Smarter benefits for a smart workplace.

Comprehensive Guide to Evaluating Self-Funded Health Plan Strategies

Stop-loss contract essentials

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From our founder

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As the founder of Keenly, I've seen firsthand how navigating self-funded health plans can feel overwhelming, especially when it comes to understanding the nuances of stop-loss contracts, selecting the right TPA, and exploring advanced strategies like captives. There's always more to learn and opportunities to optimize your approach to self-funding.

This guide is designed to be a comprehensive resource for professionals already familiar with self-funding concepts, but that breaks down the jargon and the complexities of self-funding, making it accessible and actionable.

The ability to customize your health benefits to meet the unique needs of your workforce can impact employee satisfaction and overall costs. But it also requires a keen understanding of the risks involved, from choosing the right stop-loss coverage to managing high-cost claims. This guide provides practical insights and best practices that will empower you to make informed decisions and feel confident in your role as a plan sponsor.

The healthcare landscape is constantly evolving, and staying ahead means continually reassessing your approach and being open to new opportunities. At Keenly, we believe in empowering employers with the knowledge and tools they need to create sustainable, effective benefits programs that truly support their teams and business goals.

Lindsay Clarke Youngwerth

Comprehensive guide to evaluating your stop-loss contract and self-funded plan management

Navigating the complexities of stop-loss contracts and self-funded welfare benefit plans requires a thorough understanding of your coverage and administrative partners. Here are key elements to review and questions to ask when evaluating your stop-loss contract and TPA agreements:

02 CONTRACT CONSIDERATIONS

Key considerations for your stop-loss contract

Terminal Liability Option (TLO)

- **Definition:** TLO provides coverage for claims incurred but not paid during the policy term. This extension protects against claims run-out after the stop-loss contract terminates, giving additional time to pay claims without incurring extra costs.
- **Consideration:** Verify if your contract includes a TLO option and understand its terms and costs, especially if there are anticipated changes in your funding structure or plan termination.

Specific advance

- **Review:** Check if your policy includes a specific advance option and the conditions for its utilization

Post-plan year liability

- Understand your liability for claims incurred during the plan year but submitted after the contract ends. Review contract terms carefully to understand how this liability is managed.

Monthly accommodation

- **Definition**: Monthly accommodation provides interim reimbursements for aggregate claims exceeding the monthly threshold, aiding in cash flow management throughout the plan year.
- **Consideration:** Determine if your contract includes this feature and how it impacts your financial obligations.

Leave policies and stop-loss

- Confirm that your stop-loss company understands and accommodates your leave policies, as these can impact eligibility and claims under the contract.

Coverage of both pharmacy and medical claims

- Ensure your stop-loss policy includes both medical and pharmacy claims. Exclusions or limitations in pharmacy coverage can result in unexpected financial exposure.

Specific advance

- **Definition:** A specific advance allows for immediate reimbursement of large claims exceeding the specific deductible, even if the plan has not yet paid it. It supports cash flow management for high-cost claims.

Coordination of Benefits (COB)

- **Definition**: COB determines how the stop-loss policy responds when a participant has other insurance coverage. Understand how COB is handled to avoid unexpected gaps in coverage.
- **Review**: Ensure the contract defines how COB affects stop-loss claims and primary vs. secondary payments.

Consistency between contract and plan document

- Verify that your stop-loss contract and plan document are consistent regarding coverage and liability. Any discrepancies could lead to denied claims or uncovered liabilities.

Liability beyond premium payments

- Confirm if there is any liability for claims beyond what is covered by your monthly premium payments. Understanding this exposure is crucial for accurate budgeting and risk management.

Impact of audits on aggregate accommodation

- Be aware that audits can impact aggregate accommodations. Audits might reveal discrepancies in claims reporting, which can affect the final settlement under the stop-loss contract.

Aggregating Specific Deductible (ASD)

Definition: An ASD is an additional layer of deductible applied after the specific deductible has been met for all high-cost claims combined. This means that the employer must pay a certain amount before the stop-loss coverage kicks in, even after meeting individual-specific deductibles.

Additional considerations for reviewing stop-loss contracts

Handling of access reserve funds

- For non-level funded plans, clarify the process for managing access reserve funds at the end of the contract term and ensure that funds are managed according to contract terms.

Contract renewal terms and conditions

- Confirm if there are any automatic renewal provisions or if you have the option to renegotiate terms each year. Be clear about the process for renegotiation and any conditions that might lead to changes in terms or premiums.

Exclusions and limitations

- Carefully review all exclusions and limitations in the policy. This includes any caps on coverage, pre-existing condition clauses, and limitations on specific types of treatments or medications. Understanding these exclusions is critical to prevent unexpected financial exposure.

Contract types: Incurred vs. paid vs. no new laser contracts

- **Incurred contract:** This type covers claims incurred during the policy period, regardless of when they are paid. It can offer more protection, especially for high-cost claims that may take time to process.

- **Paid contract**: This type covers claims paid during the policy period, regardless of when they were incurred. This type may limit coverage for large claims incurred near the end of the policy period but paid later.

- **No new laser contracts:** Ensure the stop-loss policy includes a “no new laser” clause, meaning the carrier cannot assign a higher specific deductible to individuals who experience high claims during the policy period when the contract is renewed.

Stop-loss carrier financial strength and ratings

- Assess the stop-loss carrier's financial strength and ratings. A carrier with strong financial ratings is more likely to be reliable in paying claims, particularly during high-claim years.

Run-in and run-out claims provisions

- **Run-in claims:** Claims incurred before the start of the stop-loss policy but paid after it begins.
- **Run-out claims:** Claims incurred during the policy period but paid after it ends. Ensure your policy provides adequate coverage for these claims, especially if you're considering a plan change.

Custom endorsements and amendments

- Look for any custom endorsements or amendments specific to your plan. These could alter standard policy provisions and might include unique terms negotiated for your group. Ensure you understand their implications on your overall coverage.

Examples of custom endorsements and amendments

Rx specialty drug carve-out endorsement

- **Example:** An endorsement could exclude certain high-cost specialty drugs from stop-loss coverage, requiring the employer to use a separate risk management solution, such as a drug manufacturer’s patient assistance program.

Gap fill endorsement for employee leaves of absence

- **Example:** An amendment could extend coverage to include claims incurred by employees on a leave of absence (e.g., FMLA, short-term disability) that would otherwise be excluded once the employee is no longer considered actively at work.
- **Impact:** Provides continuous coverage for employees during leaves, reducing the risk of large claims being excluded from stop-loss reimbursement due to a technicality in employment status.

Best practices for evaluating TPAs for self-funded plans

Choosing the right Third Party Administrator (TPA) is critical for employers managing self-funded health plans. The TPA will handle claims administration, compliance, and overall plan management, so selecting one that aligns with your organization's goals and needs is essential. Here are the best practices to consider when evaluating potential TPAs:

Key evaluation criteria for TPAs

Expertise in self-funding and industry experience

- Assess the TPA's experience in administering self-funded health plans, particularly in your industry or for organizations of a similar size and complexity.

Range of services and flexibility

- Ensure the TPA offers a comprehensive range of services, including claims processing, plan design support, compliance assistance, and data analytics.
- Evaluate their ability to customize services to meet your specific requirements, such as integrating wellness programs, direct contracting, or specialty carve-outs.

Data management and reporting capabilities

- Ensure they offer robust reporting tools, such as dashboards or custom reports, that allow you to track key metrics and make data-driven decisions.

Questions to ask:

- Who will manage your plan's 5500 reporting?
- Will the TPA handle ACA, PCORI, GAG clause attestations, COBRA, and RxDC reporting requirements?
- How will the TPA assist with nondiscrimination testing?

Key evaluation criteria for TPAs

Member experience and support

- Assess the TPA's approach to member support, including the availability of customer service representatives, response times, and satisfaction metrics.
- Consider TPAs that offer dedicated account managers and support teams for your organization to ensure consistent and personalized service.

Claims processing accuracy and efficiency

- Request information on the TPA's claims processing accuracy and turnaround times, including how they handle complex claims, appeals, and coordination of benefits.
- Understand their procedures for managing large claims, subrogation, and reimbursement under stop-loss policies.

Financial and fiduciary accountability

- Confirm that the TPA operates with transparency and maintains strong fiduciary responsibility in managing plan assets. This is critical for safeguarding your plan's financial health.
- Ask about their process for managing claims funds, handling refunds, and providing transparency in financial transactions.

Leveraging captives for self-funded programs

What is a captive?

- A captive is an insurance company formed by one or more employers to provide coverage for their own risks. It allows participants to pool their risks and manage health plan costs more effectively.

Types of captives

- **Single-parent captives**: Owned by one organization to insure its own risks.
- **Group captives:** Formed by multiple employers to share risk and resources.
- **Rent-a-captives:** Allow employers to participate without ownership, providing a flexible entry point.

Benefits of joining a captive

- **Greater control:** Offers more flexibility in plan design and risk management.
- **Cost stabilization:** Helps reduce premium volatility and achieve more predictable costs.
- **Profit sharing:** Participants may share in the underwriting profits when claims are lower than expected.

Considerations when joining a captive

Fit with organizational goals

Ensure that joining a captive aligns with your organization's long-term goals for risk management, cost control, and employee benefits strategy.

Commitment to participation

Captives typically require a multi-year commitment. Evaluate your organization's ability to meet this obligation and participate actively in the governance of the captive.

Financial stability and capital requirements

Understand the captive's financial stability and any capital requirements for participation. This may include an initial investment or ongoing contributions to maintain the captive's solvency.

Risk sharing and loss experience

Be aware that joining a captive means sharing risk with other participants. If your loss experience significantly differs from the group, it could impact your costs and profit-sharing potential.

Regulatory and compliance considerations

Captives are subject to regulatory oversight, which can vary by domicile. Ensure the captive complies with all applicable laws and regulations and understand your organization's responsibilities.

Decoding health insurance jargon

Affordable Care Act (ACA)

A comprehensive health care reform law enacted in 2010. It requires employers with 50 or more full-time employees to offer affordable health insurance. The ACA sets rules for what must be covered in health plans and imposes penalties for non-compliance.

Consolidated Appropriations Act (CAA)

A law passed in 2020 that includes new rules for health plans. It requires more transparency around health care costs, stops surprise billing, and sets new requirements for reporting on mental health benefits, drug costs, and more.

Stop-loss insurance

A type of insurance that protects self-funded plans from very high claims. It kicks in when a single claim or the total of all claims goes over a certain amount, helping the employer avoid unexpected big expenses.

Specific deductible

The maximum amount the employer has to pay for any single person's claims before stop-loss insurance starts to pay. If a claim doesn't reach this amount, the stop-loss coverage won't apply.

Laser

A higher specific deductible set for one particular person with known high health costs. For example, if everyone else has a $100,000 deductible, but one person has a $200,000 deductible due to a chronic condition, that's a laser.

Terminal Liability Option (TLO):

Extra protection that covers claims incurred during the plan year but not paid until after the plan year ends. This helps prevent unexpected costs if the plan ends or the employer switches stop-loss carriers.

Run-in and run-out claims

- Run-in claims: Claims made before the stop-loss policy starts but paid after it begins.
- Run-out claims: Claims made during the policy period but paid after it ends. Important to ensure smooth transitions between policies.

Monthly accommodation

A provision in some stop-loss contracts that provides partial reimbursements throughout the year if total claims are higher than expected, helping manage cash flow.

Coordination of Benefits (COB)

Determines how claims are paid when someone has more than one insurance plan, ensuring there's no overlap or overpayment.

Third Party Administrator (TPA)

A company hired by the employer to handle day-to-day tasks like processing claims, managing data, and ensuring the plan complies with legal requirements.

Captive insurance

An insurance company created by a group of employers to cover their own risks. By joining together, they can reduce costs, stabilize premiums, and share any profits if claims are lower than expected.

Aggregating Specific Deductible

An additional deductible layer that the employer must pay in total across all claims before stop-loss insurance starts covering any individual claims.

Pre-certification

A requirement to get approval from the insurer before undergoing certain expensive treatments or procedures. This helps control costs and ensures treatments are medically necessary.

Plan Document

The official description of what's covered under the health plan. It's crucial that this document matches what's in the stop-loss contract to avoid coverage issues.

5500 filing

An annual report that self-funded plans must file with the government to show they're complying with rules and regulations.

HIPAA

A set of laws that protect the privacy of health information. It's important for TPAs and employers to follow these rules when handling employee health data.

In closing

Managing a self-funded health plan requires careful consideration of many factors, from selecting the right TPA to ensuring robust stop-loss coverage and exploring innovative risk management solutions like captives. By following these best practices and leveraging your experience and data, you can optimize your health plan, protect your organization from financial risk, and provide valuable benefits to your employees.

Reach out with any questions!

Please reach out if you'd like to discuss how these strategies can be tailored to your organization's needs. We're here to help you navigate the complexities of self-funded health plans and achieve your goals.

Thanks for reading!

For more resources visit our website,
KeenlyBenefits.com

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