SELF-FUNDED VS. FULLY INSURED

Presented by Cornerstone Benefit Plans, Inc.
Employer assumes all or a portion of the risk for health benefits

Administrative options available to employers choosing self-funding:

- Administrative Services Only (ASO)
- Third Party Administration (TPA)
- Self-Administrator
- Fixed Costs
- Variable/Claims Costs
Administrative Fee:
- Fee charged for claims adjudication, billing, eligibility, customer service, plan document maintenance, access fees, managed care fees

Setup Fee:
- One-time charge for the input of eligibility and benefits in order for the plan to be administered

Expected Claim:
- Total claims underwriter expects you to have in one policy year, actuarially determined from your past claims experience
Specific Stop Loss Insurance:

- Purchased to protect you when eligible claims during the policy year on any one individual exceed the specific liability limit
  - When this does occur, you are reimbursed by the insurance company

Maximum:

- This is 125% above your expected claims level
  - Claims that exceed this level are reimbursed by Stop Loss carrier
  - 125% = Aggregate Attachment Factor; percentage can vary, but 125% is most common
Aggregate Stop Loss Insurance:

- Protects you from eligible claims for the entire group that exceed the annual aggregate liability limit
  - If eligible claims for entire group exceed the aggregate liability limit, insurance company will reimburse you for those claims at end of policy year
  - Many insurance companies offer “accommodation agreement” for monthly fee
    - Special contract provision provides monthly reimbursement of aggregate claims
Fully-Insured covers claims incurred in 12 months paid in 24 months 12/24.
Self-Funded covers claims incurred in 12 months 12/12 or 12/15 paid in 15 months.
Specific/Individual Stop Loss:

- A shock loss may be defined as an abnormally large and unexpected claim.
  - Could be the result of severe accident or serious illness
- Insurance companies are prepared for such occurrences – build margin into premium to help offset the financial impact shock losses can cause
What can the self-funding employer do to protect assets against such losses?

- Stop Loss Insurance is designed to offer effective protection against excessive claims by limiting the amount of risk on any individual insured.
- 100% of covered losses you pay for any individual in excess of the individual policy year deductible will be reimbursed for the remainder of the policy year.
Aggregated Stop Loss: The Ultimate Protection!

- The expected claims of any given group can usually be predicted with a fair amount of accuracy and thus become budgetable.
  - But, when these expected claims are incurred by a surprisingly high number of insureds, an unforeseeable fluctuation occurs.

- The impact of any unpredictable fluctuation could jeopardize the financial stability of a company.
  - Aggregate Stop Loss Insurance is a precautionary measure designed to protect you from the unknown, guarding your assets and preserving cash flow.
Example of how a $127,000 claim would be handled:

Employer pays the deductible amount: $25,000

If the individual Stop Loss Deductible is $25,000...

...the Insurance Company pays the excess over the deductible amount: $102,000

The amount funded but not reimbursed ($25,000 in this example) will apply toward the Annual Aggregate Deductible.
Flexibility in Plan Design
- Self-funded plan not bound by state mandates

Risk Management effectiveness through Stop Loss Insurance
- Employer may choose the amount of risk to retain and the amount to be covered under stop loss protection. Under an insured arrangement, insurance company sets the pooling level.
- Protection from monthly swings can be controlled through a Monthly Aggregate.
Tax Savings

- No premium tax for the self-funded claim fund; thus, an immediate savings equal to the amount of premium tax is realized. (Average state tax is 2%)
  - Assuming annual premium of $626,000 x 2% = $12,520 in potential savings to you!

Retention

- Administration of the plan less expensive under a self-funded arrangement without sacrificing a reduction in services
  - Also the option of choosing services à la carte
Additional Cash Flow

- Employer holds onto reserves
- Assuming annual premium of $626,000:
  - Projected reserves = $130,416 ($626,000/12 x 2.5).
  - Self-funding implies that employer must fund for incurred but unreported reserves. Assuming “reserve” is maintained in an interest-bearing account, employer can regard it as a source of income. Therefore, additional income is generated.

Margin

- Insurance companies typically charge 3-10% for margin (for fluctuations in claims)
  - Under self-funded arrangement, this component is eliminated
Risk Assumption
- Employer assumes risk between the normally anticipated claim level and Stop Loss Coverage level

Asset Exposure
- Employer’s assets are exposed to any liability created by legal action against the self-funded plan

Fiduciary Responsibility
- Employer is responsible
Thanks for your attention

Cornerstone Benefit Plans, Inc.