QUESTIONS & ANSWERS ABOUT SELF-FUNDED/ BENEFIT CAPTIVE PLANS

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WHAT IS SELF-FUNDING?

Self-Funded group health plans have existed since the 1950's when the IRS announced that **employer contributions into such arrangements were fully tax deductible** as a business expense. Initially, only very large employers took advantage of this, but over time mid-sized employers began to establish these plans which are regulated under Federal (ERISA) law. Today, **most insurers and third-party administrators offer self-funded options for employers with 50+ employees**.

WHAT ARE THE BENEFITS OF A SELF-FUNDED PLAN?

Improved Cash Flow: Self-Funded plans usually work as a 'pay-as-you-go' arrangement whereby the employer controls their cash flow instead of paying a fixed monthly premium to an insurer or health plan. This also allows the employer to retain their own plan reserves which can amount to 20% of total costs.

Stop Loss Insurance Protection: To cover large, catastrophic claims or overall higher claims than expected – the cost of stop loss insurance is a fraction of the cost of traditional insurance coverage.

Customized Benefit Plans: Self-Funded plans are not subject to State benefit mandates and can customize their plan designs to meet the unique needs of their employees.

Claim/Utilization Reports: The employer receives regular reports on their plan utilization, enabling them to make benefit decisions to contain health care costs.

Eliminates Insurer Profit: The ACA limits carrier "loss ratios" to 80%/85% and conversely profit margins of 20%/15%. Self-Funding eliminates most of this as the ACA rules do not apply to self-funded plans.
Elimination of State Insurance Premium Taxes: As an ERISA exempt arrangement, Self-Funded plans do not pay these state taxes, only federal fees such as PCORI.

WHAT ARE THE COST-COMPONENTS OF SELF-FUNDING?

Self-Funded dollars are spent on three component parts: **Administration Services** from an Insurer (ASO – Administrative Services Only) or a licensed/bonded TPA (Third Party Administrator); **Stop-Loss Insurance Premium** (Specific, Aggregate); and **Incurred/Paid Claims** (limited to the annual aggregate 'attachment point'). Claims can be funded in advance with the potential to receive a surplus refund or can be paid on a "**pay-as-you-go**" basis.

WHAT DOES STOP LOSS INSURANCE DO?

Stop Loss Insurance protects the employer's Self-Funded plan from **catastrophic and/or overall medical claim risk.** There are two types of stop loss insurance in the typical Level-Funded plan: **Specific Stop Loss** which limits the Plan's catastrophic claims liability to a specific annual maximum per person (deductible ranges from \$10,000 to \$250,000 per person), and **Aggregate Stop Loss** which limits the overall total paid claims of the Plan to a pre-determined amount each year (the 'aggregate attachment point' which is set between 110% and 150% of **projected** paid claims).

WHAT ABOUT BENEFIT CAPTIVE ARRANGEMENTS?

Independent benefit captives exist to pool together employers of similar types to purchase their stop loss insurance coverage through the captive. Normally these benefit captives operate on three principles: **Risk Assumption** (where the participating employer assumes the first level of risk per claimant – i.e., specific stop loss deductible of \$50,000); **Risk Sharing** (where the captive assumes the next level of risk after the specific stop loss deductible i.e., next \$450,000 of claims); **Risk Transfer** (where the captive negotiates a very high deductible with a stop loss insurer i.e., claims in excess of \$500,000). When the captive has a 'good year' they return surplus premium to members. When the captive has a 'bad' year, they collect proportionate funds from members to cover any losses. **Captives also provide members with other key services including actuarial, legal, accounting, administration, claims analytics, and prescription drug rebate distribution.**

WHO ADMINISTERS A SELF-FUNDED PLAN?

The administration of the Level-Funded plan is usually handled by either an insurance company (referred to as an "**Administrative Services Only**" arrangement) or by a licensed-bonded "**Third Party Administrator**" (or TPA) who is independent of the stop loss insurer. Both entities must be licensed and approved by State insurance regulators and charge a fee for their services which is built into the Level-Funded rates.

WHAT SERVICES SHOULD BE PROVIDED BY THE THIRD-PARTY ADMINISTRATOR?

Claim processing, claim utilization report, provider contracting, stop loss insurance claim reports, Plan documents and some predictive modeling. An **administrative services agreement** should be executed and should stipulate standards for claims turn-around time, claims error ratio, customer response times, provider relations expectations and subject to overall performance audits.

WHAT ARE SOME OF THE OBSTACLES TO SELF-FUNDING?

Some states have enacted laws that dictate **minimum stop loss insurance levels** which may expose small employers to more risk than they are willing to take. For example, in California, the minimum Specific Stop Loss deductible that can be sold to a "small employer" is $40,000 per person and the minimum Aggregate Stop Loss deductible is $5,000 per person.

WHAT SERVICES SHOULD AN ADVISOR EXPECT TO PROVIDE A SELF-FUNDED CLIENT?

Analysis and recommendations pertaining to the **Administrative Services Agreement, Stop Loss Insurance policies, Plan Documents, Claim Analytic Reports**, and any **service vendor agreements**. The advisor should partner with legal, compliance and actuarial service providers. And should make sure that their **professional liability insurance policy** includes coverage for the sale and service of self-funded plans and stop loss insurance.

A SUMMARY OF CONSIDERATIONS

Consideration:	Fully Insured	Level-Funded	Self-Funded
Available Through	All Approved Carriers	Limited Carriers & TPAs	Limited Carriers & TPAs
Stop Loss Insurance	Not Needed	Included* *(Specific, Aggregate, Both)	Optional* *(Specific, Aggregate, Both)
Administrative Services	Included	Included* *(ASO or TPA)	Included* *(ASO or TPA)
Plan Design Flexibility	Off-the-shelf	Off-the-shelf or Customized	Customized
Consumer Directed or Account Based Plans	Yes	Yes	Yes
Refund of Claim Surplus	Not Applicable	Yes	No* *(pay as you go)
Guaranteed Cost	Yes	Yes	No
Use of Provider Networks	Yes	Yes	Yes
Use of Reference Based Pricing	No	Yes	Yes
Claims Analytics Needs	Not Applicable	Yes	Yes
Actuarial Service Needs	No	No	Yes
Advisor Compensation	Commission or PEPM	Commission or PEPM	PEPM

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