bpa bestlife™
Benefit Plan Administrators, Inc.

Self-Funding 101

Welcome to BPA!

The plan you have selected is a self-funded benefit plan administered by Benefit Plan Administrators, Inc. ("BPA"). There are many advantages to self-funding. This approach allows employers more freedom in designing their health plans and can result in lower overall costs. However, self-funded plans work differently than traditional fully insured plan as the plan sponsor, it is important for you to know the details about how these plans are funded.

By accepting the attached quote, you are acknowledging that you understand that your plan through BPA will be self-funded and that you understand the information about self-funding included in this primer and that it is possible you may incur additional expenses associated with your plan not listed below.

Fully Insured Plans v. Self-Funded Plans

When an employer selects a fully insured medical plan, they purchase an insurance contract. Under this arrangement, employer and employee contributions to the plan are used to pay premiums. In exchange for these premiums, an insurance carrier takes on the responsibility for paying all eligible claims under the plan. In this scenario, the employer does not take on any financial risk. However, overall plan costs are often higher, and the employer cannot control plan design (they must select a policy that has been filed and approved in the applicable state).

In a self-funded arrangement, there is more flexibility, and, in many cases, costs are lower. However, the employer is responsible for paying plan claims directly. In this situation contributions are collected from employees and claims are paid from the employer's general assets. Depending on actual claims, it is possible that an employer could incur higher than budgeted expenses in this situation. To protect against catastrophic risks, employers purchase special insurance called "stop-loss" insurance. This insurance pays for claims over specific levels discussed below. As noted above, "stop-loss" insurance protects employers against excessive claims. There are two types of stop-loss insurance. Specific stop-loss insurance applies when one individual plan participant has extraordinary claims. Aggregate stoploss insurance applies when total plan costs exceed a certain level. In both cases, a deductible applies. The employer plan sponsor is responsible for paying all claims until that deductible is met. Claims over that deductible are paid by the stop-loss insurance carrier.

When setting up a self-funded plan, the plan will generally need to go through underwriting with the stop-loss carrier. During this process, the carrier will collect medical information about plan participants. This information is used to help them underwrite the risk associated with the plan. Occasionally, as part of that process, a stop-loss carrier will issue a "laser." Lasers apply when a stop-loss carrier issues a policy in spite of a known extraordinary risk. If a laser is issued this generally means that the stop-loss coverage will have a higher specific deductible for a specific plan participant. If an employer accepts a stop-loss policy with a laser this means they are taking on additional financial risk relative to that plan participant.

Intrepreting the Plan Document

The terms of each stop-loss policy will refer to the underlying plan document. This document is the "contract" setting out the terms and conditions of the plan. It includes details about the benefits covered under the plan and often provide employers with discretion relative to the adjudication of claims. Most claims will be administered by BPA and the appropriate adjudication will be clear. However, sometimes there is ambiguity in the plan term, or an employer wishes to make an exception. It is important to remember in these situations that stop-loss carrier can exercise their own discretion in interpreting plan documents. To avoid situations in which a stop-loss carrier may deny claims, employers should consult with their carrier (through BPA) when questions exist.

Advanced Funding

Many stop-loss policies include an "advanced funding" feature. Where this applies, the stop-loss carrier will provide the money to pay a claim before the claim is actually paid. However, this feature is not always available—particularly during the last month of a stop-loss contract. If advanced funding is not available, the employer will have to front the money to pay a claim and will be reimbursed later.

Specialty Arrangements

BPA administers "reference-based pricing" plans. If this option is selected, the plan pays up to a certain percentage of Medicare (or another benchmark rate) for services rather than paying rates that have been negotiated with a provider in advance. Where this is the case, providers are not required to accept these payments as payment in full, this can result in the plan participant being billed the balance directly.

Level Funded Plans

A level funded plan is a self-funded plan that is designed to work more like a traditional fully insured plan. Under a level funded plan, the employer pays a monthly "premium" that is designed to pay all plan expenses. This payment is based on a good faith estimate of what total plan expenses will be. However, in certain situations additional funding may be needed due to changes in circumstances that change the cost of stop-loss insurance. These changes are not common, but it is important for employers to be aware of the possibility that additional funds may be needed.

* * * * *

REMINDER: Self-funded plans are directly subject to HIPAA. Questions on how to comply? BPA can help.

bpa bestlife™
Benefit Plan Administrators, Inc.

IMPORTANT DISCLOSURES FOR EMPLOYER SELF FUNDED HEALTH PLANS

THESE DISCLOSURES ARE BEING PROVIDED IN CONNECTION WITH A PLAN OF BENEFITS TO BE ADMINISTERED BY BENEFIT PLAN ADMINISTRATORS, INC. ("BPA"). THESE DISCLOSURES ARE GENERAL ONLY AND MAY NOT INCLUDE ALL OF THE POTENTIAL LEGAL OR FINANCIAL RISKS ASSOCIATED WITH A PROGRAM OF SELF FUNDED INSURANCE. CERTAIN RISKS ASSOCIATED WITH FEATURES OF YOUR PLAN STRUCTURE MAY NOT BE IDENTIFIED BELOW. THE FOLLOWING RISK FACTORS ARE NOT INTENDED AS A SUBSTITUTE FOR PROFESSIONAL LEGAL, TAX OR FINANCIAL ADVICE. THE RISKS LISTED BELOW ARE NON-EXHAUSTIVE AND ARE INTENDED TO HIGHLIGHT CERTAIN RISKS ASSOCIATED WITH ESTABLISHING A SELF FUNDED HEALTH BENEFIT PLAN.

This is a self-funded plan of benefits that carries risk for the employer group and is not a fully insured insurance product. A fully insured plan is when an employer has decided to purchase an insurance contract to cover the costs and financial risks associated with its employee health plan. On the other hand, a self-insured health plan is when an employer uses its own funds to cover such costs. Employers mitigate their risk by purchasing stop-loss coverage from an insurance company to mitigate the risk of higher-than-budgeted expenses.

Self-funding includes financial risk for the employer. As a sponsor of a self-funded health plan, the employer is required to fund all claims. That funding risk is offset by a stop-loss policy with two separate types of deductibles that generally need to be met in order to qualify for funding from the stop-loss policy:

(1) Specific deductible: The dollar amount to be paid by the plan on each covered individual before the stop-loss policy pays. This is protection against abnormal severity of a single claimant rather than abnormal frequency of claims for the entire group.

(2) Aggregate Deductible: The dollar amount to be paid by the entire plan before the stop-loss policy pays. Once the aggregate deductible is satisfied, reinsurance kicks in and the stop loss carrier pays all eligible claims. An aggregate deductible can be satisfied entirely by one claimant or a combination of claimants.

If these deductibles are not fully met, the employer group will not receive the benefit of its stop loss policy and receive the additional funding that the stop loss carrier has agreed to pay.

A stop loss carrier may "laser" a plan participant's specific deductible, resulting in additional risk for the employer. Stop loss carriers may impose a "laser" on one or more plan participants. Lasering occurs when a stop loss carrier sets a higher specific deductible for a particular individual with a known risk or expected ongoing claim that could be significant or expensive. If a carrier imposes a laser, then the employer will have additional risk to fund claims for the individual subject to the laser.

Providers are not required to accept reference-based pricing. Referenced based pricing is a cost containment methodology that plans can use to pay non-network claims at a percentage of Medicare. These claims are paid for instances where there is no pre-negotiated contract with a provider or facility or if there are out of network claims. Providers are not required to accept referenced based pricing as full payment for claims which can result in (i) patients being billed for the entire amount of a claim, without any discounts, or (ii) if the plan pays more than the allowed amount under the plan document, the stop-loss carrier may not reimburse those excess payments.

Level funded plans are not without risk. Claims factor/eligibility can change. Level-funded health insurance is an arrangement that allows an employer's premium to be divided into a predetermined monthly dollar amount that is set aside to cover claims and premium. The amount it pays into the fund is based on an estimate of how much money the employer is likely to have to pay out in claims. In certain instances, a level funded plan may require additional funds in order to meet the stop-loss deductibles. For example, if the number of eligible participants changes from the beginning of the plan

year (when the stop loss carrier underwrote the risk) to the end of the plan year, the employer group may be required to contribute additional money into the plan. The stop-loss carries have various polices and procedures for calculating claims factors, and the employer group is responsible for understanding how its specific carrier will operate.

Advance funding may not be available, and the employer may have to pay for claims and seek reimbursement. Many stop loss policies include an "advance funding" option whereby the stop loss carrier would provide funding for claims before the plan pays for the claims. In some instances, stop-loss carriers will not permit advanced funding of claims, particularly in the last month of a stop loss policy. If a carrier will not permit advance funding, the employer would be required to fund the claims itself, and seek reimbursement from the carrier.

The employer may be required to fund claims it is not responsible to pay in order to preserve network discounts. If a third-party funding source is available to pay for a claim, such as in the case of an auto accident not caused by a plan participant, the plan may not be responsible to actually pay the claim. However, many third-party payors will not pay for such a claim without going through a long and drawn-out subrogation process in court. As a result of this process, an employer group may be required to pay a claim it otherwise would not be liable to pay, solely for the purpose of preserving a pre-negotiated discount with a provider.

Stop loss carriers are not bound by the employer's interpretation of a plan document which can result in loss of funding from a carrier. The plan of benefits being administered by BPA is governed by a Plan Document. The Plan Document sets forth the legal obligations of the plan to pay claims, and can often be interpreted in different ways. A stop loss carrier is not obligated to accept an employer's interpretation of the Plan Document, which can result in denial of benefits from the carrier, and the employer would remain liable for the full amount of the claims.

Errors by stop loss carriers can require additional contributions to the plan. Various states have funding requirements for minimum attachment points. If a stop loss carrier would incorrectly calculate the legally required minimum attachment point, the employer may be required to contribute additional funds to the plan or risk losing the stop loss policy.

Employer groups may be subject to legal risk by sponsoring a self-funded benefit plan. As a plan sponsor, you will be subject to additional laws and regulations under ERISA, HIPAA, and state regulations. Failure to understand and comply with those laws can create legal liability for the you. Additionally, a plan sponsor has a fiduciary duty to the plan, and can be subject to lawsuits for failure to comply with fiduciary duties.

A minimum attachment point resides in stop loss contracts predicated on the monthly claim factor multiplied times the respective headcount and trended out twelve months to reflect the minimum claims liability. The attachment point is typically based on the initial enrollment at the time of sale. (Carriers can base their attachment point on the number of members quoted during the proposal process, please be aware this will be reflected on the application and policy) If the enrollment decreases, the plan minimum attachment point will remain constant unless it was quoted/sold utilizing a percentage of the minimum. (For example: 95% of the minimum attachment point could be reflected on the application/policy dependent on the Carrier chosen. The percentage is agreed upon at the time of proposal/sale, if available.) If the enrollment increases, the maximum attachment point is based on the increased headcount.