SELF-FUNDING QUICK "HOW-TO" GUIDE

WHY SELF-FUND?

- Lower fixed insurance costs
  - Eliminates most state premium tax expenses
  - Reduces insurance carrier risk charges and profit margins
- Better manages variable claim costs, improve cash flow
  - Fund claims on a level basis or as incurred
  - Reserves held or accrued by employer, not by insurance carrier
- Control over plan design and healthcare spend
  - Coverage governed by federal ERISA Law not state regulation
  - Greater control over the delivery of healthcare
  - Tailor plans to meet member needs and wants

WHAT TYPE OF EMPLOYER IS A GOOD CANDIDATE?

- Employer has strong/stable financials, with good cash flow
- Current healthcare plan has high employee participation and stable claims experience
- Employer is engaged in benefit management and sees self-funding as a long-term strategy

WHAT ARE THE BASIC STEPS?

- Select independent/experienced employee benefit advisor
  - Broker
  - Consultant
- Assess member risk profile and/or evaluate claims experience
  - Completion of individual medical application
  - Summary of monthly loss ratios for the past two years
- Review and confirm levels of benefits, then draft and file plan document
- Brokers/consultants solicit proposals from carriers and/or third-party administrators
  - Bundled, or
  - Unbundled arrangements
    - Administrative services
    - Network access
    - Claims management
    - Data analytic services
- Limit unexpected risk exposure by purchasing stop-loss coverage
  - Specific and or
  - Aggregate, as appropriate

WHAT ARE SOME FINAL CONSIDERATIONS?

- Use multi-carrier applications to assess member risk profile
  - More efficient
  - More versatile
- Coordinate plan document with medical/pharmacy stop-loss contract(s)
  - Ensure reimbursement
    - Specific claim
    - Aggregate claims
  - Confirm terms and conditions do not conflict
    - Exclusions
    - Claim Management
    - Covered services/other limitations
- Contract network access, claim management, and data analytic services
  - Avoid member disruption
  - Vet set-up and ongoing services
  - Allow for targeted risk management
- Negotiate provisions of medical/pharmacy stop-loss coverage
  - With or without monthly accommodation
  - On a paid, with run-in; or incurred, with run-out, basis
- Confirm final rates
  - Set contribution strategy
  - Conduct timely enrollment

MAKE FINAL BUYING DECISION, SUBJECT TO CONFIRMATION OF TIERED AND/OR COMPOSITE RATES

- Retain fully insured arrangement, or
- Transition from fully insured arrangement to self-funded arrangement, or
- Transition from bundled to unbundled self-funded arrangement, or
- Enhance unbundled self-funded arrangement

SELF-FUNDING QUICK "HOW-TO" GUIDE (cont.)

BASIC STEPS EXPLAINED

Why you need a broker or consultant and how to find one

- Brokers and consultants, specifically those that are independent and experienced, have proven time and again to be able to help employers evaluate the pros and cons of self-funding, navigate through the evaluation and selection of claims administrators, provider networks versus reference-based pricing, medical management vendors, and pharmacy benefit carve-out programs, as well as the marketing, placement, and management of stop-loss insurance.
- Brokers and consultants can be national, regional or local. They can be found through SIIA or in the open market. Of note is that brokers are usually paid a percentage of premium on a commission basis; consultants are usually paid on a time and expense/fee for service basis.

WHO TO CHOOSE AS CLAIM ADMINISTRATOR – CARRIER OR TPA

- Self-funded employers can self-administer their health plan; however, most are too small to develop internal claim adjudication expertise. Most either choose a national or local carrier or an independent Third-Party Administrator to perform that function.
- If choosing a carrier as the administrator, for the most part, the employer will have to access services offered by the carrier. Those services would include, but not be limited to, PPO access, medical and pharmacy management, and PBM.
- By choosing an independent TPA, the employer has a choice of vendors to use to manage their self-funded plan
- Self-funded employers own their claims data regardless of the administrator - carrier or independent TPA

Bundled vs. Unbundled arrangement?

- Bundled approach – employers contract with a single vendor to administer the self-funded plan as well as provide stop-loss coverage and other services
- Unbundled approach – employers contract with one or more vendors to provide administrative services, and one or more vendors to provide stop-loss coverage

How to limit risk exposure – buy Stop-Loss

- Stop-loss is an insurance contract between the stop-loss carrier and the employer. It is purchased to limit the employer's liability for all claims and/or any single claim without upsetting the financial integrity of the plan.
- Specific stop-loss coverage limits the employer's liability for each plan participant up to the group's deductible level.
- Aggregate stop-loss coverage limits employer's liability for all claims below group deductible to set percentage above annual expected claims. That set percentage is usually 125% above annual expected claims.

WHO CAN HELP WRITE THE PLAN DOCUMENT/SUMMARY PLAN DESCRIPTION?

- Claim administrators, including TPAs and carriers, as well as many brokers and consultants, can provide templates and suggest appropriate wording to assist in the drafting of plan documents. Alternatively, there are numerous legal professionals specializing in the drafting of plan documents. These professionals are referred.

ABOUT SIIA

The Self-Insurance Institute of America, Inc. (SIIA) is a national trade association that represents companies involved in the self-insurance/alternative risk transfer marketplace. Additional information about SIIA can be accessed on at www.siia.org, or by calling 800/851-7789.