



Self-Insurance Simplified - Self-Funding 101

April 16, 2024



Presented By
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AGENDA

- Talking Control – Self-Funding
- Components & Players of Self-Funding
- Stop Loss

Today's Lesson: Control What You Can Control



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Why Self-Fund?

Benefits

- Clear visibility to plan spend.
- Eliminate carrier profits from premium.

Transparency



- Greater plan customizability, vendor selection, and cost management levers.

Customization



- Overall control over plan expenses and direction.

Control



Risks

- Month-over-month, greater volatility in expenses for the plan (paying actual claims vs. fixed premium).

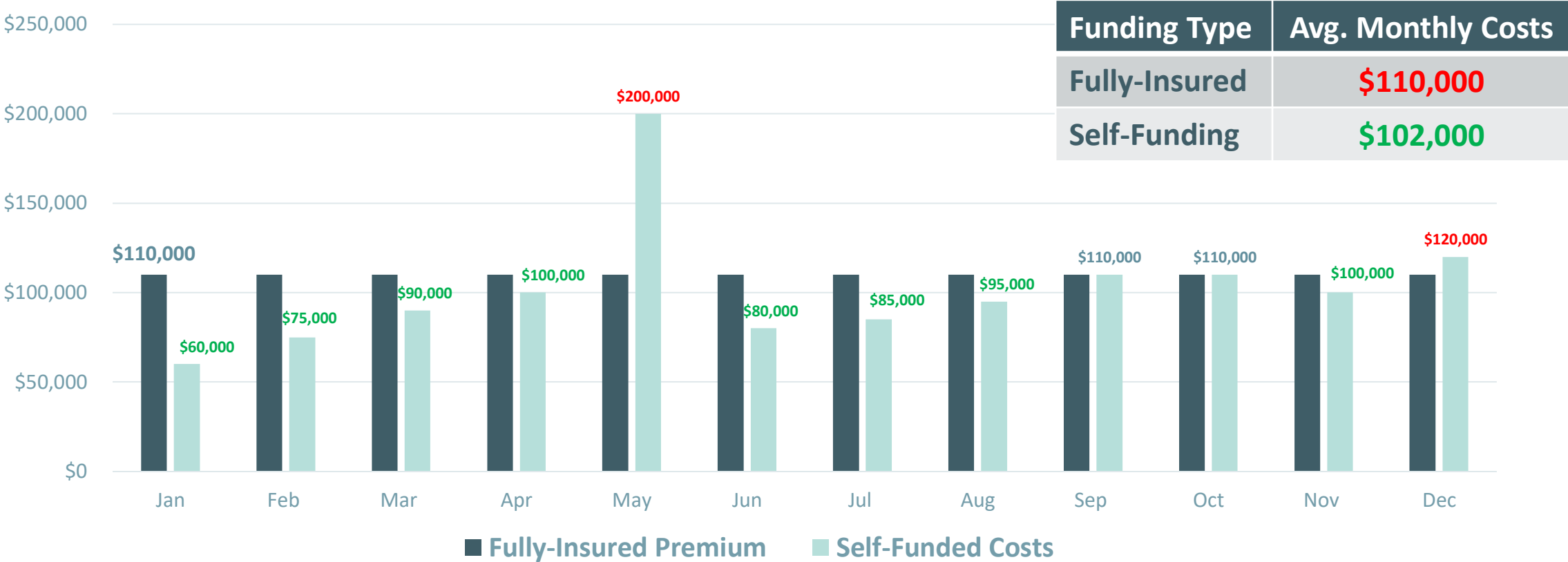
Volatility



*In most cases, Self-Funding over time can realize 3-5%+ savings vs. staying fully-insured.**

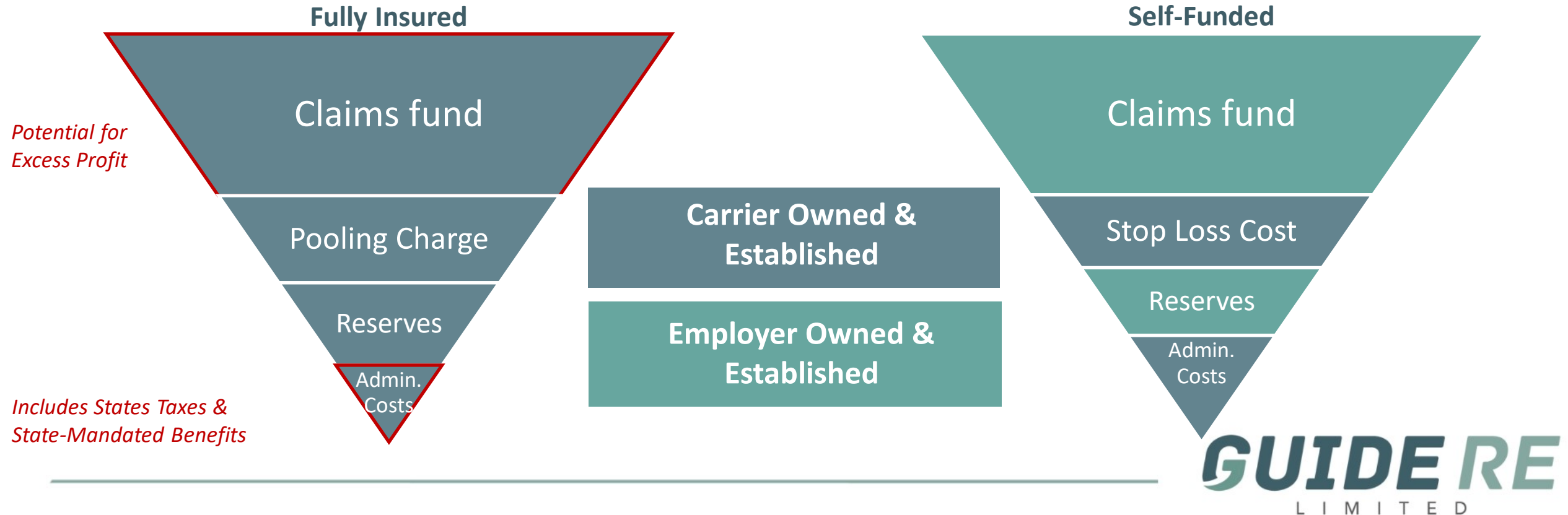
*Dependent on current expenses for plan and cost control levers implemented for a self-funded move.

Self-Funded vs. Fully-Insured Costs - *Example*



SELF-FUNDING 101 – WHAT IT IS, AND HOW TO STRUCTURE

- Self-funded plans have the same basic cost components as fully insured plans.
- However, able to eliminate portions of expenses around carrier profits, taxes & state-mandated benefits.



Key Players of Self-Funding

The Primary Players



You – The Employer

- Plan Setup & Claims Funding



TPA's

- Medical Administration



PBM's

- Pharmacy Administration



Stop-Loss Carriers

- Catastrophic Claims Insurance



You – The Employer

Key Self-Funding Responsibilities

- Payments: Two general types of payments when self-funded:
 - *Healthcare Claims*: claims payments are made to cover healthcare services completed by your participants.
 - *Fixed Costs*: fixed costs cover the cost of TPAs, PBMs, Stop-Loss, and other vendors helping with the administration of your plan.
- Coverage Decisions: When self-funded, you have more flexibility in determining what procedures are included/excluded (e.g., Gene Therapy, Gastric Bypass, etc.) and customization of cost-sharing elements (deductibles, copays, coinsurance).
- Reserve: A portion of funds (“reserve”) is set aside for late claims. This is kept as a liability on the balance sheet.
- Compliance: Ultimately responsible for compliance with applicable regulations (i.e., ERISA).



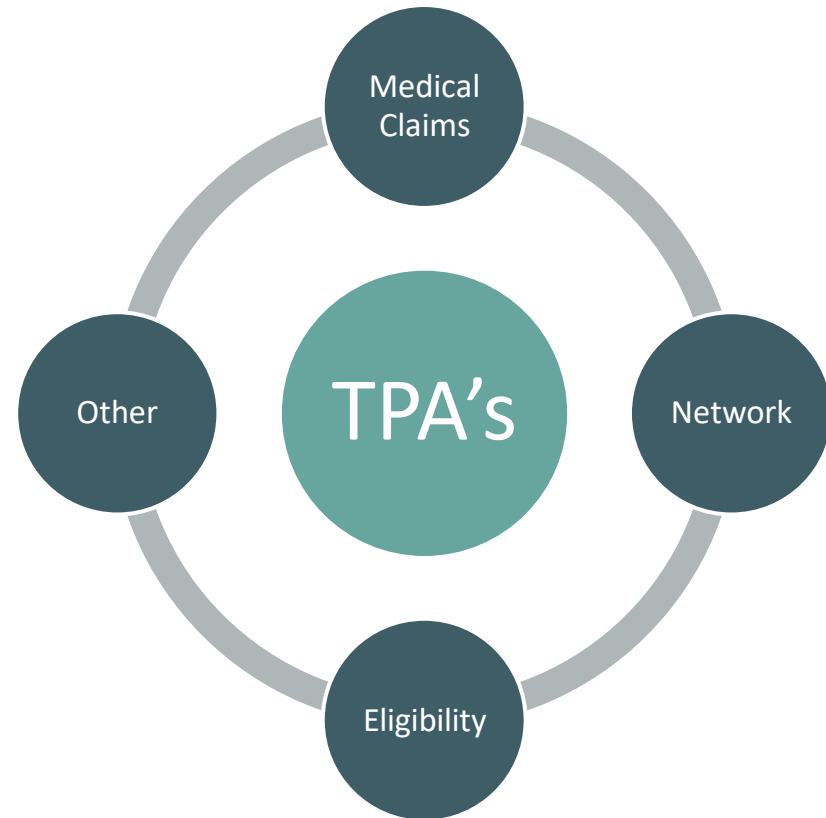
TPAs – Third Party Administrators

Key Responsibilities

- Medical Claims Processing: Takes in claims submissions and reimburses providers for healthcare services.
- Network Management: Manages or rents a network of providers that patients can visit.
- Eligibility Management: Based on original group decisions, manages who is/isn't eligible for the health plan.

Key Differentiators of Great TPA's

- Network: Network offerings are competitive for areas where enrolled employees are located.
- Transparent Reporting: Reporting available is detailed and readily accessible.
- Track Record of Great Service: Sets plan up consistently correct; Implementation process is thorough and efficient.



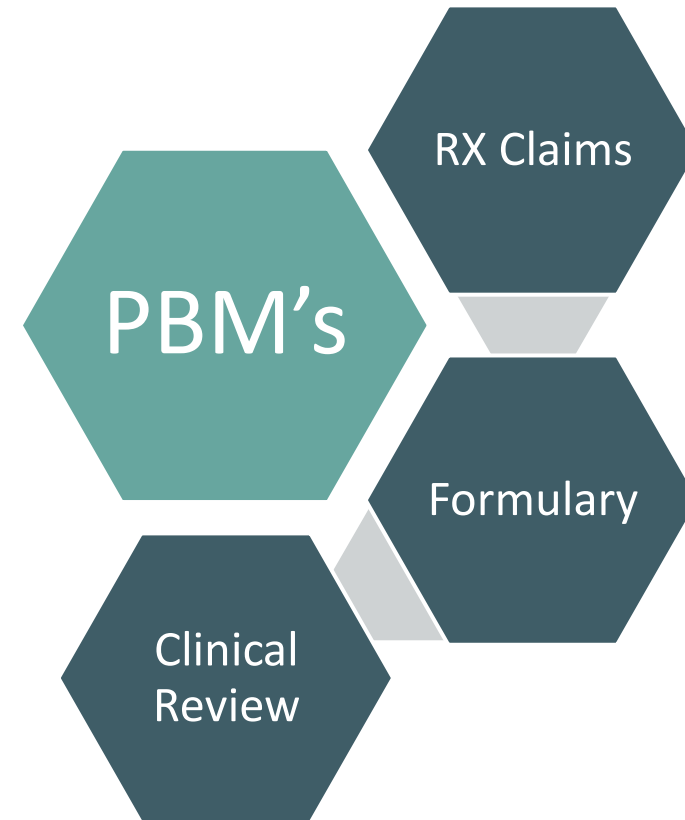
PBMs – Pharmacy Benefit Managers

Key Responsibilities

- RX Claims Processing: Takes in claims and reimburses pharmacies for prescriptions.
- Formulary Management: Manages “covered” and “preferred” lists of drugs available to participants.
- Clinical Review: Creates and manages processes for clinically reviewing drugs (i.e., prior authorization, step therapy, etc.)

Key Differentiators of Great PBM’s

- Clinical Effectiveness: The procedures for reviewing expensive medications are thorough and aim to provide participants with quality prescriptions that achieve the lowest net cost.
- Strong Contract: The pricing guarantees and rebate¹ guarantees are market-competitive, and exclusions for those guarantees are kept minimal.
- Track Record of Great Service: Sets plans up consistently correct and Effectively handles patient questions and issues.

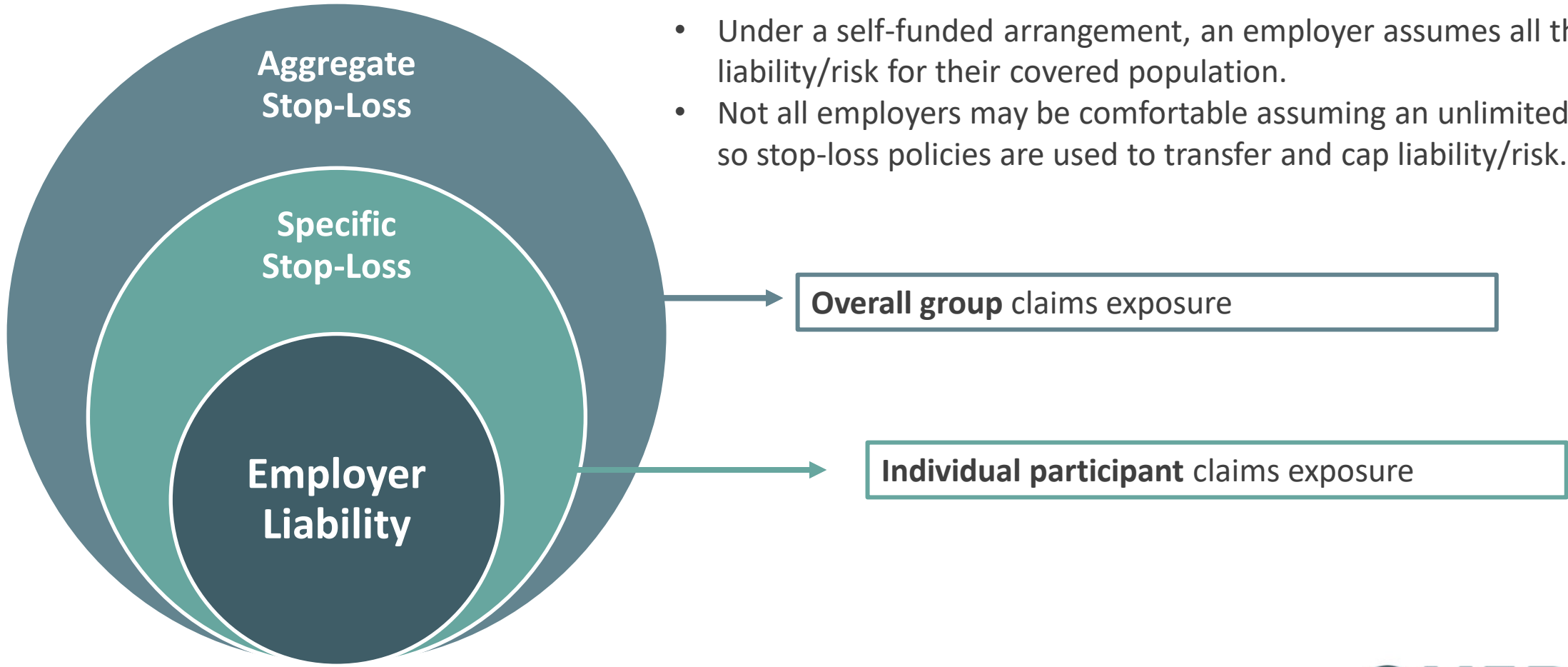


Stop-Loss

What is Stop-Loss?

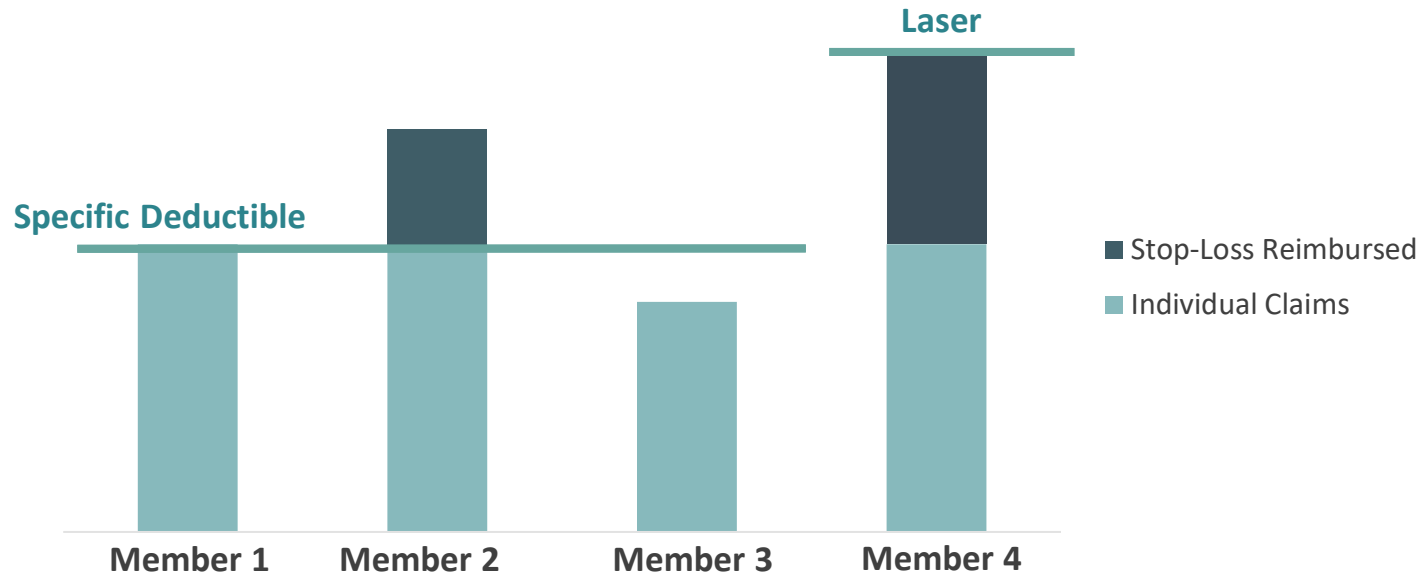
Insurance to cover the **risk** that employers **don't** want to assume.

Capping Liability



- Under a self-funded arrangement, an employer assumes all the claim's liability/risk for their covered population.
- Not all employers may be comfortable assuming an unlimited liability, so stop-loss policies are used to transfer and cap liability/risk.

Specific Stop-Loss



Specific Stop Loss (SSL)

For any **one participant**, the plan sponsor is reimbursed for eligible claims **over** the specific stop-loss deductible.

The specific deductible level should be based on the plan's risk tolerance.

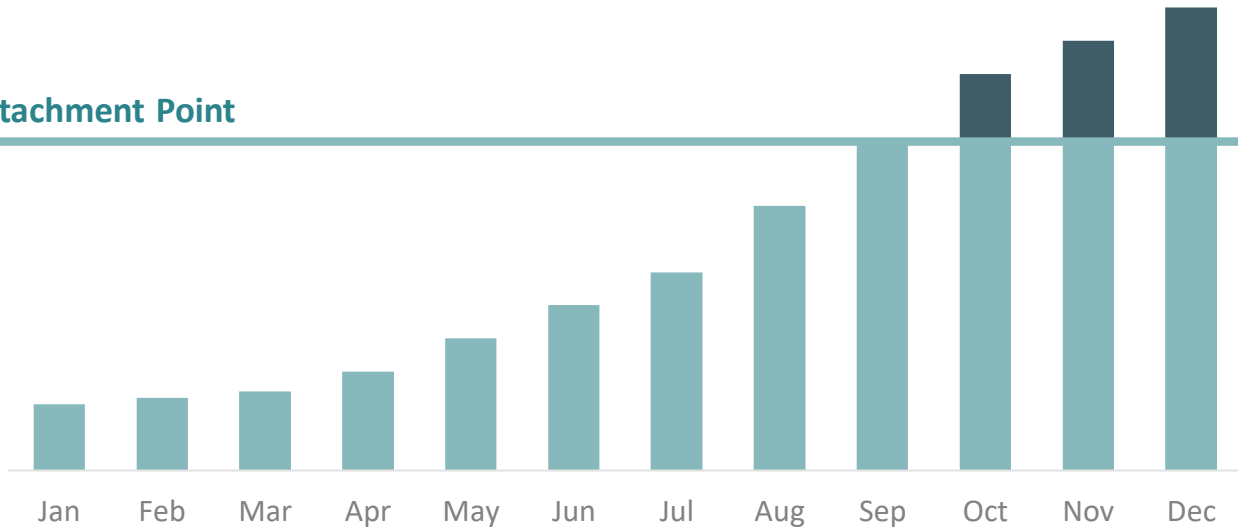
- Higher Deductibles = more risk but less premium.
- Lower Deductibles = more premium but less risk.

The Stop Loss Carrier reimburses **individual claimants** whose total claims incurred accumulate to an amount above the Specific Deductible during the plan year.

Lasers are higher deductibles placed on individuals by a stop-loss carrier to transfer known risk back onto the employer (i.e., cancer).

AGGREGATE STOP-LOSS

Attachment Point



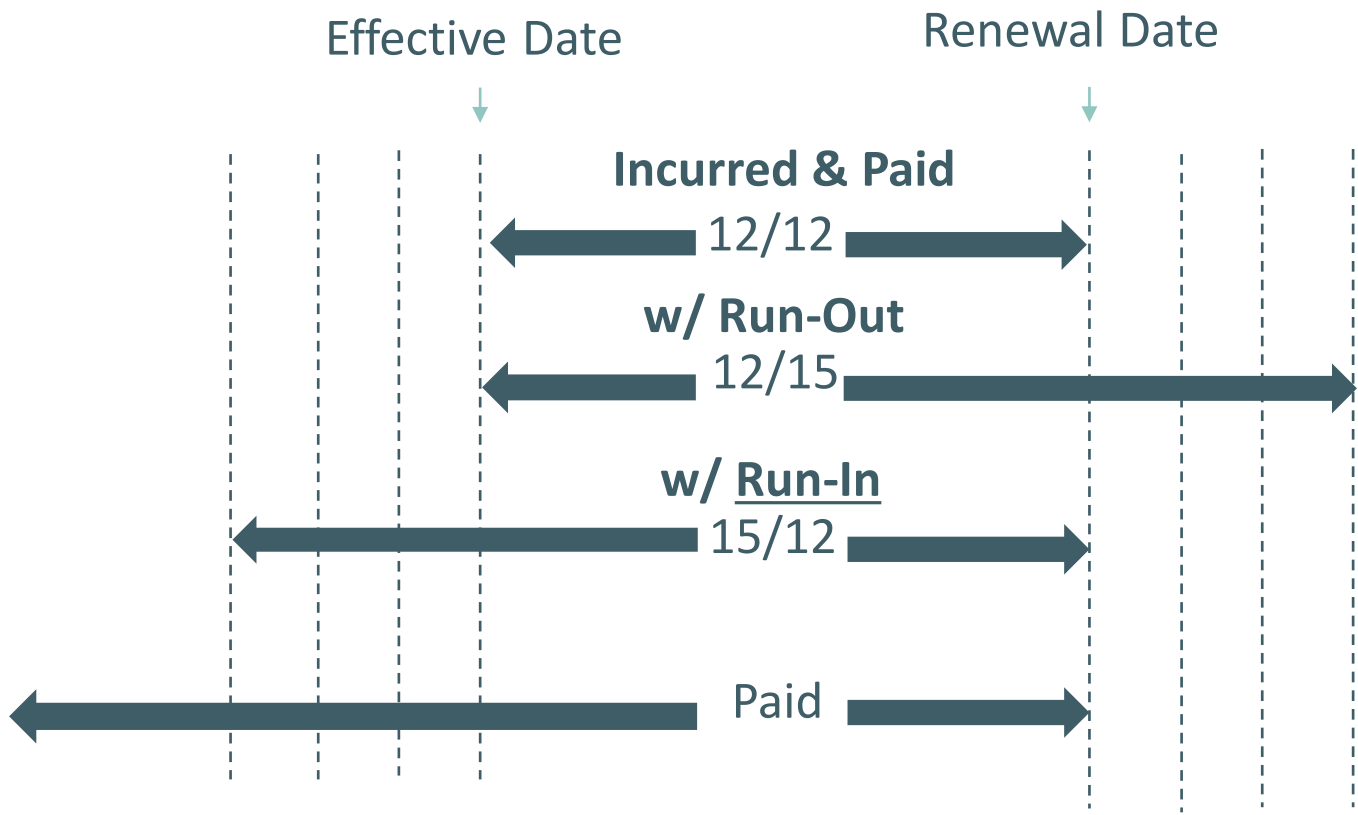
Aggregate Stop Loss (ASL)

Aggregate stop-loss caps the cost of all claims paid below the specific deductible (“attachment point”).

“Attachment point” is normally set at % expected claims + 25 cushion/corridor.

In the event of an **unexpected** high amount of claims **across all members**, **Aggregate Stop-Loss** provides employers security & coverage.

Stop-Loss Contract Types



Contract Type Cheat sheet:

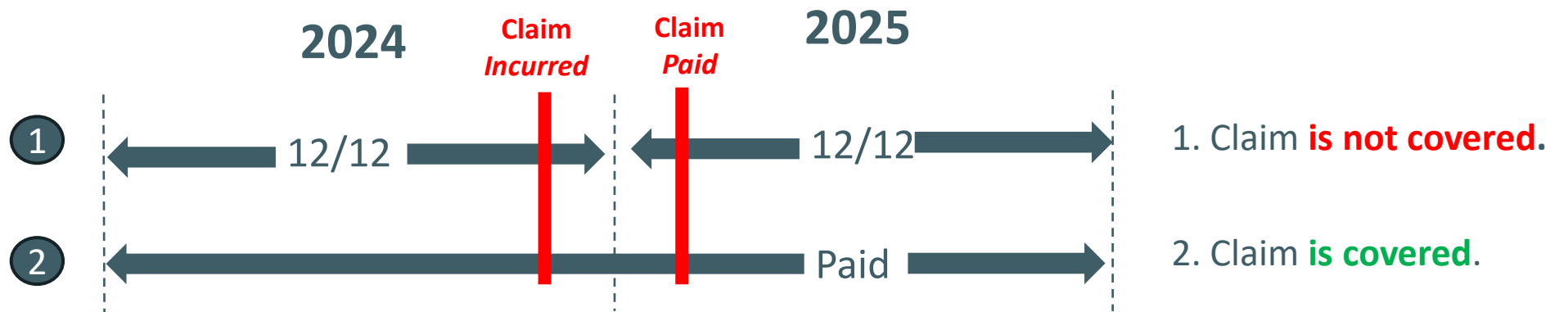
- Incurred = when a claim happened.
- Paid = when the plan pays a claim.
- 1st number = number of incurred months covered under the contract.
- 2nd number = number of paid months covered under the contract.

Why Contract Type Matters

Claims lag = When medical services are incurred, compared to when they are paid by a health plan.

- Average claims lag can range from 30 – 90 days.
- Large or complex claims where multiple payers are involved can have even larger lag.

Not all stop-loss contracts are equal!



Stop-Loss Best Practices

Limit Laser Risk

- Purchase contracts that include a NLO rate cap provision.

Prevent Contract Coverage Gaps

- Ensure that your stop loss contract covers every month you have liability for.

Partner with Quality Carriers

- Ensure your stop-loss carrier is a good quality partner.

Consider a Stop-Loss Captive

- Interested in moving self-funded, but concerned about large claim volatility over time?
- Consider a captive!

Next Steps

Takeaway Questions

- Do you know your current claims spend?
- Do you know what's currently driving your costs?
- Have you ever completed a self-funding analysis for your plan before?

Next Webinar

Strategies for Reducing Claims Spend

- *May 14th, 1-2 PM*
- *Dive into the top cost containment strategies to manage high-cost medications, chronic conditions, and more.*



QUESTIONS?

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Contact Info

Reach out with any questions and be on the lookout for additional webinars invites throughout the year to learn more on Guide Re!



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