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FINANCIAL STABILITY  
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LEADING EDGE TECHNOLOGY



# Self Funded Health Insurance To be or not to be?

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# BlueCross BlueShield of SC

## 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



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## 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



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## 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



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Diversification –

Government Programs Administration

- Medicare
- TRICARE
- Medicaid
- Medicare Data Center



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## Self-funded vs Insured

BCBSSC Major Group Division\*

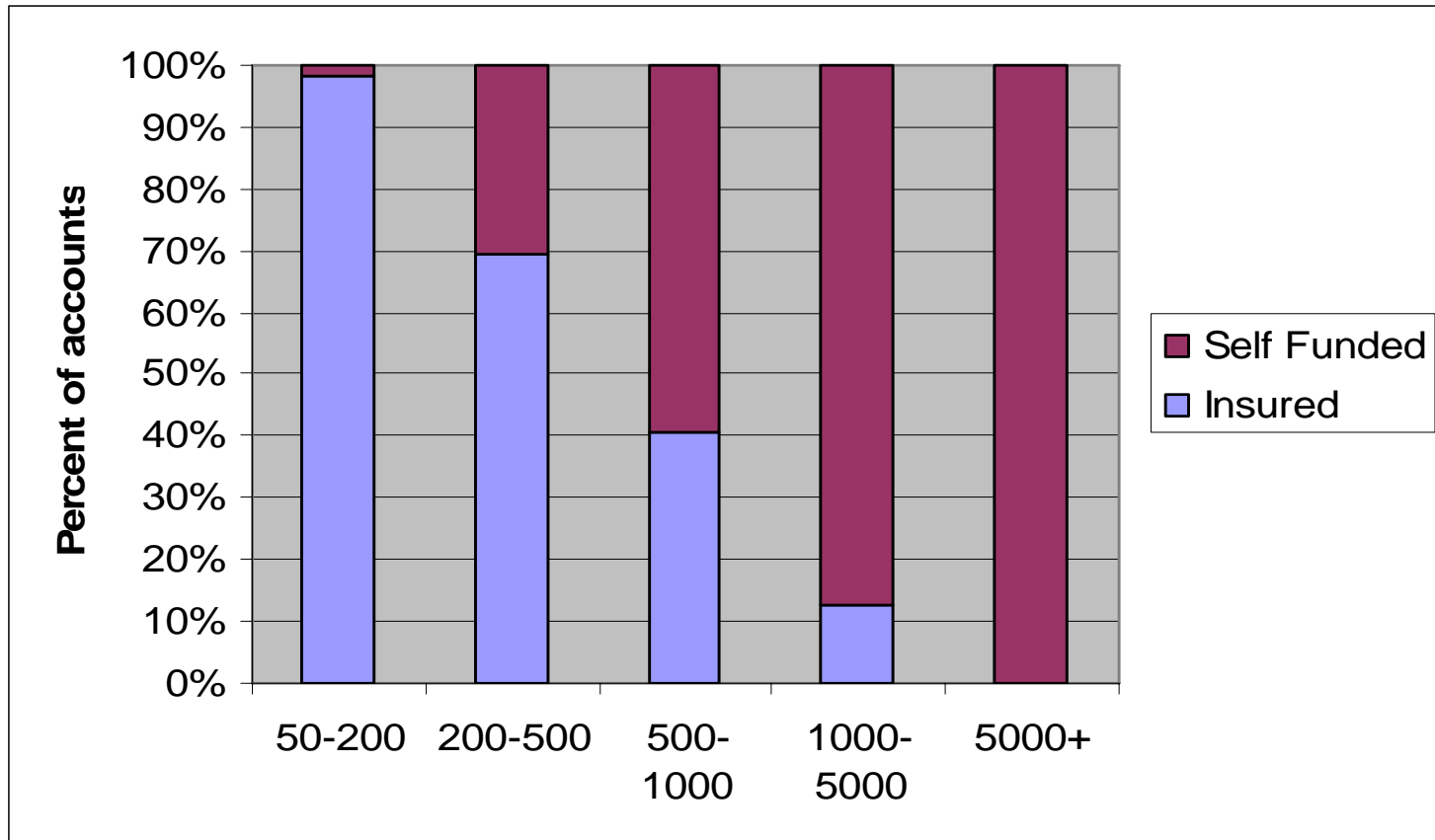
Includes employer groups with 50+ employees  
Self funded – ASO with or without stop-loss

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



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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?



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## Self-funded vs Insured

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



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## Self-funded vs Insured

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

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## Self-funded vs Insured

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



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## Self-funded vs Insured

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.



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## Self-funded vs Insured

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



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## Self-funded vs Insured

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



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## Self-funded vs Insured

When *will* a group self fund health insurance?

Reduced insurance carrier risk and profit margins



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## Self-funded vs Insured

### Important Self Funded Group Issues

- The risk of large claims
- Required financial, legal, and risk management expertise
- Transition and termination complexity



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## Self-funded vs Insured

### 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



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## Self-funded vs Insured

### Important Self Funded Group Issues

Successful management of increased financial risk and fiduciary responsibilities

- Financial / accounting
- Employee benefit expertise
- Legal / regulatory compliance



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## Self-funded vs Insured

### 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



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## Self-funded vs Insured

### 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



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## Self-funded vs Insured

### 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



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## Self-funded vs Insured

### 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

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## Self-funded vs Insured

### 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



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## Self-funded vs Insured

### 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



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## Self-funded vs Insured

### Stop Loss Coverage

- Availability and risks
- General underwriting guidelines
- Specific stop loss
- Aggregate stop loss



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## Self-funded vs Insured

### 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

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## Self-funded vs Insured

### 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



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## Self-funded vs Insured

Stop Loss Coverage

Specific Stop Loss

Typical Maximum Limit Guidelines

Number of Lives	Maximum limit
100 - 200	\$ 50,000
201 - 500	100,000
501 - 1000	200,000
1001 - 5000	350,000
5000 +	\$500,000 to unlimited



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## Self-funded vs Insured

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



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## Self-funded vs Insured

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



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## Self-funded vs Insured

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%

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## Self-funded vs Insured

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



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## Self-funded vs Insured

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



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## Self-funded vs Insured

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



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## Self-funded vs Insured

### 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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