A Broker’s Guide To Self-Funding

Also referred to as: Insured Stop Loss Plans
1. What is behind a Self-Funded Plan
2. Terminology & Definitions in a Self-Funded Plan
3. You Are In Charge
4. Difference between Fully Insured & Self-Funded
5. Fully Insured Cost Illustration
6. Self-Funded Cost Illustration
7. Stop-Loss Contracts
8. Basic Concept of Self-Funding
9. Types of Reinsurance Contracts
10. Insured Stop-Loss Benefit Design Is Flexible
11. Advantages of Self-Funding
12. Broker Compensation
Self-Funded Plans, also known as Insured Stop-Loss Plans, are employer-based plans. Self-funded plans are reinsured with stop-loss carriers. So, in effect, they act like a fully-insured plan.

A Broker, with the help of a Third-Party Administrator, secures a quote from one or more reinsurance carriers. The two basic types of reinsurance coverage is for specific also known as “individual” stop-loss and aggregate stop-loss. Using these two types of stop-loss protection, the actual liability for the Plan Sponsor is established. When done properly the Plan Sponsor takes on no more liability they would if they were fully-insured.
Terminology & Definitions in a Self-Funded Plan

Aggregate Advancement
Optional stop-loss protection against monthly claim functions. The stop-loss carrier “lends” the Plan amount in excess of the monthly aggregate amount. This option is designed to level the cash flow for the plan.

Aggregate Attachment Point
Under the aggregate stop-loss insurance, this is the point at which the stop-loss carrier begins to reimburse the employer.

Aggregate Stop-Loss Coverage
Stop-Loss Insurance protects the Plan on an annual basis against overall annual claims liability during the contract year.

Coordination of Benefits (COB)
Coordination between the parties who may also have liability on a claim.

Expected Claims
The dollar amount which represents the anticipated claims of a self-funded medical plan for the plan year.

Fixed Costs
The amount of payable based on plan eligibility for the self-funded plan. Fixed costs include, but not limited to, administration costs, commissions and stop-loss premiums. Claims liability is not considered a fixed cost.
Terminology & Definitions in a Self-Funded Plan

Run-out
Claims incurred prior to the contract termination date but presented for payment after the termination date.

Run-in
These are claims incurred prior to the contract effective date but presented for payment after the termination date.

LASER
Individual specific deductible, which is higher than the group deductible, that can be applied to individual with certain health conditions. This is done to keep the overall group deductible lowered (ISL). This should not be confused with the employee plan deductible.

Margin
The claims liability between expected claims and the aggregate attachment point.

Specific Stop-Loss Coverage
Stop-loss insurance that protects the group Plan against an individual catastrophic loss above a predetermined amount called a group deductible. Also known as Individual Stop-Loss (ISL).

Term Liability
Optional insurance which covers claims presented and paid after the termination date of the stop-loss contract to a pre-determined time frame and dollar limit.

Reserve (IBNR)
Amount established to cover run-out claims. Amount can also be used to offset future rate increases.
The Biggest Difference Between Self-Funding and Fully-Insured

You are in charge!

Manage your own **Plan of Benefits** that meet the needs and personality of your company.

**Manage your funds.** Plan funds reside in your plans bank account, not an insurance company.

Manage your **cost containment strategies.** You can shop for the best services.

**Know what's coming.** The plan is no longer in the dark about claims experience or annual renewal changes.

Provider Network layering with **no out-of-network penalties** and hassle.
Where does the money go?

A major difference between the two type of plans is, where the money ends up. With a fully-insured plan, it simply ends up in the carrier’s pocket. Using a self-funded plan, the Plan Sponsor holds a bank account in the plans’ name which funds all premiums, fees and claims.

Note the difference: the Plan Sponsor owns the bank account. That means, if not all the money was used to pay claims, it continues to reside in their bank account against future needs.

Who controls the plan?

In the self-funded approach, the plan is entirely in the Plan Sponsor’s control. Within the constraints of federal law, they can offer the benefits that make the best sense for their employees and their corporate personality. The Sponsor may also offer multiple plans.
Differences between Fully Insured and Self-Funded

Have employees in multiple states?
Because self-funded plans are governed by ERISA, plans can exist over state lines. These plans can be the same over the entire geographical locations of the Sponsor. There is no need to quote multiple plans for employees depending on where they live.

Transparency? What is that?
In the realm of self-funded plans, the Sponsor can have access to information about their plan. They are not part of a pool where no data is available. They are able to know pertinent information to help them make their own decisions for their plan from year-to-year.
Fully-Insured vs. Self-Funded

- **Fully Insured**
  - Company Owned
  - Bank Account Used to Fund the Plan
  - TPA Contracted to Administer the Plan (Claims & Admin)
  - Local Agent Services the Plan

- **Self-Funded**
  - Company Owned
  - Bank Account Used to Fund the Plan
  - TPA Contracted to Administer the Plan (Claims & Admin)
  - Local Agent Services the Plan

- **Insurance Carrier**
  - Controls All Dollars
  - National Pool
  - Purchase of Stop-Loss Reinsurance
  - Reimburse the plan for claims over the stop-loss

- **Paid in Advance of Expenses**

**NOTE:** The method of funding the benefits in Self-Funded plans is similar to making premium payments for insurance. The process involves contribution deposits into the plan fund.
Traditional Fully Funded Insurance

Over time an Insured Group Health Plan will be self-supporting and is intended to create profit for the Insurance Company. Through the continuous cycle of claims paid and premiums deposited and the re-establishing of yearly “Actuarially Determined” rates, plans continue to support themselves. If profits were not realized, Insurance Carriers would not continue in the business.

A profit to an insurance company requires a formula whereby premium income is expected to exceed expenses. Such expenses include:

- Expected Claims (risk)
- Administrative Overhead Expenses (5-21%)
- Commissions (5-10%)
- Premium Taxes (2.2-5%)
- Reserves for Claim Fluctuations (27-40%)
- Contingencies for Inflation and Increased Plan Utilization

*Note: This money is the buffer on the possible claims spend. Any portion of the Reserve reverts to profit to the insurance company. This reserved amount restarts the plan every year.
Under Self-Funding, an employer purchases a high-deductible insurance contract called a **Stop Loss Reinsurance contract.**

*Note: The method of funding the benefits is similar to making premium payments for insurance. The process involves contribution deposits that fund the plan.*

Claims that do not exceed the deductible limit are paid from the employer plan fund. Claims that exceed the deductible limit are paid by the insurance carrier. Any extra money is kept in the Plan fund for use as a reserve in the future.

*Note: This reserve is the unused claims money which remains in the Plan’s bank account.*
Stop-Loss Contracts

Reinsurance Contracts

As previously stated, there are two basic types of reinsurance policies that the Plan Sponsor can purchase to protect the plan from high losses. These are Specific and Aggregate Specific stop-loss. What are they and what does that mean?

*These two policies minimize and quantify the risk associated with the plan and help to establish real rates and expectations for the plan.*

1. **Specific Contracts**
   
   Individual specific stop-loss is purchased to prevent extreme loss due to claims for any individual claimant during the stop-loss period. The Plan Sponsor selects a dollar ceiling for the acceptable amount of loss they are willing to cover for any one individual. This is known as a specific deductible. For a small group this could be as low as $25,000 per individual per contract period, or as high as $200,000 or more. It depends largely on the number enrolled under the plan. If a claimant has claims that exceed the individual specific deductible, the insurance policy covers the losses above that deductible amount; capping the potential liability to the Sponsor. This insurance premium is paid to the re-insuring carrier from the plan funds.

2. **Aggregate Contracts**

   Aggregate stop-loss covers excessive losses due to claims which fall below the specific deductible. This reinsurance consists of factors, the amount the reinsurance carrier believes the group will use, plus a 25% margin to assure carrier profitability, plus a small monthly premium, paid to the carrier for the policy.
The Basic Concept of Self-Funding

**Individual Specific Policy**
A Policy which protects the plan from high dollar catastrophic claims for each individual covered under the plan.

**Aggregate Stop Loss Policy**
A policy that reimburses the plan for general claims which taken together, exceed the actuarially determined maximum claims liability for the plan.

**Aggregate Accommodation**
Optional stop-loss protection against monthly claims functions. The stop-loss carrier “lends” the Plan amount in excess of the YTD aggregate amount. This option is designed to level the cash flow for the Plan.

If you would like to know more information about how this works, please call us at (800) 877-3727 or email us.
Types of Reinsurance Contracts

**Stop-Loss Insurance** is designed to protect the employer from catastrophic losses. The carrier reimburses the plan between 30 and 60 days of the payment of any portion of a claim which exceeds the deductible stated in the carrier contract. After the deductible has been met, the reinsurer pays the amount over the deductible. A policy rider can be obtained to advance amounts over the deductible in advance of plan payment.

- **12 INCURRED / 12 PAID**
  - Claims must be incurred and paid in the same 12-month period

- **12 INCURRED / 15 PAID**
  - Claims incurred within 12 months must be paid within 3 months following the end of the coverage period. This may be referred to as a ‘Run-Out’ contract.

- **15 INCURRED / 12 PAID**
  - Claims incurred within 15 months must be paid within the 12-month period. This may be referred to as a ‘Run-In’ contract.
Benefit Design:
Complete design flexibility within good management practices is a significant advantage of the self-funded concept. Many employers choose to retain the same basic plan design as in their existing group insurance plans, incorporating desirable plan revisions. MBA Benefit Administrators will provide counseling and assistance in developing the final plan design and establishing appropriate expected claims levels.

Communicating Benefits to Employees:
Communication is similar to any other benefit plan. MBA Benefit Administrators will assist in preparing announcement materials in the form of an announcement letter and benefit information for each employee. MBA supports employee meetings which are held to further explain benefits and answer any questions.

Plan Counseling and Administration:
Medical Benefit Plan is administered by MBA, a Third-Party Administrator, in essentially the same manner as a fully-insured Medical Plan. The method of funding the benefits is similar to making premium payments for insurance. The process involves contribution deposits to the employer benefit account to fund the plan.

MBA Benefit Administration:
Other functions normally associated with administration, such as claims handling, customer service, providing statistical claims information, underwriting service and late entrants processing are handled in the same manner as a fully-insured plan, only with more flexibility.
Advantages of Self-Funding

Employers often find they experience the following advantages when operating a Stop-Loss or Fully Self-Funded program:

- Elimination of Most Premium Tax
- Generally Lower Cost of Operation
- Risk Charge Eliminated
- Effective Claim Processing
- Cost and Utilization Controls
- Cash Flow Benefit
- Reserves May Be Invested for Return on Investment
- Contributions Remain Tax-Exempt Up To the Safe Harbor Limit
- Control of Plan Design
- Effective Risk Management Strategies
Broker Compensation

Finally – How does the Broker get paid?
You have done the hard work. You are looking out for the best interest of your client.

*So how are you compensated?*

**Fully-Insured**
Under a fully-insured plan you are paid an amount set by the insurance company.

**Self-Funded**
Typically with a self-funded plan the broker is paid on a per employee per month basis. The difference from a fully-insured plan is that we do not set the value of your worth. You determine how much you wish to be compensated for your effort, keeping in mind that these fees are completely out in the open.
Let Us Know How We Can Help!

PO Box 57340
Murray, UT 84157-0340

1-800-877-3727

sales@mbaadadministrators.com