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# Advisers must know details of self-funding plans

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Smaller and mid-sized businesses seeking choices for employee benefit plan designs and financing have many options to consider. Many employers are working with brokers to choose self-funding options and various hybrid options as a way to assist employees with health coverage and to control costs. But in an increasingly complicated market, making the right choice can be overwhelming.

As such, it's important for brokers to have a strong understanding of self-funding solutions so they can help clearly outline how choices will affect benefits and have a meaningful impact on risk management and their bottom line.

While self-funding has been a widely used funding option for larger employers, there has been a rise in hybrid self-funding to meet the needs of smaller to mid-size employers. The hybrid self-funding solution includes financial predictability by paying a steady monthly fee with fully integrated stop-loss insurance and access to claims information — all combined into a single, easy-to-administer solution. Despite a recent rise in interest, only one carrier has offered a hybrid self-funding solution for smaller to mid-sized employers for more than 10 years. During this time, however, more variations of hybrid solutions offered by many different carriers have entered the marketplace. Now, more of what may *seem* to be "look alike" self-funding solutions actually have vast differences.

As brokers evaluate the suitability of solutions for their clients, it's important to first understand cash flow and risk protection needs of their clients, which help determine the employer's desire for fixed predictable payments and the level of claim volatility that they can take on. They must also examine the differences in how critical aspects of plan administration are handled to maximize plan benefits and limit unexpected risk. Finally, they must thoroughly evaluate three areas in which hybrid self-funded plans now differ widely: The relationship of fixed to variable costs, recommendations around stop-loss coverage levels, along with integration and information security.

Advisers must understand the following:

### 1. The optimal balance between fixed and variable costs

All self-funded solutions have a mix of fixed costs and variable costs that brokers must analyze. If fixed costs are shown as a high percentage of the company's maximum financial liability when compared to variable costs, then the solution will likely feel more like a fully-insured program. This means the opportunity for savings and the surplus credited back to the employer will be limited. For smaller groups under 100 employees, look for fixed costs in the range of 50% of the maximum liability. As groups increase in size, the variable portion of the maximum liability should increase as well, and the fixed costs will represent a lower percentage of the employer's costs.

### 2. Critical stop-loss protection

Individual Stop-Loss (aka Specific Stop-Loss) insurance helps protect clients from a catastrophic claim and limits an employer's liability to a set dollar figure per individual, per policy year. This limit is known as a pooling point or specific deductible. The higher the pooling point, the lower the cost and the greater the employer's exposure to claim volatility.

Aggregate Stop Loss insurance limits an employer's liability to overall claim fluctuation for a policy year. The employer's maximum liability is usually expressed in terms of a percentage of total expected claims, typically 125%. All claim dollars are funded by the employer and claim dollars that exceed the employer's maximum liability are reimbursed by the Stop Loss carrier. Claims paid by the employer below the Individual Stop-Loss pooling point accumulate toward the Aggregate Stop Loss threshold.

Not all stop-loss insurance policies are the same. Brokers need to be on guard against proposals that attempt to lower fixed costs by not including sufficient levels of stop-loss protection. Consider using an experienced carrier or third-party administrator that understands smaller to mid-sized businesses, versus those that seek to provide the lowest price only. It is important to remember that higher Individual and Aggregate Stop Loss levels will have lower costs, but more risk for the employer. Conversely, lower Individual and Aggregate Stop Loss levels will have higher costs, but the carrier takes on the additional risk. If the pooling point is set too high for the employer's budget, there could be higher claim cost volatility than the client has budgeted for or can sustain, which can expose the client to financial risk. In general, look for a pooling point within a reasonable range of 3 to 6% of the group's expected claims. Also, ensure the group understands other provisions, such as whether lasering is used, terminal protection, termination rules and timing of stop loss reimbursement.

### 3. The benefits of integration and cybersecurity

Historically, there have been a variety of risks associated with information transferring between different carriers when the medical plan, pharmacy plan and stop-loss insurance are not integrated with one carrier. One risk that has risen to the forefront is cybersecurity. Sending multiple feeds of employee claim and demographic data between administrators to help coordinate coverage and programs could increase the risk of data breach and private health information being shared with groups that do not have the appropriate policies in place. In fact, a PWC survey reported that cyber incidents attributed to current service providers, consultants, and contractors increased from 18% to 22% from 2014 to 2015, and those attributed to former service providers jumped from 15% to 19%, with average total financial losses totaling $2.5 million per incident.

Now, the Federal Trade Commission requires that organizations in consultative arrangements adhere to stricter and more specific criteria to demonstrate diligent efforts in protecting personally identifiable and health information. These requirements can be addressed in part by selecting an integrated medical, pharmacy and stop-loss carrier, which uses clinical experts, in-house data, pharmacy reimbursement and provider contract experts. In these cases, not only can the inherent cyber risks be reduced; typically the employer can benefit from improved cash flow and less risk of claim denials or delays because coverage terms are consistent across plans.

Additional risks to consider when plans are managed by separate carriers can include:

- Disputes on areas of medical necessity or third-party liability when the stop-loss carrier does not have in-house clinical experience. For example, relying on information online versus having clinical staff that is actively involved in the patient's treatment.
- Reimbursements held up due to billing disputes where a third-party would not be familiar with the provider's contract terms.
- The impact of a dispute about emerging treatments, such as innovations in gene therapy and specialty drugs, which can impact both medical and pharmacy plans. A number of these new treatments also come with a high price tag, and the cash-flow impact of a dispute over standard coverage could be significant.

Smaller to mid-sized businesses should be able to enjoy the advantages of self-funding with simplicity that is comparable to a traditional fully-insured solution. More products are being introduced in the marketplace and many smaller employers are asking their brokers to understand whether self-funding is the right solution for them. Brokers should get smart about the way these plans work and look under the surface. Guiding clients away from hazards that will affect their success can make a real difference in how they choose the most effective solution for their business. ■

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