What You Need to Know Before Self-Funding-The Brokers Perspective

- Self-funding offers employers tremendous advantages in managing their benefit plans
- ERISA regulations provide a flexible framework for self-funded plans to operate in
- Self-funded plans carry greater liability and fiduciary responsibility than insured plans
- The complexity of self-funded plans and regulations drive many brokers away & subsequently their clients
“Broker” is a very broad term:

- Not all brokers are the same. In my experience there are three general categories:
  - Consultants/Brokers
  - Local/Regional Brokers
  - Local Agents

- Consultants are usually large alphabet houses or smaller boutique firms – both having tremendous expertise in specific areas of insurance/benefits.

- Regional Brokers – traditionally these are mid-size multi-line agencies that are local or regionally focused. Usually they have a Life & Health division.

- Local Agents – licensed agents who tend to specialize in life, disability or health. They tend to be smaller with limited resources.

- All three types of brokers can and do Self-funding but only a small percentage specialize in it. According to the NAHU less than 10% of its members specialize in Self-funding.
The Brokers Perspective

- Why do so few brokers specialize in Self-funding?
  - Self-funding is complex and hard to sell/Service
  - Traditionally Self-funding does not provide commissions as high as fully insured plans/HMO’s
  - Errors and Omissions insurance for self-funding is expensive because there is significant liability
  - It takes many years of training & experience to learn self-funding properly

- Choosing a Self-funded broker
  - First decide on the characteristics you want in a broker:
    - Large national firm with a name & broad focus
    - Small boutique firm with deep knowledge & high touch
    - Local, regional or national?
    - Specific expertise – industry; plan design; finance; regulation; other?
    - Philosophy about benefits, service & design
The Brokers Perspective

– Next search for the right broker. A broker will impact the results of your SF plan so don’t compromise
– The actual experience of the individual broker is critical. Just because they work for a large firm does not mean they know self-funding.
– Since the broker will serve as your chief advisor and the coordinator of your SF plan, choosing the best is the most important first step in considering SF.
– Ask about their compensation model up front
– Make sure there is a cultural & philosophical fit.

• Here are some things to look for:
  – How many self-funded cases have they had/have?
  – How long have they been doing self-funded plans?
  – What experience or training do they have with SF?
  – What stop-loss & TPA experience do they have?
  – What vendors do they recommend for SF plans?
    PBM/TPA/Wellness/UM/SL/PPO.
  – What SF associations do they belong to & participate in?
  – Is this their primary line of business? What % of their revenue is derived from SF?
The Brokers Perspective

• Once you choose a broker:
  – Negotiate their compensation. What will they get paid on? What percentages & by whom? A flat annual fee is best
  – Discuss your objectives for a health plan. Why you want to consider SF? What your short and long term goals would be for a SF plan?
  – Discuss your company culture. Your employee population. The strategic plan for your company. Any specific idiosyncrasies that may affect decision making or the plan.
  – Discuss areas of concern & improvement. The history of your benefit plan.

The Brokers Perspective

• Contracting & Guardrails:
  – Traditionally brokers are not considered fiduciaries to your plan yet they make or drive most critical decisions
  – Ask your broker to contract with you/the plan. Delineate the brokers specific duties & compensation so there can be no misunderstandings
  – Decide whether the broker will place your stop loss insurance or if the TPA will
  – Discuss vendors as they are critical to the success of your SF plan. Review recommendations carefully.
  – Request that all services in the plan be quoted with no comp or commission (include PBM rebates).
The Brokers Perspective

• The Brokers Role & Responsibilities:
  – Plan Design
  – TPA or ASO company
  – Stop loss (whether placed directly or thru TPA)
  – Vendors
    • PBM
    • UM/CM/DM
    • Wellness/Population Management
    • PPO Network(s)

• The Brokers role:
  – Contracting
  – Service level monitoring & compliance
  – Plan compliance
  – Regulatory updates
  – Vendor Intermediary
  – Enrollment
  – Employee resource & advisor
The Brokers Perspective

• Summary
  – A broker is a critical part of a SF plan
  – Choosing the right one is essential for your plans success
  – There are many types of brokers – find one that fits your organization & goals
  – Brokers can provide a wide array of services – choose what you want them to do
  – Brokers are often paid by commissions – try negotiate a contract with a flat fee
  – Brokers are a significant asset if selected & managed correctly.

Self Funding - Role of TPA

MARTY JOSEPH
PRESIDENT, BAS
What is a TPA?

TPA, or Third Party Administrator, is an organization that handles the highly technical aspects and complex administration for an employer that self funds its employee benefit plans for:

- Medical Benefits;
- Dental Benefits;
- Vision Benefits;
- Disability Benefits;
- Flexible Spending Accounts; and,
- COBRA.

When self funding, the employer is acting as an insurance company and underwrites all or part of the risk while engaging a specialized entity, such as a TPA, to administer the plans.

Why use a TPA?

Highly technical aspects and complex administration:

- Regulatory Plan compliance, notifications, and reporting
  - ERISA
  - COBRA
  - HIPAA
  - PPACA

- Benefit Plan compliance
  - Eligibility
  - Covered expenses
  - Plan limitations

- Cost Management
  - Member health management
  - Clinical coordination
  - Plan data integration
  - Vendor Management

- Member Experience
  - Customer service
  - Advocates
Evaluating a TPA?

TPA services include:

- ERISA, HIPAA, and PPACA compliant
  - Benefit plan design
  - Distribution
  - Cost modeling
- Eligibility and enrollment services
  - Billings
  - Payments
  - Accounting
  - Reporting
  - COBRA
- Population health management strategies - integrated programs that improve employee health status while reducing plan and employer costs

Evaluating a TPA?

TPA services include:

- Optimal preferred provider network configurations and steerage to maximize discounts
- Web based services for Employees, Employers, Providers, and Plan Consultants/Brokers
- Claims cost management
  - Utilization Management
  - Disease Management
  - Case Management
  - Clinical Coordination
- Claims adjudication - HIPAA compliant in all EDI transactions
- Analytics and reporting for informed business decision making
To run a successful business, company owners must have full control over all aspects of their operation.

Being in control includes strategies such as:

– access to analytical data to improve results,
– management expertise to impact productivity, and
– investing assets for long term financial stability.

Business leaders would never consider relinquishing control over these areas of their operation; yet, it is done every time a company purchases a pre-defined fully insured health plan.

‘State of the Art’ TPAs will manage the self funded plan as the employer would manage its business.

• Data and analytics that identify opportunities for cost control based upon the company’s particular employee population.

• Plan member accountability . . . establishing baselines then segment and target to engage members in their health.

• Integrated tools that will steer plan members to best cost providers and promote healthcare consumerism.

• Make healthcare accessible with worksite
  • biometric screenings,
  • health coaches, and
  • physicians.
Self Funding - Role of Reinsurer

BEATA MADEY
SVP, HMIG, INC

Self-Funding Overview

• A self-funded plan is one in which the employer group assumes the financial risk for providing health care benefits to their employees. The group, not the carrier, is “on the risk” for the claims.

• The employer pays for claims as they are presented instead of paying a fixed premium to an insurance carrier for a fully insured plan.

• The employer assumes the risk when actual plan costs for the self-funded plan may exceed the cost of a fully insured plan; therefore, it must have the financial resources (cash flow) to meet this obligation, which can be unpredictable.
Reasons to Self-Fund

- Cost Savings
  - Employers save by not paying insurance carrier profit margins and risks charges
  - Premium tax is not applied to the claim fund
- Flexibility
  - Employers have more control over plan design because state regulations mandating costly benefits may be avoided
- Administrative Support
  - Administration can be tailored to the needs of the employees through a TPA who can assist with cost and utilization controls, large case management and preferred provider networks

Reasons to Self-Fund

- Control cash flow
  - Claims are funded as they are paid
  - Employer determines and maintains reserves
- Access to Claims Data
  - Plan can identify the areas of the majority of their health care spending
  - Use plan data to help find areas where spending may be managed to reduce cost
Who should be self-funded?

- Predicting the plan’s liability is much more credible if the group has a steady employee population and stable claims experience.
- Self-funding health benefits will give a group greater plan design flexibility and greater control over healthcare spending as long as the group is willing to get involved.
- The group must understand that they will not be reimbursed for exception payments by stop loss carriers (i.e. services not covered by the plan document or benefits exceeding those outlined in the plan document).
- The group must be willing to stick with self-funding long enough to see its positive effects.

Managing Risk

- Anticipate how much risk can be tolerated
- Analyze and budget for anticipated expenses
- Reduce risk by buying stop loss coverage
Why Buy Stop Loss

• Stop Loss insurance is purchased to limit the employer’s loss to a specific amount

• Stop Loss is an insurance contract between the Stop Loss carrier and the employer and is not deemed to be a health insurance policy covering individuals

• Stop Loss insurance is designed to protect the employer from catastrophic claims – or a multitude of unanticipated claims – do not upset the financial integrity of a self-funded plan

Types of Stop Loss Coverage

• Specific Stop Loss
  ➢ Coverage that reimburses the employer for a catastrophic claim on any covered individual during a contract period
  ➢ The employer must first satisfy a “per person” deductible before reimbursement of claims in excess of the deductible begins
  ➢ Available on a stand-alone basis

• Aggregate Stop Loss
  ➢ Coverage that reimburses the employer for total plan claims that exceed expected plan claims by more than 125%
  ➢ Typically purchased in conjunction with specific coverage
How much Stop Loss to Buy?

- The amount of Stop Loss coverage purchased may depend on
  - Employer’s Risk Tolerance
  - Group Size
  - Industry
  - Financial strength

Stop Loss Basics

Risk Tolerance

- Too large of a Specific Deductible will create the potential for cash flow issues should a number of large claims occur (as the employer is responsible for the claim amount up to the Specific Deductible)

- Too low of a Specific Deductible will result in much higher Stop Loss premiums

- One way to determine the appropriate deductible is to use the 3-12% rule. Ideally, a Group Specific Deductible should be between 3-12% of expected first dollar claims. As a group grows in size/claims, the Specific Deductible should also increase to stay within this range
Stop Loss Basics

Group Size

- Claim predictions are a function of size. The larger the employer, the more predictable are their claims. It’s called the law of large numbers.
- Smaller employers purchase both the specific and aggregate coverage. Larger employers limit their protection to catastrophic claims only.
- Very large employers may choose not to purchase stop loss coverage since their claims variability is minimal.
- Due to elimination of lifetime maximum and elimination of annual maximum by 2014 brought by Healthcare Reform, many large employers are looking to stop their liability at $1 to $2 million by purchasing specific coverage.

Industry

- Industry is another consideration when it comes to selecting an appropriate Specific Deductible for a given employer group.
- Certain industry types (Healthcare, Municipal, Trucking, etc) tend to utilize healthcare benefits at a higher level than an average group. As a result, these groups typically produce a higher incidence level of large claims. Groups in these industries should carry higher specific deductibles to maintain the appropriate risk sharing level between the Employer group and Stop Loss carrier.
Financial Strength

- Consideration of the Employer group’s financial strength plays a role in selecting a Specific Deductible. A Self funded employer with limited financial assets may have a lower tolerance for risk and require a lower Specific Deductible vs. a group with a stronger financial outlook.

- The Employer group needs to recognize that claim dollars up to the Specific Deductible are the group’s responsibility, so cash flow is a component in the decision process to select an appropriate deductible.
Market Trends

**Percentage of Covered Workers in Partially or Completely Self-Funded Plans by Firm Size 1999-2011**

- Covered workers in large firms (200 or more workers) are more likely to be in a self-funded plan than covered workers in small firms (3-199 workers) - 82% vs. 13%


---

**Percentage of Covered Workers in a Self-Funded Plan Covered by Stop Loss by Region, 2011**

<table>
<thead>
<tr>
<th>Region</th>
<th>% of Covered Workers in a Self-Funded Plan Covered by Stop Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northeast</td>
<td>51%</td>
</tr>
<tr>
<td>Midwest</td>
<td>62%</td>
</tr>
<tr>
<td>South</td>
<td>54%</td>
</tr>
<tr>
<td>West</td>
<td>66%</td>
</tr>
</tbody>
</table>

### Percentage of Covered Workers in a Self-Funded Plan Covered by Stop Loss Insurance by Industry, 2011

<table>
<thead>
<tr>
<th>Industry</th>
<th>% of Covered Workers in a Self-Funded Plan Covered by Stop Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture/Mining/Construction</td>
<td>77%</td>
</tr>
<tr>
<td>Health Care</td>
<td>76%</td>
</tr>
<tr>
<td>Wholesale</td>
<td>68%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>54%</td>
</tr>
<tr>
<td>Service</td>
<td>66%</td>
</tr>
<tr>
<td>Retail</td>
<td>60%</td>
</tr>
<tr>
<td>Finance</td>
<td>58%</td>
</tr>
<tr>
<td>State/Local Government</td>
<td>31%</td>
</tr>
<tr>
<td>Transportation/Communications/Utilities</td>
<td>31%</td>
</tr>
</tbody>
</table>