Expert Perspective

A conversation with:

Scott Avery
Vice President, Stop Loss, Optum

Taking the worry out: Transitioning from fully insured to self-funding and stop loss

This is the first in a series of interviews with Optum experts for brokers and other professionals serving the mid-sized market. Here we interview Scott Avery about self-funded health plans and stop loss insurance and easing the transition from fully insured to self-funding.

Q: How does self-funding work and what role does stop loss insurance play?

Scott Avery: Self-funding, or self-insurance, is an arrangement in which an employer assumes the financial risk for funding and payment of eligible health care claims, instead of an insurance company. The employer sets aside funds to pay for claims on an ongoing basis. Self-insured plans cover 63 percent of workers who have health coverage.[1]

A third-party administrator (TPA) operates the plan, so it looks the same as a fully insured plan to employees. The TPA handles all the traditional administrative services associated with a medical benefits plan, including maintaining eligibility, paying claims, billing and reporting.

Because the liability associated with claims can be unpredictable and potentially very large, employers purchase stop loss insurance from a carrier to protect them from claims above a certain dollar threshold. That amount is the stop loss deductible. Claims over the deductible are reimbursed by the stop loss carrier to the employer.

Stop loss insurance can protect against unexpectedly high individual claims (specific stop loss) or against aggregate claims of the entire group (aggregate stop loss). This enables employers to limit their financial exposure.

How self-funded health plans work:

You're in control
You control the design, administration and funding of the health benefits

Choose your benefits
You choose the benefits to cover and at what level

Pay only what you owe
Pay eligible claims

Add services
You decide what added services to include in your benefit plan, such as stop loss, wellness, and/or a health savings account.

Q: Why has there been an uptick in self-funding recently among mid-sized employers?

Scott Avery: As the marketplace continues to evolve in response to health care reform, we've seen increased interest among mid-sized firms in self-funding. At Optum, we've seen a 12 percent increase in fully insured groups looking for a self-funding option in the past three years, with nearly all of this activity generated by groups of 500 or fewer. During that same period, our sold cases from groups moving from fully insured increased 16 percent.

Three key factors are driving this trend:

- After several years of historically low growth, health care spending is again, on the rise. National health care spending increased 5.5 percent last year, and is projected to average 5.8 percent through 2024, according to the U.S. Centers of Medicare and Medicaid Services.[2] At the same time, nearly one quarter of employers report double-digit health plan premium increases.[3] A growing number of employers recognize that self-funding may enable them to better control costs compared with a fully insured plan.
- The Affordable Care Act includes several taxes and fees on insurers and employers who provide health coverage to their employees. Self-insured plans and stop loss coverage, however, are subject to fewer of these measures.
- With increased state and federal regulation over fully insured plans, employers see self-funding as a way to assume more control over the benefits they offer their employees.

Q: What size and types of employers are good candidates for self-funding?

Scott Avery: There is no one-size-fits-all formula for determining whether a particular employer should self-fund. As a general rule, however, groups with a minimum of 50 lives should consider self-funding. Risk tolerance and cash flow are also important considerations.

To determine whether self-funding makes sense, conduct a total cost analysis. Compare a fully insured premium to the maximum liability the employer faces under self-funding. Include both fixed and variable expenses:

- For fully insured employers, fixed expenses are the monthly premiums
- For self-funded employers, fixed expenses include stop loss premiums (generally a fraction of fully insured premiums), administrative and variable expenses (the level of claims a self-funded employer pays each month, which will fluctuate)

Self-funded companies with few claims will have low variable expenses; when combined with the stop loss premium and administrative expenses, the total cost to self-fund may be less than the cost of being fully insured.

Conversely, an employer with high claims volume might expect self-funding to be more costly than the fully insured premium. But that's where stop loss protection plays a key role. By capping total exposure, stop loss coverage can make self-funding cost efficient, even for groups with high claims experience. The best candidates for self-funding are employers that want to be actively involved in the management of their plan. If you want to control claims expenses and manage health care costs, you must be engaged.

Optum helps self-funded employers meet that goal by offering a wide variety of programs to help people get healthy, stay healthy and manage their health care finances. Those include wellness, disease management and managed transplant programs, and consumer-directed health arrangements such as health savings accounts (HSAs).

Self-funded employers must also be willing to partner with trusted advisors and vendors who can help manage their population's health. Self-funding is not a one-stop shopping exercise. Putting together the plan best suited to your population may involve several parties, including an administrator, stop loss carrier and wellness company.

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Q: What concerns do employers have about self-funding and how does Optum address them?

Scott Avery: For some employers, the decision to switch to self-funding may raise concerns, including how to manage ongoing claims, control health care costs and minimize exposure to catastrophic claims.

Optum stop loss insurance can be tailored to an employer's needs for coverage terms, premium levels and risk tolerance. For example, we offer options for smaller groups that cap their monthly liability.

For employer groups of 50–200 lives currently under a fully insured plan, Optum offers a special program to ease the transition to self-insurance. Some features of the program:

- A lower deductible for specific stop loss coverage protects employers against significant aggregate risk
- 90-day run-out coverage to provide protection if the group moves back to a fully insured plan
- Advance reimbursement is available when needed for individual claims
- Aggregate stop loss (for the entire group) can be advanced weekly instead of at year-end if paid claims exceed expectations

To get maximum protection, and to alleviate the stress in transitioning to self-funding, smaller employers typically purchase both specific and aggregate stop loss coverage. Thus, they are protected against high cost catastrophic claims by individuals, as well as a high volume of lower dollar claims among the entire group.

We generally recommend a fairly low stop loss deductible in the first year of self-insurance. While this strategy triggers a higher stop loss premium, employers' risk exposure is less. As employers become more comfortable taking on risk over time, they may take on a higher deductible, which lowers the premium.

Another way we ease the financial burden is by offering employers with excellent claims history a refund of their stop loss premium — up to 15 percent upon renewal. More than half of our customers are eligible for refunds annually.

Q: How can brokers help their clients avoid pitfalls when choosing a stop loss plan?

Scott Avery: I will highlight two of the more important areas to consider when selecting a plan:

- Exclusions/definitions: Brokers must carefully compare stop loss policies and understand definitions, exclusions, timeframes for submitting claims and other key provisions. The stop loss policy language should match the provisions in the employer's health benefit plan. No employer wants a high-cost claim rejected as a result of inconsistent definitions or exclusions between its plan and the stop loss policy.

  To avoid these unpleasant surprises, Optum stop loss policies are designed to follow the employer's health plan document. Also, our policies contain relatively few definitions and exclusions, which helps bring peace of mind to self-funded employers. Of the millions of dollars in stop loss reimbursement requests to Optum in 2015, less than 1 percent was denied due to the terms of our stop loss contract.

- Gaps in coverage: Brokers should also exercise due diligence when examining stop loss carriers' renewal practices. Consider the following real-life example. Optum was the stop loss carrier for a professional services company with approximately 100 lives. The group had a"12/15" incurred contract, meaning that if it didn't renew the stop loss policy after the first year, coverage for claims paid would still continue an additional three months. Since the contract term was July 1, 2014–June 30, 2015, the benefit period extended to September 30, 2015. The group selected another stop loss carrier and terminated the Optum policy on June 30, 2015, and therefore had coverage for eligible claims paid until September 30, 2015 (3-month run-out period).

  However, due to delays by the administrator in paying claims during the run-out period, the company paid over $100,000 in claims after September 30, 2015. These claims were ineligible for reimbursement under the Optum contract and the new stop loss carrier's contract. However, if the group had renewed its coverage with Optum, there would have been no gap in coverage because our 12/15 gapless contract extends the previous year's paid benefit period from 15 months to 24 months upon renewal.

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Q: How does the Optum wellness solution for mid-sized employers support the decision to self-fund?

Scott Avery: Since employers bear the financial risk of employees' health claims, self-funded employers have a vested interest in promoting their employees health and well-being. A healthier workforce generally leads to fewer claims, lower costs and greater productivity over time. The comprehensive wellness solution from Optum helps self-funded mid-sized groups encourage their workforce to be more engaged in their health through:

- Biometric screenings
- Rally wellness portal
- Wellness coaching
- HSAs

This turnkey program helps employers foster a culture of health at work. By providing a single, engaging platform to drive wellness, the solution creates a unified experience for employees.

Closing thoughts:

"Mid-sized employers are concerned, understandably, about whether they will be able to budget for health care claims if they move from fully insured to self-insured. To help ease that transition, Optum offers a wealth of tools and options including stop loss insurance that can be customized to meet employers' particular needs, and wellness solutions that promote healthy behaviors among employees."

- **Scott Avery**, Vice President, Stop Loss, Optum

Notes

1. Henry J. Kaiser Foundation. 2015 employer health benefits survey. Sept. 22, 2015. kff.org/report-section/ehbs-2015-summary-of-findings/. Accessed April 12, 2016.
2. Keehan SP et al. National health expenditure projections, 2014–24. *Health Aff.* August 2015. content.healthaffairs.org/content/34/8/1407. Accessed April 12, 2016.
3. Arthur J. Gallagher & Co. 2015 benefits strategy and benchmarking survey. sc.pages05.net/lp/29286/545284/2015%20Benefits%20Strategy%20%26%20Benchmarking%20Survey%20%20Executive%20Summary%20%26%20Strategic%20Insights%20with%20Addendum.pdf

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