White Paper

ADVANTAGES AND MYTHS OF SELF-FUNDING

Summary

Self-funding an employee health benefit plan is a long-term health strategy to save money because it can provide an excellent opportunity for a company to achieve immediate savings plus sustainable cost control. However, smaller employers may be hesitant to self-fund their health plan because they commonly perceive it as appropriate only for large companies. This white paper describes the financial and operational advantages of self-funding while addressing many of the major misperceptions. It also identifies the key differences between self-funded and fully insured health plans and includes a helpful checklist that highlights the value of a self-funding solution.

Establishing the right health plan can become an integral part of the growth and success of your company. After reading this white paper, you will be more confident in determining if a self-funded health plan can be a formula for success for a company like yours.

You'll also better understand the key differences between self-funded and fully insured health plans, including how each might be impacted by health care reform. Finally, in the appendix you will find helpful checklists that highlight the value of self-funded solution, and help you compare within the context of health care reform.

Table of contents

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CU Benefits ALLIANCE

Definition and advantages of self-funding employee health benefits

Traditional self-funding is defined as when an employer pays for their own medical claims directly, while a third-party administrator administers the health plan by processing the claims, issuing ID cards, handling customer questions and performing other tasks. Companies with fewer than 250 employees can self-fund but will typically purchase stop-loss insurance. Stop-loss insurance limits the amount of claims expenses the employer's self-funded health plan is responsible for per covered individual per plan year (more on that in the second section). If claims are lower than predicted, the employer can save money directly, compared to paying the set monthly premium of a fully insured plan, while the stop-loss insurance policy puts a ceiling on the maximum amount the employer would pay in claims. Below is a quick summary of the major advantages of self-funding an employee health plan.

Advantage #1: Pay for actual claims – at a discount

The ability to pay for actual claims incurred by the employee is often the primary motivation for an employer to choose a self-funded health plan. If a smaller employer also invests in employee wellness programs and adopts consumer-driven health plans (like health plans compatible with health savings accounts), they have a greater opportunity to save more by helping to improve employee health and reducing overall claims.

In addition, securing large discounts from hospitals and health care professionals can help lower overall claim costs and can result in additional savings with a self-funded health plan. Similar to the story of the different airline passengers sitting on the same plane, going to the same location – one paid the full fare and the other paid a discount rate. You want to make sure you are getting the discount rate when possible.

Self-funding an employee health plan offers potential savings for many smaller employers.

Checklist item	Explanation and value	CUBA quote	Competitor quote
Opportunity to realize claims savings quickly and directly	A self-funded solution that includes strategies and programs to help reduce overall claims – such as health and wellness programs, disease management programs, consumer-driven health plans and care management for serious illnesses – can create the opportunity for your company to realize claims savings quickly and directly.	☑	❑
	A benefits administrator that can provide access to a large network of hospitals and health care professionals with competitive discounts without sacrificing quality or availability.	☑	❑

Advantage #2: Know what and where you are paying

Want to know how much is being spent on emergency room visits? Want to know what percentage of overall claims expenses have been out-of-network? Company-specific claims reports are available to help you understand exactly where health care dollars are being spent and the impact of wellness programs. It allows for more informed decision-making when considering benefit changes, and provides clear direction for what to include in employee messages about health, wellness and any upcoming health plan changes.

Checklist item	Explanation and value	CUBA quote	Competitor quote
Company-specific claims reports at no charge	A collection of company-specific claims reports – updated frequently – that contain actionable information, so you can design a health plan that meets the unique needs of your company, should be available at little or no charge.	☑	❑

Advantage #3: Offer the same plan across state lines

Most self-funded health plans are not subject to state health insurance coverage mandates. This allows an employer to offer the same coverage to employees in different states, allowing for consistency and easier administration. Also, self-funded health plans pay state taxes on stop-loss insurance premiums, compared to the full amount of premiums collected under a fully insured health plan, so premium taxes are lower.

Checklist item	Explanation and value	CUBA quote	Competitor quote
The same plan across state lines	A self-funded benefits administrator with a truly national footprint; so whether you have employees in Anchorage, Alaska or Zanesville, Ohio – you can offer the same coverage.	☑	❑

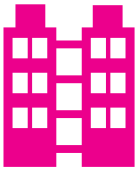
Advantage #4: Tailor your plan design

Another advantage of a self-funded health plan is the greater opportunity for smaller employers to tailor the health plan for their specific employees. State-mandated benefits are not for most self-funded plans and an employer can tailor a plan design beyond what most fully insured carriers have available "off the shelf."

Checklist item	Explanation and value	CUBA quote	Competitor quote
Tailored health plans	An expansive portfolio of health plan products – including consumer-driven health plans – each with numerous plan design options (deductibles, copays, annual limits, etc.) from which to tailor your company's health plan.	☑	❑

Advantage #5: Experience fewer surprises

With a fully insured health plan, it is typically 60 days prior to the effective date when the carrier delivers the renewal, before anything is known about current and future health care costs. And for smaller employers, data to explain or justify renewal increases is typically not available. A self-funded health plan allows the employer and the broker to see how the health plan performed throughout the year, so any renewal changes are not a surprise.



Self-funded companies see how their health plan performed, so any renewal changes are not a surprise.

Checklist item	Explanation and value	CUBA quote	Competitor quote
Experience fewer surprises	Accurate data through reports and financial statements about how the health plan is performing compared to expectations – available on an ongoing basis.	☑	❑

Common misperceptions of self-funding for smaller employers

Smaller employers can be hesitant to self-fund a health plan because such plans are perceived as only appropriate for large employers. However, there exists new and innovative products and services specifically designed for employers with fewer than 250 employees that can make a self-funded health plan a compelling option for employers with as few as 50 employees.[1]

Misperception: My company will be liable for a huge claim if one of my employees has a serious health issue.

Answer: Retain individual stop-loss insurance

With individual stop-loss insurance, when health claims reach a specific dollar limit in a plan year for a covered individual, the stop-loss insurance policy reimburses the employer's health plan for claim amounts above the individual stop-loss insurance limit. For example, if an employer has individual stop-loss insurance of $25,000 and an individual has $85,000 worth of claims, the stop-loss insurance policy would reimburse the employer's health plan $60,000. Additional claims for that individual for the plan year would also be reimbursed by the stop-loss insurance carrier. The cost of stop-loss insurance is a monthly premium, and there are a variety of stop-loss insurance dollar amounts from which to choose. For employers with fewer than 250 employees, CU Benefits offers stop-loss insurance with individual dollar limits that range between $10,000 and $75,000. Also, look for a health plan where the stop-loss insurance carrier reimburses the plan promptly when the stop-loss dollar limit is reached. Otherwise, your company could be responsible for covering the full amount of any excess claims until it's reimbursed under the stop-loss insurance policy.

Checklist item	Explanation and value	CUBA quote	Competitor quote
ISL dollar limits and immediate, automated reimbursement	Individual stop-loss insurance with a variety of different dollar limits and immediate, automated reimbursement for claims above the stop-loss insurance policy limits, so your company does not need to pay for claims above these limits.	☑	❑

Misperception: I won't be able to easily budget for claims expenses that change each month, and the additional financial risk will cause too much confusion and anxiety.

Answer: Retain aggregate stop-loss insurance

In addition to individual stop-loss insurance, smaller employers who want to self-fund their health plan should consider purchasing aggregate stop-loss insurance. Aggregate stop-loss insurance works similarly to individual stop-loss insurance, but – as the name implies – the reimbursement under the insurance policy is provided when the total health claims for a plan year reach a certain dollar amount (the aggregate stop-loss dollar limit). When reviewing aggregate stop-loss options, it is important to make sure your policy includes monthly reconciliation – otherwise your company may be required to fund all claims during the plan year and would not get reimbursed for excess claims until the end of the plan year. Monthly reconciliation helps to protect your company's cash flow by knowing the maximum claim liability each month in advance. Standard aggregate stop-loss levels are typically set at 20% or 25% higher than the employer's expected claim amounts.

Monthly reconciliation helps to protect your company's cash flow.

Checklist item	Explanation and value	CUBA quote	Competitor quote
ASL insurance reconciled monthly	Aggregate stop-loss insurance that is reconciled monthly.	☑	❑

Answer: Go innovative

Alternatively, there are some innovative self-funded products available that can appeal to a historically fully insured client, while at the same time providing the reporting advantages and potential financial advantages of a self-funded health plan. Some of these allow for the tailored plan designs and company-specific claims reports you expect from a self-funded health plan, combined with set monthly costs and an opportunity to share in surplus at the end of the plan year.

Checklist item	Explanation and value	CUBA quote	Competitor quote
Portfolio of self-funded solutions	A portfolio of self-funded solutions, including traditional pay-as-you-go options, as well as products that offer more predictability in monthly expenses alongside an opportunity to save money from a plan year reconciliation.	☑	❑

Misperception: My company is accustomed to a fully insured health plan and doesn't want to deal with the hodgepodge of different entities needed to do self-funding, such as a third-party administrator that is separate from the stop-loss insurance carrier.

Answer: Integrate, integrate, integrate

Many self-funded solutions involve a benefits administrator that processes the employer's health plan claims and a separate insurance company that issues the stop-loss insurance. This arrangement usually involves the administrator acting as the gatekeeper and allowing a choice of stop-loss insurance companies. A simpler option is an integrated solution where a single entity handles the claims administration and offers the stop-loss insurance.

Coverage gaps may include inconsistent or conflicting definitions in contractual provisions, eligibility rules or disclosure requirements between the medical plan documents and the stop-loss insurance policy. A common example is when the stop-loss insurance policy has a more restrictive definition of "experimental treatment" than the health plan documents. Claims for services that are covered under the medical plan may not be reimbursable under the stop-loss insurance policy, and the employer is required to pick up the additional cost – which can be substantial.

Checklist item	Explanation and value	CUBA quote	Competitor quote
Single company as administrator and stop-loss carrier	A single company that acts as both the benefits administrator and the stop-loss insurance carrier – ensuring definitions and rules of the medical plan documents mirror those of the stop-loss insurance policy – e.g., no coverage gaps.	☑	❑

An integrated solution also helps make transactions faster, more efficient and more secure, and avoids the separate fees that can surprise an employer. Once a claim is submitted in an integrated solution, it can be processed, applied to appropriate stop-loss insurance, paid, categorized and reported quickly by the connected systems. If a claim needs to be "adjusted" for overpayment or incorrect submission, corrections and reissue are a more streamlined process. And since medical claims contain protected health information that must be safeguarded, with fewer instances where this information must pass between different entities, the less likely privacy can be breached. Finally, since information does not need to travel between separate organizations, an employer will not face additional "setup" or "processing" fees throughout the year.

Checklist item	Explanation and value	CUBA quote	Competitor quote
Integrated self-funded solution	A truly integrated self-funded solution with fast claims payment and no additional or surprise administrative charges.	☑	❑

Key differences from fully insured health plans

Self-funding an employee health plan offers potential savings for many smaller employers. However, you should be aware of some of the key differences when considering transitioning from a fully insured product to a self-funded health plan.

Requirement #1: Claims risk

Employers enjoy immediate savings if their health plan claims total lower than expected, but can also experience increased expenses, up to the stop-loss insurance limits, if claims run higher than expected. This maximum claim liability is – on average – higher by a small percentage than the fully insured premium, and represents the worst-case scenario.[2] This maximum claims liability should be considered by the employer when deciding whether to self-fund their health plan.

Checklist item	Explanation and value	CUBA quote	Competitor quote
Clear estimate of the maximum claim liability	Your benefits administrator should be able to clearly estimate the maximum claim liability of a self-funded health plan and provide multiple stop-loss insurance policy limits and health plan design options to help lower the overall claims risk for the health plan.	☑	❑

Requirement #2: Terminal or run-out liability

If an employer elects to end their agreement with a particular benefits administrator, they still will need to budget for claims, stop-loss insurance premiums and administration services after the termination date – otherwise known as terminal liability. Claims that were incurred during the health plan year, but received after the termination date of the contract, still need to be paid by the employer.

Checklist item	Explanation and value	CUBA quote	Competitor quote
Estimates of terminal liability costs	Your plan's benefits administrator should be able to help manage payment for terminal liability costs easily as well as provide accurate estimates of what these terminal liability costs will be. You should consider setting aside dollars from the first plan year (when you'll typically have lower claims) to fund your terminal liability.	☑	❑

Requirement #3: Claims litigation liability

For fully insured health plans, the health insurance company is responsible for the vast majority of claim appeals decisions and subject to any litigation related to claims payment decisions. The benefits administrator for a self-funded health plan would be responsible for handling day-to-day coverage decisions, but may or may not make decisions related to claims appeals, depending on whether this responsibility has been delegated to the administrator. But a key difference between a fully insured health plan and a self-funded health plan, is that the employer sponsoring the plan is solely responsible for defending any lawsuits based on claim payment decisions. If a claim denial is ultimately overturned under a court's judgment, the employer is required to pay the amount of the disputed benefit, their own costs (including legal fees) and potentially the costs and legal fees of the plaintiff. Any claims that are required to be paid under the judgment still get applied to the stop-loss insurance limits as with any other covered claim. Although the vast majority of appeals are resolved in the multiple levels of appeal, which may include the option of an external review, it is important for companies to understand their claims litigation liability under a self-funded health plan.

Checklist item	Explanation and value	CUBA quote	Competitor quote
Administrator handles all claims appeals and legal support	Your benefits administrator should be able to timely handle all claims appeals as well as support your company with data, in-house legal expertise and any additional information needed to manage litigation that, although relatively rare, could arise under a self-funded health plan.	☑	❑

Self-funding employee health benefits and health care reform

The Patient Protection and Affordable Care Act ("health care reform") created several changes for smaller companies that offer health benefits coverage to their employees. Self-funded health plans are impacted by many of the same legislative provisions as a fully insured product, but there are some provisions and requirements where a self-funded health plan is exempt. Here is a limited list of some of the notable similarities and differences of health care reform's impact on a self-funded health plan compared with a fully insured health plan.

Similarity #1: Employer Mandate, CERF and Reinsurance fees

Employers with 50 or more full-time employees, or full-time equivalents, must offer coverage to full-time employees and their children to age 26 or they may pay penalties. Coverage must provide "minimal value" and be "affordable" as defined in the legislation. This requirement to offer coverage applies to employers offering either fully insured or self-funded health plans beginning 2015. Other requirements of employers offering either fully insured or self-funded health plans is to pay the annual Reinsurance Assessment fee through 2016 and the Comparative Effectiveness Research Fee (CERF) through 2019.

Checklist item	Explanation and value	Fully insured	Self-funded
Mandate, CERF and Reinsurance	Employer must offer coverage to full-time employees and their children to age 26 or they may pay penalties. Pay the annual Reinsurance fee and CERF.	☑	☑

Similarity #2: Out-of-pocket maximum rules

In-network out-of-pocket maximums cannot exceed $6,850 individual/$13,700 family in 2016.
Also starting in 2015, the family out-of-pocket maximum cannot be more than two times the individual maximum. This coverage requirement applies to both fully insured and self-funded health plans.

Checklist item	Explanation and value	Fully insured	Self-funded
OOP maximum	Out-of-pocket maximums cannot exceed $6,850 individual/$13,700 family in 2016 or family cannot be more than two times the individual maximum in 2016.	☑	☑

Similarity #3: No preexisting condition limit and 90-day waiting period

Preexisting conditions limitations must be removed for all participants regardless of age. Employers cannot have more than a 90-day waiting period before coverage begins for eligible employees.

Checklist item	Explanation and value	Fully insured	Self-funded
No preexisting and 90-day waiting period	Pre-existing conditions limitations must be removed. Employers cannot have more than a 90-day waiting period.	☑	☑

Closing

Smaller employers have been reluctant to self-fund their health benefits due to the mis-perception that self-funding only works for large companies – though this is no longer true when considering the stop-loss insurance and innovative self-funding options that are available today. The many advantages of a self-funded health plan, while recognizing key differences from a fully insured health plan, can make this option a smart long-term strategy for employers looking to save money on their employee health plan.

Appendix (This checklist evaluates other self-funding products with stop-loss administrators v/s CUBA's products and services)

Checklist item	Explanation and value	CUBA quote	Competitor quote
Definition and advantages of self-funding employee health benefits			
Opportunity to realize claims savings quickly and directly	A self-funded solution that includes strategies and programs to help reduce overall claims – such as health and wellness programs, disease management programs, consumer-driven health plans and care management for serious illnesses – can create the opportunity for your company to realize claims savings quickly and directly. A benefits administrator that can provide access to a large network of hospitals and health care professionals with competitive discounts without sacrificing quality or availability.	☑ ☑	❑ ❑
Client-specific claims reports at no charge	A collection of company-specific claims reports – updated frequently – that contain actionable information so you can design a health plan that meets the unique needs of your company, should be available at little or no charge.	☑	❑
The same plan across state lines	A self-funded benefits administrator with a truly national footprint; so whether you have employees in Seattle, Washington or Dallas, Texas – you can offer the same coverage.	☑	❑
Tailored health plans	An expansive portfolio of health plan products – including consumer-driven health plans – each with numerous plan design options (deductibles, copays, annual limits, etc.) from which to tailor your company's health plan.	☑	❑
Experience fewer surprises	Accurate data through reports and financial statements about how the health plan is performing compared to expectations – available on an ongoing basis.	☑	❑
Common misperceptions of self-funding for smaller employers			
ISL dollar limits and immediate, automated reimbursement	Individual stop-loss insurance with a variety of different dollar limits and immediate, automated reimbursement for claims above the stop-loss insurance policy limits, so your company does not need to pay for claims above these limits.	☑	❑
ASL insurance reconciled monthly	Aggregate stop-loss insurance that is reconciled monthly.	☑	❑
Portfolio of self-funded solutions	A portfolio of self-funded solutions, including traditional pay-as-you-go options, as well as products that offer more predictability in monthly expenses alongside an opportunity to save money from a plan year reconciliation.	☑	❑
Single company as administrator and stop-loss carrier	A single company that acts as both the benefits administrator and the stop-loss insurance carrier – ensuring definitions and rules of the medical plan documents mirror those of the stop-loss insurance policy – e.g., no coverage gaps.	☑	❑
Integrated self-funded solution	A truly integrated self-funded solution with fast claims payment and no additional or surprise administrative charges.	☑	❑

Appendix (continued)

Checklist item	Explanation and value	CUBA Quote	Competitor Quote
Key difference from fully insured health plans			
Clear estimate of the maximum claim liability	Your benefits administrator should be able to clearly estimate the maximum claim liability of a self-funded health plan and provide multiple stop-loss insurance policy limits and health plan design options to help lower the overall claims risk for your health plan.	☑	❑
Estimates of terminal liability costs	Your plan's benefits administrator should be able to help manage payment for terminal liability costs easily as well as provide accurate estimates of what these terminal liability costs will be. You should consider setting aside dollars from the first plan year (when you typically have lower claims) to fund your company's terminal liability.	☑	❑
Administrator handles all claims appeals and legal support	Your benefits administrator should be able to timely handle all claims appeals as well as support your company with data, in-house legal expertise and any additional information needed to manage litigation that, although relatively rare, could arise under a self-funded health plan.	☑	❑

Checklist item	Explanation and value	Fully Insured	Self Funded
Mandate, CERF and Reinsurance	Employer must offer coverage to full-time employees and their children to age 26 or they may pay penalties. Pay the annual Reinsurance fee and CERF.	☑	☑
OOP maximum	Out-of-pocket maximums cannot exceed $6,850 individual/$13,700 family in 2016 or family cannot be more than two times the individual maximum.	☑	☑
No preexisting and 90-day waiting period	Preexisting conditions limitations must be removed. Employers cannot have more than a 90-day waiting period.	☑	☑
Essential health benefits	Fully insured health plan must offer "essential health benefits" without annual or lifetime dollar limits.	☑	❑
Insurance industry fee	Annual fee paid by insurance companies estimated to increase premiums by as much as 4% in future years.	☑	❑
Rating standards	For small groups, insurance companies may vary premiums based on age, tobacco, family size and geographic area, but not on health status of employees, gender or industry.	☑	❑

1. CU Benefits offers group health insurance coverage to employers with 51-500 employees, as well as administrative services for self-funded plans. In most states, CU Benefits uses a TPA or carrier to administer self-funded plans to employers with as few as 50 employees.
2. For additional details on the difference between the typical fully insured health premium and self-funded health plan maximum liability, please ask your CU Benefits representative.

Contact us at 877-674-7555

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