School Administrator's Guide: Protection in Self-Funded Plans

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A Stop Loss Insurance Primer

Protection Against High-Dollar Claims for Self-Funded School District Health Benefit Plans

Abstract: For some self-funded school districts, protection against extreme losses is paramount to protecting the plan. In this white paper, we explain what Stop Loss insurance includes, how it is priced, and how to determine the right levels of coverage.

Stop Loss And Self-Funding—An Overview

It is important to understand the relationship between self-funding and Stop Loss before providing you with the details of Stop Loss itself. Here is a brief overview of how self-funding works and the role of Stop Loss:

1. A school district opts to self-fund its employee benefit plan and utilizes a broker or third-party administrator (TPA) to customize its plan based on collectively bargained agreements and administrative goals.
2. The broker and/or TPA recommends the appropriate Stop Loss plan for the district based upon the district's size, location, benefit plan, financial strength, claims experience, and risk tolerance.
3. The TPA creates a formal plan document outlining the district's benefit plan.
4. The TPA administers the district's plan which may include: network management, benefit consultation, reviewing and paying claims, maintaining plan compliance, medical management, cost containment, and overall plan administration.

What Is Stop Loss Insurance?

Stop Loss is an insurance product that protects self-funded organizations from the risk of unforeseen losses and extraordinarily large claims.

Stop Loss insurance places a ceiling on the financial exposure of the organization in two ways: specific and aggregate.

Specific Stop Loss insurance provides protection to the organization against a high claim for any one individual. A deductible amount, per person, is determined prior to the contract start date. The school district is responsible to pay the determined deductible amount on each covered individual. If the eligible expenses of the individual exceed the deductible, the school district is, from that point forward, reimbursed by the Stop Loss carrier.

Specific Stop Loss reimbursements are not subject to the end of the contract period and can be issued as soon as the district meets the deductible. Deductible changes, if any, and premium rates are determined at each contract renewal period.

Aggregate Stop Loss insurance caps the total amount of eligible expenses the district pays, in total, during the policy period. Protection is thus provided based on the accumulation of eligible expenses on all individuals as opposed to on one specific individual. Aggregate policies are normally coupled with specific Stop Loss coverage. Factors that influence the deductible amount, aggregate deductibles and rates are determined at each contract renewal period.

When contracting for an aggregate Stop Loss policy, the district will be asked to meet a determined deductible amount plus a margin, which is an additional amount beyond the deductible. This margin is usually between 10% and 25% of the expected claims amount. Once the annual aggregate deductible is exceeded, the district is reimbursed for eligible expenses incurred during the policy period. The aggregate claim is reimbursed after the close of the contract period.

Most self-funded school districts use a combination of specific and aggregate Stop Loss coverage to protect their plans.

SPECIFIC STOP LOSS	AGGREGATE STOP LOSS
• Provides coverage for each covered individual. • Claims are reimbursed by Stop Loss carrier once deductible is met. • Can be purchased without aggregate Stop Loss.	• Provides coverage on the accumulation of expenses for all individuals. • Claims are reimbursed by Stop Loss carrier once the deductible is met and only after the end of the contract period. • Commonly purchased with specific Stop Loss insurance.

Types Of Stop Loss Insurance Contracts

Stop Loss contracts are most commonly offered on an incurred and paid basis. Contracts are generally written for a policy period of 12 months and include criteria for reimbursement that depend on when claims are incurred and/or paid.

Incurred refers to the date at which a service is actually rendered. **Paid** refers to the date at which the employer actually pays an expense. For example, a member may be admitted to a hospital for a procedure that is billed at a later date. The incurred claim occurs on the date the procedure was done; the paid claim occurs on the date the plan issues payment to the provider.

The following are examples of some common specific Stop Loss contract variations:

Incurred in 12 months and paid in 12 months (12/12): A contract on this basis stipulates that, in order to be reimbursed under the Stop Loss policy, any claims incurred within the 12-month period must also have been paid by the plan during the same 12-month period. This is also referred to as a 12/12 contract. Appealing to self-funded school districts, 12/12 contracts allow organizations to utilize a reserve of funds that can occur in a positive claim year to pay the previous year's claims.

Incurred in 12 months and paid in 15 months (12/15): This variation provides additional coverage to a school district at the end of the contract period to allow for the lag time in the receipt and payment of claims incurred during the policy period. Coverage is provided for eligible expenses that are incurred during the contract period and are paid by the plan either during the contract period or the three months immediately following.

Incurred in 15 months and paid in 12 months (15/12): Another option to address the lag time in the receipt and payment of claims, a 15/12 provides coverage for expenses that are incurred three months before the effective date of the contract and paid during the contract period.

Paid: This contract type covers any eligible claims paid in the contract period no matter when the claims were incurred.

There are many variations to Stop Loss contracts. Your broker and/or TPA will discuss your district's needs to present you with the best contract option.

Stop Loss Rate Influencers

These are some of the factors that the Stop Loss insurance provider may take into account when quoting a policy:

- **Growth:** Generally, the more employees in a plan, the more capable the district is of funding a large-dollar claim.
- **School District claims history is correct:** Past utilization of health care, as well as trends in usage, have a strong influence on rates.
- **Age of employee population:** Younger groups of employees, older groups of employees, or a mix of the two will have generalized utilization patterns that will influence rates.
- **Gender of employee population:** At different life stages, men and women differ in whether they are expected to generate more or fewer claims.
- **Geographical area**: Health care costs are higher in some areas of the country, state, city, than others.
- **Industry**: Some organizations are inherently more likely to have higher claims due to type of lifestyle associated with the industry.
- **Plan design**: Some school districts provide extensive benefits based on collectively bargained agreements. The more extensive the benefits, the greater the risk to the Stop Loss insurer that claims will exceed the deductible.
- **Margin**: Selecting a greater margin, or level of risk, to be borne by the school district lowers the rate of insurance. Also referred to as the corridor.

Determining The Right Level Of Insurance And Deductible

The most cost-effective Stop Loss insurance plan provides enough coverage so that the school district does not risk being unable to pay claims. At the same time, it limits the amount of coverage to what is necessary. Your broker and/or benefit administrator will utilize their expertise to help you determine the most appropriate balance, and thus contract basis, for your district.

What To Expect From A Third-Party Administrator

TPAs can provide expertise in every aspect of a self-funded plan. The best TPAs offer fully integrated services that include defining, obtaining, and managing Stop Loss insurance. To accomplish this, the TPA may offer the following services:

- Review of employee census, self-funded plan design, and claims history
- Assistance in the determination of the right level of Stop Loss insurance
- Identification of the most cost-effective deductible levels for specific and aggregate coverage
- Recommendation of contract type
- Vetting of insurance carriers
- Sourcing of quotes from reputable carriers
- Processing of claims to the Stop Loss policy
- Tracking and notifying Stop Loss carriers when potentially large claims are identified

Common Terms

Eligible expenses: The organization can select eligible expenses for the self-funded school district health care plan, including such things as dental, vision, prescription drug, and wellness benefits. The Stop Loss insurance plan may define eligible expenses differently and may not cover everything covered under the district's plan, resulting in reimbursement reductions or denials of claims.

Self-funding: The method of a school district employee claim costs directly with a Stop Loss carrier.

Self-insurance: The method of a school district funding employee claim costs without a Stop Loss carrier and assuming 100% of the risk.

Plan document: The detailed description of benefits under which the school district benefit plan is administered. The plan document includes all of the determined eligible expenses that are covered by the Stop Loss policy.

Paid claim: The date the payment check for an eligible expense is issued or the draft is drawn. This assumes that the payment is delivered in a prompt fashion and paid when presented.

Margin: The difference the school district is responsible for between the expected paid claims and the annual aggregate deductible. Also referred to as the aggregate corridor.

Expected paid claims: An estimated dollar value of the claims to be paid during a contract period. This value is calculated by the Stop Loss carrier using historical claims information and trends.

Aggregate deductible: The maximum claim liability for all members covered by the school district's benefit plan.

Advanced funding: A Stop Loss carrier service that eliminates the reimbursement of funds paid by the school district once the deductible has been met by having the Stop Loss carrier make reimbursement on a claim immediately.

Conclusion

Many school districts are looking to balance the level of risk that self-funding employee claims may require. Stop Loss insurance provides protection from catastrophic and unexpected claims through coverage for both the costs for any one person and costs for the covered persons as a whole. Stop Loss insurance limits a school district's exposure to risk and provides an important mechanism for districts wishing to provide fiscally sound health care to employees using the self-funded strategy. In order to maximize savings while providing the right level of risk protection, it's important to select a policy with the optimal caps for specific and aggregate claims, as well as the most cost-effective margin.

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