Self Funded Health Insurance
To be or not to be?

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Self Funded Insurance
To be or not to be?

- BlueCross BlueShield of SC (BCBSSC)
- Self Funded – To be or not to be?
- Important Self Funded Group Issues
- Stop Loss Coverage
- Actuarial Management of Self Funded Groups
BlueCross BlueShield of SC

- A. M. Best Rating: A+, no subs <A
- Sustained and profitable revenue growth
- Long-term success in every market segment
- Low administrative cost position through diversification
- 12,000 employees
Diversification - Private Sector Business

- Major Group Division – Insured and ASO
- Group and Individual Division - Small Group, Individual Products, State Health Plan, FEP
- National Alliance Division
- Medicare Advantage / PDPs
- Two Independent TPAs
- HMO
- Property and Casualty
- Life Insurance
Diversification –

Government Programs Administration

- Medicare
- TRICARE
- Medicaid
- Medicare Data Center
BlueCross BlueShield of SC
Self-funded vs Insured

BCBSSC Major Group Division*

Includes employer groups with 50+ employees
  Self funded – ASO with or without stop-loss

Does not include:
  • Alliance accounts
  • State Plan and Federal Employee Plan administration
  • Medicare, TRICARE, and Medicaid Plan administration
  • All other in-source processing
BlueCross BlueShield of SC
Self-funded vs Insured

BCBSSC Major Group Division* - Percentage of Accounts

Self Funded
Insured

<table>
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<th>Percent of accounts</th>
<th>50-200</th>
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<th>500-1000</th>
<th>1000-5000</th>
<th>5000+</th>
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Self Funded Health Insurance
To be or not to be?

When *should* a group self fund health insurance?

When *will* a group self fund health insurance?
When should a group self fund health insurance?

When the financial risk has been assessed through the use of risk simulator models, including the application of various stop loss provisions.

And, when the group has the required financial risk tolerance.
When *should* a group self fund health insurance?

Financial Risk Tolerance

- Long term financial viability – industry, economic factors
- Strong cash/ working capital position
- Financial and risk management expertise to manage the increased complexity and fiduciary responsibility
When will a group self fund health insurance?

When the group decision makers believe that self funding will cost less

- Reduced claims cost
- Reduced administrative fees
- More control over benefit design and processing services
- Reduced insurance carrier risk and profit margins
When *will* a group self fund health insurance?

**Reduced Claims Cost**

- Group decision makers want to bear their own cost and not be pooled, believing that their participants will have better experience than the pool.
- Several years of good experience have still resulted in annual rate increases.
- Group decision makers believe that carrier claims cost projections are too high because carriers always overstate claims trend.
When will a group self fund health insurance?

Reduced Administrative fees

The group decision makers want increased negotiating power by unbundling services and shopping all price components.

- Benefit carve outs
- Administrative pricing components
- Stop-loss coverage
When will a group self fund health insurance?

Increased control over benefit plan design and processing components

- ERISA preemption of insurance product state regulations that include benefit mandates
- Increased customization beyond carrier underwriting standards
- Selection from a menu of managed care / disease management services
- Selection from an array of technology levels for enrollment, billing, and reporting
When *will* a group self fund health insurance?

Reduced insurance carrier risk and profit margins
Important Self Funded Group Issues

- The risk of large claims
- Required financial, legal, and risk management expertise
- Transition and termination complexity
Important Self Funded Group Issues

Risk of large claims

- Stop loss coverage complexity
  - Product design and policy provisions
  - Availability at the group and individual level
  - Potential gaps in coverage

- Fluctuations in monthly claim payments under the stop loss limit
Important Self Funded Group Issues

Successful management of increased financial risk and fiduciary responsibilities

- Financial / accounting
- Employee benefit expertise
- Legal / regulatory compliance
Important Self Funded Group Issues

Finance / Accounting

- Complex billing of claims / administrative components
- Cash flow budgeting and monitoring
- Reserve funding structure – general assets or trust
- ERISA Reporting / IRS Tax Code
Important Self Funded Group Issues

Self Funded Cost Components

- Claims reimbursement – TPA, PBM, Mental Health
- Specific and aggregate stop loss applications
- Administrative fees
  - General administration - pepm
  - Network fees - pepm or shared savings
  - Processing technology fees - pepm
Important Self Funded Group Issues

Self Funded Cost Components (continued)

- Managed Care / Disease Management fees – pepm or per case - bundled or unbundled
- Medical Information fees – pepm
- Wellness Programs
- Specific stop loss premiums
- Aggregate stop loss premiums
- Customized reporting fees
Important Self Funded Group Issues

Employee Benefits Expertise

- Plan benefit coverage and policy issues
- Actuarial concepts – selection, benefit changes, and reserves
- Stop loss coverage and policy issues
Important Self Funded Group Issues

Legal / Regulatory Compliance

- ERISA disclosures and reporting requirements
- Compliance with federal mandates and audits
- TPA and other vendor agreements
- Stop loss coverage agreements
Important Self Funded Group Issues

Transition and Termination Complexity

- Potential coverage gaps in the transition to new TPAs and/or new stop loss carriers
- Transition back to an insured product
  - Underwriting perception of selection
  - Cash flow bubble for self funded run-out and insured product premium payments
Stop Loss Coverage

- Availability and risks
- General underwriting guidelines
- Specific stop loss
- Aggregate stop loss
Stop Loss Coverage

A competitive stop loss market provides diversity and flexibility in product design.

Risks

- Gaps in the policy coverage dates
- Carve out of specific individuals
- Consistency between the plan coverage and the stop loss policy coverage
- Long term financial viability of the stop loss carrier
Stop Loss Coverage

General Underwriting Guidelines

- Require 200+ employees; participation requirements same as for insured products
- Demographic and industry rating
- Evaluation of provider reimbursement contracts and claim outlier provisions
- Integration of specific and aggregate coverage
- Financial viability of the self funded group
- Carve out of specific individuals
Stop Loss Coverage

Specific Stop Loss

Typical Maximum Limit Guidelines

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<th>Number of Lives</th>
<th>Maximum limit</th>
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<tbody>
<tr>
<td>100 - 200</td>
<td>$50,000</td>
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<tr>
<td>201 - 500</td>
<td>100,000</td>
</tr>
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<td>501 - 1000</td>
<td>200,000</td>
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<tr>
<td>1001 - 5000</td>
<td>350,000</td>
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<tr>
<td>5000 +</td>
<td>$500,000 to unlimited</td>
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Stop Loss Coverage

Specific Stop Loss

Standard Policy Terms

- Incurred basis 12/12
- Incurred with a run-out provision 12/15
- Paid basis – all claims paid during the policy period, regardless of incurred date

Variation – Aggregating specific stop loss
Stop Loss Coverage

Aggregate Stop Loss

Standard Policy Terms

• Incurred basis 12/12
• Incurred with a run-out provision 12/15
• Paid basis – all claims paid during the policy period, regardless of incurred date
• Run-in provision with run-in maximum limit
Stop Loss Coverage

Aggregate Stop Loss

Aggregate Annual Attachment Point Calculation

- Projected claims for policy period
- Adjustment for integration of specific stop loss
- Add corridor of 15%, 20%, or 25%
Stop Loss Coverage

Aggregate Stop Loss

Attachment Point Application

- Annual Attachment Point – retrospective settlement after the end of policy period
- Monthly Attachment Points – interim limits to reduce cash flow fluctuations; adjustment to annual attachment point after the end of the policy period
Stop Loss Coverage

Aggregate Stop Loss

Attachment Point Range

- Minimum Attachment Point - Dollar floor applied after the enrollment adjustment of the annual attachment point

- Aggregate Reimbursement Maximum
Stop Loss Coverage

Aggregate Stop Loss

Integration with Specific Stop Loss

• Standard rule - Aggregate stop loss requires specific stop loss

• Contractual Variations
  • Implied specific stop loss
  • Tiered risk corridors
Actuarial Management of Self Funded Groups

- Maintain the claims cost projection systems for Underwriting applications
- Monitor the adequacy of administrative pricing components
- Monitor the billing of administrative pricing components
- Monitor the stop loss results and other claims reimbursement gains/losses
- Provide IBNR estimates and other group specific reporting
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To be or not to be?