HM STOP LOSS

Guide to Self-Funding

In the ever-changing insurance marketplace, many employers are finding that traditional programs no longer meet their coverage needs or cost expectations for employee benefits. This leads them to the self-funded route as a way to gain more control of their plans. When opting to self-fund their benefits programs, these employers are choosing to take on financial risk in exchange for plan design flexibility and potential savings.

What Is Self-Funding?

With a self-funded plan, the employer, not a carrier, is responsible for the claims. This is different from a fully insured plan, wherein the employer pays a fixed premium to an insurance carrier that retains the risk (and also the gains or losses from each group's claims experience if the claims are less or more than the premium).

A self-funded employer pays claims as they are presented. The plan is administered by a Third Party Administrator (TPA) or by an insurance carrier functioning in an Administrative Services Only (ASO) capacity. To protect the company's finances, the employer can purchase Stop Loss insurance to protect against the risk of catastrophic claims or more significant utilization that results in higher than expected costs for overall claims.

	Fully Insured	Self-Funded
Financial Risk	Carrier	Employer
Cost	Set by Carrier	Actual Claims Paid
Claims	Paid by Carrier	Paid by Employer
Plan Design	Set by Carrier	Set by Employer
Regulatory Oversight	State Insurance Department, HHS at Federal Level	Department of Labor at Federal level under ERISA
State Mandates	Yes	No

Why Is Self-Funding a Growing Trend?

Several factors make self-funding an enticing alternative to fully insured plans, including, but not limited to, reduced costs from not paying fully insured carrier profit margins; added flexibility in plan design from state mandate exemptions; and increased control of the program by owning claims data and reporting.

In addition, self-funding has become more attractive due to Affordable Care Act (ACA) regulations, which have been associated with an increase in costs for fully insured plans through coverage mandates, increased fees and additional assessments.

According to the Kaiser Family Foundation/Health Research & Education Trust 2016 Employer Health Benefits Survey, 13 percent of covered workers in small firms and 82 percent of covered workers in large firms were enrolled in plans that are either partially or completely self-funded. Overall, 61 percent of covered workers were enrolled in partially or completely self-funded plans.

Which Groups Should Consider Self-Funding?

Not all groups are good candidates for self-funding. Any group considering the option should make an informed decision based on criteria that ensure success. To thrive in a self-funded setting, groups need to have established attributes and provisions in place to best manage their benefits options and spending.

A strong candidate for self-funding has the following attributes:

- Stable claims experience – Helps to predict the plan's liability
- Steady population – Provides validity to past experience because the employee unit hasn't changed frequently
- Financial stability – Demonstrates cash on-hand to pay claims directly
- Willingness to manage claims – Shows commitment to the hands-on element of a self-funded program
- Willingness to take on risk – Verifies understanding that claims will be funded directly by the employer

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- Access to a carrier or TPA with self-funding expertise – Understands the importance of having someone with experience helping to manage the plan in the best interest of the company
- Willingness to purchase Stop Loss coverage – Sees the importance of protecting against the potential financial loss associated with large or catastrophic claims

What Is Stop Loss Insurance?

Stop Loss insurance provides self-funded employers with protection against catastrophic or unpredicted losses that exceed deductible limits. Stop Loss coverage insures the employer, not the health plan participants, and comes in two forms – Specific and Aggregate.

Specific coverage provides protection against abnormally high claims on an individual, while Aggregate coverage protects the employer from collective claim expenses that go above a predetermined dollar amount during the contract period across the entire employee population.

How Does Stop Loss Insurance Protect the Employer?

Stop Loss insurance is designed to pay for catastrophic health plan claims that exceed the employer's pre-determined level of risk tolerance. It helps to protect the employer financially when catastrophic claims occur within the employee population.

Specific Stop Loss, which is tied to an individual's medical claims, is important because individual high-dollar claims drive the majority of a group's claims variation. Specific coverage enables the group to protect against large, unforeseen claims that exceed the predetermined deductible amount and may require more funds than the employer has available at that time for such costs.

Aggregate Stop Loss coverage provides a limit for the group on the amount of total claims spending in the contract period. With Aggregate coverage in place, the Stop Loss carrier reimburses the employer for the total claims exceeding that deductible. This protects the employer from large claims across the employee population.

Leading Stop Loss carriers offer many riders and options that can further protect the employer, including advance funding, gapless or bridge renewals and an aggregating specific feature. These selections allow the coverage to be tailored to the employer's specific financial situation and risk tolerance level.

How Do You Select the Right Stop Loss Carrier?

If self-funding is appropriate for the group, it is important to choose the right carrier for the Stop Loss coverage that will protect the group from the financial impact of potential catastrophic claims. Before basing the decision solely on cost, keep in mind that price is not the only consideration – performance, policy and protection are essential to long-term satisfaction with a Stop Loss carrier.

Look for these traits when selecting a Stop Loss carrier:

- Direct writer – In-house decision-making abilities
- Financially sound – Well capitalized; excellent ratings from A.M. Best
- Stable – Demonstrated market history with significant tenure and experienced leadership
- Accurate – Greater than 95% technical and financial accuracy in processing/paying claims with limited delays, denials and litigations
- Contains costs – Proven results and strong vendor relationships
- Delivers a policy with solid protection – Clearly articulated contract with limited exclusions that mirrors the underlying plan
- Tailors plans to the group's needs – Uses innovative programs and plan options to satisfy specialized needs balanced with appropriate risk management practices
- Writes over multiple payors – Provides seamless coverage that protects across plan variations

Where Can I Find Industry Information?

There are a number of excellent organizations and resources available to learn more about self-funding and the Stop Loss insurance marketplace.

- Self-Insurance Institute of America: **www.siia.org**
- Department of Health and Human Services: **www.hhs.gov**
- America's Health Insurance Plans: **www.ahip.org**
- Society of Professional Benefit Administrators: **www.spbatpa.org**

For more information, contact your HM sales representative or visit **hmig.com**

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