fully insured or self-funded."

With a fully insured plan, he says, the employer partners with a health insurance carrier that administers the medical benefits plan, pays the claims and takes on the financial risk and potential reward of doing so. "The employer pays a set premium rate, which is determined by the carrier," he adds.

In a self-funded plan, members use their benefits and the employer pays the actual cost of the claims. "Employers select a health plan administrator to handle the claim administration," Nieland notes, "but they retain the risk associated with the cost of claims."

According to Greg Wilden, senior vice president of stop-loss sales at HM Insurance Group, "When traditional insurance programs—the fully insured plans—no longer meet a group's coverage needs or cost expectations, many turn to self-funding as a way to gain more control of their plans." He says interest in self-funding has grown, thanks to rising health care costs and the legislative requirements placed on fully insured plans by the Affordable Care Act.

Nieland concurs. "Choosing to self-fund medical plan benefits is one solution that continues to grow. In fact, three out of every five U.S. workers are already covered under a self-funded plan, and many employers that had not previously explored self-funding are considering it for the first time."

"Because self-funded groups don't pay a fixed premium to an insurer, but rather pay all of their own claims as they're presented, they need to be willing to take on risk, and they need demonstrated financial stability with strong cash flow," Wilden adds.

Stop-loss coverage

Of course, there's an element of uncertainty with self-funded plans. That's where stop-loss insurance comes into play. "Stop-loss insurance is a type of reinsurance that helps protect against catastrophic claims or higher utilization resulting in high claims costs—situations that otherwise could potentially break the bank," Wilden says.

The coverage actually insures the employer, not the health plan participants, and it comes in two forms—specific and aggregate. "Specific coverage provides an employer protection against an abnormally high single claim on an individual, while aggregate coverage protects the employer from claim expenses that go above a predetermined dollar amount during the contract period across the entire employee population," he explains.

Nieland adds, "Specific stop-loss limits the employer's liability to a set dollar amount per person, per plan year. This is known as the specific deductible. If a $150,000 specific deductible is selected and one plan member needs a transplant that costs $500,000, the employer's liability is capped at $150,000. Stop-loss insurance will cover the additional costs."

Aggregate stop-loss limits an employer's overall claim liability for the year, he adds. "Typically, the aggregate stop-loss limit is 125% of expected claims."

Why self-fund?

"When the Affordable Care Act incorporated unlimited maximums—meaning no caps on the total claims amount allowed on any one employee—self-funded groups and those considering the self-funded option took significant interest in the value of stop-loss protection," Wilden says.

He points out that, previously, jumbo and very large self-funded groups went without reinsurance protection because of their financial strength and because the caps they could put in place on yearly and lifetime maximums enabled them to control potential claims spending. "With the removal of the yearly and lifetime max came a new interest in protection against a catastrophic claim situation and with that an interest in stop-loss coverage," he notes.

Nieland offers a number of reasons why self-funding works for many employers. "First is design flexibility," he explains. "Employers can design a benefits strategy that fits their unique business goals, employee demographics, and culture." Fewer state and federal taxes is another reason. "When an employer self-funds, it is exempt from certain taxes that must be paid by employers that are fully insured," he notes.

"Cash flow control is another benefit," Nieland observes. "Employers pay for claims as they occur, and benefit immediately when claim costs are lower than expected. Finally, results realized from wellness plans and other cost-containment programs go directly to the employer's bottom line."

Agent and broker role

"When the Affordable Care Act was introduced, there was a lot of talk about groups just sending their employees to exchanges since health care costs—along with their additional taxes and fees—were expected to be more than what some employers wanted to spend or could potentially handle," Wilden recalls. "In order to keep valuable clients interested in group coverage, many brokers capitalized on the virtues of the self-funded option and began introducing the concept to a new audience of candidates who were considering dropping group health benefits altogether."

He adds, "Brokers saw that self-funding could give those groups more control over their benefits decisions and costs since they essentially would be paying for the claims incurred and not for coverage that may or may not be used. Stop-loss insurance enables these groups to make the leap to self-funding by providing added protection if they reach their deductible levels. It also helps brokers demonstrate how groups can be protected even when taking on that risk."

> *"Stop-loss protection isn't the magic pill for any group that wants to self-fund. Not all groups are good candidates."*
>
> *—Greg Wilden*
> *Senior Vice President, Stop-Loss Sales*
> *HM Insurance Group*

According to Nieland, making stop-loss coverage decisions can be challenging. "Employers and brokers need reliable, helpful stop-loss benchmarking data to make it easier," he explains. "Sun Life recently introduced the Stop-Loss Benchmark report." Using data from 30,000 unique plans, as well as millions of employee census records and claims, the report provides information on industry trends based on the demographics and risk profile of a particular group and helps employers understand what's working for groups like them.

Wilden encourages agents and brokers who recommend stop-loss coverage to their clients to partner with a carrier with in-house decision-making capabilities. "The stop-loss carrier also should be financially sound, with excellent ratings from A.M. Best and a demonstrated market history," he says.

He adds, "Protection should come from a stable carrier that has tenure in the market and experienced leadership. It also is essential to carefully review the contract to ensure there are no gaps in coverage."

Nieland agrees. "What's the most critical factor in selecting a stop-loss carrier, regardless of employer size?" he asks. "Choosing a trustworthy partner that is easy to do business with." He encourages agents and brokers to ask questions about the carrier's approach and history and to understand its level of experience, expertise and financial strength.

"Find out whether the carrier offers innovative and valuable risk protection programs and flexible product solutions," he adds. "The right answers will help agents and brokers select the right partner for them and for their clients."

Wilden reminds agents and brokers that stop-loss carriers exist to pay claims. "Stop-loss coverage is true insurance and not a health plan," he notes. "Therefore, agents and brokers should feel confident that their recommended carrier pays claims accurately and in a timely and efficient manner."

Parting advice

"Stop-loss protection isn't the magic pill for any group that wants to self-fund," Wilden notes. "Not all groups are good candidates for self-funding, and savvy brokers understand that there are specific qualifications to help determine if a group is fit for self-funding at all. These factors need to be considered before stop-loss ever enters the picture."

He adds, "When the right candidate for self-funding emerges, brokers should remember that the stop-loss policy should mirror the underlying health plan determined by the group. This helps to eliminate potential gaps in coverage.

"Also," Wilden notes, "there are a number of policy features and options that can provide choices that best fit each individual client's needs. Flexibility in plan design helps to meet a variety of levels of risk tolerance, and that is important in accommodating the various financial situations of groups that choose to self-fund." ■