STOP-LOSS

Employer guidance

Self-funded playbook

Sun Life Financial®

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Overview

Want some self-funding guidance? Whether you are already self-funded or are considering becoming self-funded, it's good to consider all the options, so you make the right play for your business. In this white paper, you'll find insights and tips that you can use immediately.

When it comes to self-funding, there are three key decision points:

1. Funding arrangement—how will an employer pay for health insurance benefits for its employees? To answer the question, an employer needs to first determine its benefits strategy and financial goals. Understanding its risk tolerance, size, and cash-flow needs will help the employer decide if it should be fully insured, self-funded with stop-loss insurance, or self-funded without stop-loss insurance.

2. Claims administrator—selecting a claims administrator determines the provider network or networks available to the employer and its health plan members. In addition, the claims administrator and its administration approach can have a significant impact on the success of the self-funded strategy and the benefits experience of the health plan members.

3. Stop-loss insurance—for many employers, the risk associated with a self-funded health plan is managed through stop-loss insurance. To choose the right stop-loss carrier and protection level, the employer needs to consider its own financial profile (including risk tolerance), its claims experience, and the potential carrier's attributes and product options.

Once the key decisions have been made, create an action plan. If the employer chooses to self-fund, it now has the flexibility to design a health plan to suit its business and can strategize about cash-flow management and stop-loss coverage. In addition, the broker, administrator, and stop-loss carrier can team up to help the employer contain costs and improve patient outcomes.

Note: Each employer may have different professionals to advise on stop-loss insurance and self-funding. These professionals can include benefits advisors, brokers, consultants, and producers. In this document we will use the term "broker" for simplicity.

Tips for employers

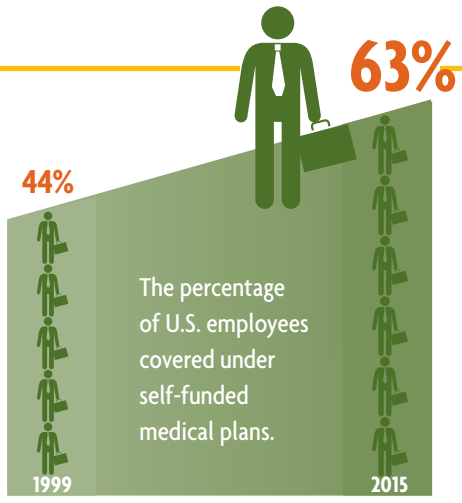
Use this white paper to:

- Learn more about things to consider when deciding whether to self-fund
- Expand your knowledge about how to make self-funding more effective for your business

Did you know?

Many U.S. employees are already covered by a self-funded medical plan. Sun Life expects that number to continue to rise.

The Affordable Care Act has increased employers' interest in self-funded medical plans.



Source: Number of employees covered under a partially or completely self-funded medical plan according to Kaiser/HRET's Survey of Employer Sponsored Health Benefits, 1999–2015.

Key decision #1:
Funding arrangement

Tips for employers

- Consider the advantages and responsibilities of self-funding.
- Ask your broker for guidance on determining whether your company is a good candidate for self-funding.
- If you decide to self-fund, work with your broker and plan administrator to design your plan to suit the culture and financial goals of your business.

Balancing the budget and the benefits

Medical costs keep rising. According to AHIP, a health insurance industry trade association, "More than one-sixth of the U.S. economy is devoted to health care spending and that percentage continues to rise every year."[1] What are the reasons for rising health care costs? *Forbes*, referencing *The Journal of the American Medical Association*, reported, "[T]he primary reason for the rise in health care costs between 2000 and 2011 accounting for 91%, was an increase in the price of drugs, medical devices, and hospital care.[2]

In the face of rising medical costs, employers continue to grapple with the strain of balancing the budget and the goal of attracting and retaining talented employees with a strong benefits plan. But how employers are addressing that challenge is changing. There's been an increase in cost-shifting from employer to employee, including requiring higher deductibles.[3] In addition, according to LIMRA, employees are purchasing more voluntary products (these are products for which the employee pays some or all of the cost) such as vision, critical illness, and accident.[4] Despite these changes, employers continue to provide health benefits to employees, whether that's through a fully insured plan or a self-funded plan.

Types of funding arrangements

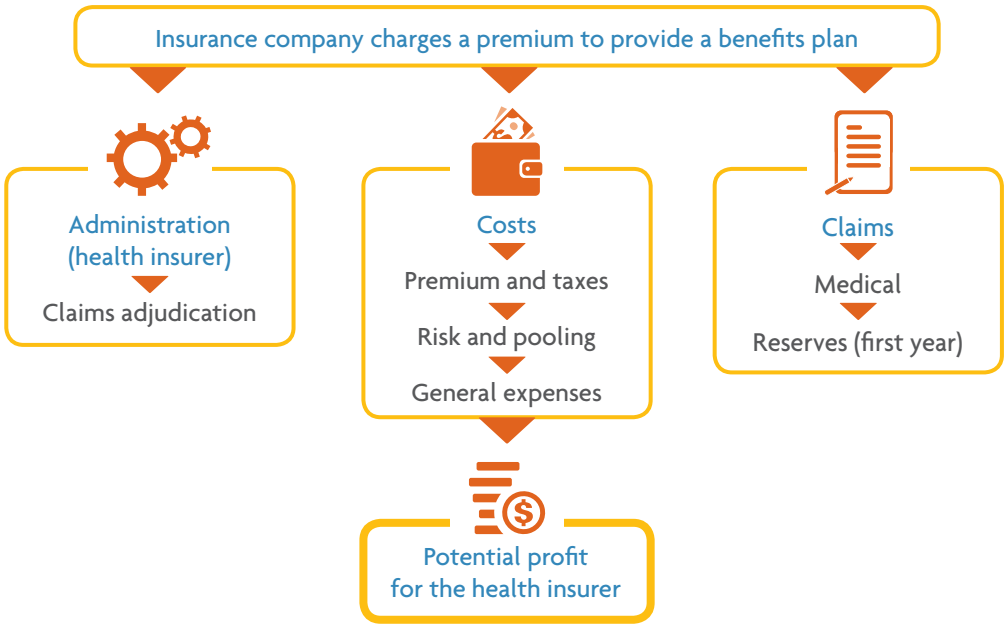
The employer, based on its benefits strategy and financial goals, determines how to fund health benefits for plan members. Employers are thinking about cost savings, access to better claims data, and ways to improve benefits management.[5]

The two most common employer funding arrangements are:

1. Fully insured: Pay monthly premiums to a health insurance carrier. The health insurance carrier manages the plan, takes on the risk, and pays covered members' health care costs. If there is any profit realized after claims are paid, the carrier keeps it. A fully insured plan means that employees receive health benefits and the employer gets predictable monthly costs.

With a fully insured health plan, the health insurance carrier manages the plan, takes on the risk, and pays covered members' health care costs.

Fully insured health plan costs



1. AHIP (America's Health Insurance Plans), "Rising Health Care Costs" website section, https://www.ahip.org/Issues/Rising-Health-Care-Costs.aspx.

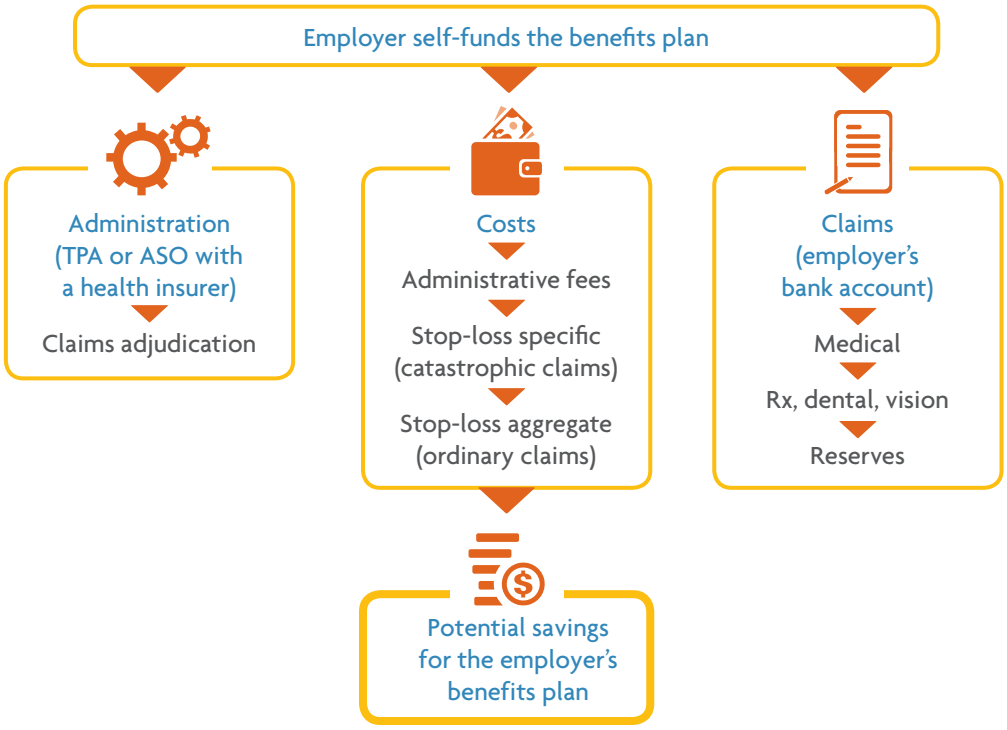
2. Mike Patton, "U.S. Health Care Costs Rise Faster Than Inflation," *Forbes*, June 29, 2015, http://www.forbes.com/sites/mikepatton/2015/06/29/u-s-health-care-costs-rise-faster-than-inflation/.

3. Noam N. Levey and Meredith Cohn, "Health Care Deductible Costs Continue to Rise for Workers," *Baltimore Sun*, September 22, 2015, http://www.baltimoresun.com/bs-hs-rising-deductibles-20150922-story.html.

2. Self-funded with stop-loss: Pay the actual cost of claims, administration fees, and stop-loss insurance premiums. If claims costs are lower than expected, the health plan retains the savings. A self-funded plan means that the employees receive health benefits and the employer (or a designated entity) assumes the financial responsibility for the health plan.

Stop-loss insurance protects the employer by limiting the risk associated with catastrophic claims. Stop-loss insurance does not directly impact employees. Typically, only very large employers self-fund without mitigating the risk either with stop-loss or another method. Most employers that self-fund use stop-loss.

Self-funded health plan costs



With a self-funded health plan, the employer pays the actual cost of claims, administration fees, and stop-loss insurance premiums.

Pursuing cost savings

A Sun Life survey determined that cost savings is the primary reason why employers consider self-funding. Specifically, according to brokers, employers seek ways to save through reduced fees, tax savings, and control over benefits plan design.[6]

4. LIMRA, "U.S. Worksite Sales Increase 5 Percent in 2014, Marking Four Straight Years of Growth," press release, April 22, 2015, http://www.limra.com/Posts/PR/News_Releases/U_S__Worksite_Sales_Increase_5_percent_in_2014_Marking_Four_Straight_Years_of_Growth.aspx.

5. Sun Life Financial, "Self-Funding and Private Exchanges" (a survey of 47 member brokers of the Sun Life Broker Voices Community website), 2015.

6. Sun Life Financial, "Self-Funding and Private Exchanges" (a survey of 47 member brokers of the Sun Life Broker Voices Community website), 2015.

ADVANTAGES

Why self-fund?

An employer gets more flexibility and financial control with self-funding than it does by fully insuring. When an employer self-funds, the employer can design the health plan and cost-savings strategy according to its preferences. (If an employer fully insures, it is limited to the health plan design options offered by a health insurer.)

In addition, self-funding provides increased claims-data access, which allows the employer (or its broker or administrator) to make decisions to improve the health, wellness, and productivity of its employees and help the bottom line through its ability to:

- perform more in-depth utilization analysis and identify claim trends,
- refine its benefits plan design and options, and
- tailor health management and improvement programs, such as case management, wellness programs, and employee incentives.

Self-funded employers, more so than fully insured employers, have opportunities to save. Savings can come from lower taxes due to the different taxation laws. Self-funded employers also have the ability to design a health plan so it can produce savings. In addition, self-funded employers can use cost-containment strategies and programs, which may result in lower-than-expected claims amounts.

Lower taxes, anyone?

Self-funded medical plans tend to have lower taxes compared to fully insured medical plans. Why? Fewer taxes apply to self-funded plans. In addition, state premium taxes for self-funded plans are assessed against stop-loss insurance premiums instead of health insurance premiums. Stop-loss premiums are typically much less than health insurance premiums, so the self-funded employer experiences a lower comparative tax bill.

How much can an employer save by self-funding?

The answer varies according to the employer. Industry writer Alan Goforth quotes insurance industry professional Michael Turpin as saying, "Insurance can cost close to $10,000 per employee per year, so 100 employees cost as much as $1 million a year. Self-insurance can save 12 percent, or $120,000, which can be better used to hire more employees or grow the business."[7]

Is there a particular business size that should self-fund?

The rising cost of health care combined with Affordable Care Act requirements has spurred increased interest in self-funding. But self-funding is not for every business. In the past, within the self-funding industry, very large companies typically self-funded and retained all of the risk; many large and mid-size employers self-funded and retained some of the risk; and smaller employers tended to fully insure their health plans. (Exact numbers of employees associated with these categories vary depending on individual research studies and on opinions within the self-funded business community.)

There are things that every business needs to consider when deciding to self-fund. Raymond DePaola of BenefitsPro, in his March 17, 2015, article, "Checklist for Employers Considering Self-Funding," recommends a variety of steps, including the need to:

- Understand the basic differences between fully insured and self-insured
- Know what it will take to administer this plan
- Consider the uneven nature of monthly costs
- Understand your risks
- Consider stop-loss issues

So, the answer to "how small is too small to self-fund" really depends on the employer in question. By following the above checklist and working with a knowledgeable broker, the employer—regardless of size—can determine if self-funding makes sense for its particular business.

7. Alan Goforth, "The Rise of Self-Funding," BenefitsPro, March 9, 2015, http://www.benefitspro.com/2015/03/09/the-rise-of-self-funding.

RESPONSIBILITIES

Costs associated with self-funding

When an employer self-funds, it does need to determine how much risk it's willing to take and if its cash flow can accommodate the new funding arrangement, including paying for claims, administration fees, and stop-loss coverage. (For more on claims administration and stop-loss, see those sections, on pages 6 and 9.) In addition, it's also important to consider state and federal regulatory requirements.

Regulatory requirements

Fully insured health plans, self-funded health plans, and stop-loss insurance are all governed by a variety of laws. A host of federal laws apply to both fully insured and self-funded health plans. In addition, every state has the ability to levy taxes, impose requirements, and regulate how fully insured health plans and stop-loss insurance are structured and sold. The easiest way for self-funded employers to stay on top of what's required at both federal and state levels is to seek advice from experienced professionals, such as brokers and attorneys, who specialize in servicing self-funded clients.

Weighing the self-funding decision

So, there are both clear advantages and responsibilities to consider when deciding to self-fund. Self-funding isn't appropriate for every business, but it can be the right decision for many. Typically, an employer will depend on its broker to guide it through the process of funding arrangement evaluation and subsequent decisions. A broker is a great resource to tap—and can also advise on self-funding and stop-loss coverage trends in different industries. He or she can also provide recommendations on ways to manage cash flow and the risk associated with high-cost claims.

	State laws	Federal laws
Fully insured health plan	● State laws apply • Health insurance premium taxes • Health insurance requirements	● Federal laws apply • ACA is just one example
Self-funded health plan	◑ Some state laws apply, but usually not subject to health insurance requirements	● Federal laws apply • Some ACA-related taxes and fees • ERISA
Stop-loss insurance	● State laws apply • Certain taxes and fees • Stop-loss requirements	○ Federal laws do not apply

Chart key

- ● Laws apply
- ◑ Some laws apply
- ○ Laws do not apply

Key decision #2:
Claims administration

Tips for employers

- Consider the networks, service, data, vendors, and programs that your business needs. Choose the claims administrator that meets those needs.
- Ask your broker for guidance on choosing a claims administrator—including ensuring that it follows best-practice claims processes—and review its performance regularly.

What types of claims administrators are there?

When an employer self-funds, it needs a claims administrator. Typically, it hires another company to administer claims. For most employers, the choice comes down to two common approaches to claims administration.

1. Standardized: Administrative services only (ASO) plan

With an ASO plan, which is provided by health insurance carriers, the employer is typically offered access to proprietary provider networks (which can frequently offer national reach), a standard service model, and set cost-containment programs. The standardized method is sometimes referred to as a "bundled" approach.

ASO plans can work well for employers that are comfortable with the standard set of cost-containment programs and vendor choices. Employers that work with ASO plans express that working with a "name-brand" health insurance carrier provided a sense of familiarity.[8]

2. Customized: Third party administrator (TPA) plan

With a TPA plan, employers receive local and regional provider networks (and some may also provide a national network), a personalized service model, and customization options for plan design, cost-containment programs, and best-fit vendors.

An advantage of the TPA approach is that it supports choosing separate vendors for different services (sometimes called the "unbundled" approach, whereby the separate vendors are "carved out"). For example, an employer might select a particular pharmacy benefits manager (PBM) from a company that specializes in pharmacy benefits management, rather than getting the service from a health insurance carrier.

In a *Business Insurance* article, "Decision Must Be Made on Administrative Approach," Kristi Gjellum asserts that disadvantages (managing multiple vendors and lack of national reach) can be addressed by TPAs coordinating the vendors. She says, "[N]ational insurers recently have begun loosening the reins on their provider networks and "leasing" them to independent TPAs in certain markets."[9]

Creating the medical plan document

Claims administrators typically send the employer a template medical plan document as a starting point. Then, the employer, broker, and claims administrator work together to create the plan document. The medical plan document governs many areas such as the benefits offered and how claims are administered.

Who sends in claims?

Administrators see every type of medical claim. A claim might come from a routine doctor's office visit. Or, a series of claims might come as a result of an extended hospital stay due to a catastrophic diagnosis such as a transplant, cancer, kidney dialysis, or premature birth.[11]

What to look for in a claims administrator?

- **Experience**—you want an administrator that's been in business for a long time
- **Financial strength**—you need to be able to depend on the administrator
- **Engagement**—understanding what's going on from a regulatory standpoint is important
- **Reporting**—on-demand, real-time reporting about claims status is a growing need for many employers[10]

8. 2015 Employer Voice of the Customer blind research project conducted by Conifer and sponsored by Sun Life. The project included 20 in-depth interviews with senior managers and executives from self-funded employers ranging in size from 100 to 5,000+ employees across a variety of industries.

9. Kristi Gjellum, "Decision Must Be Made on Administrative Approach," *Business Insurance*, http://www.businessinsurance.com/article/99999999/NEWS050101/110809926/decision-must-be-made-on-administrative-approach, accessed January 4, 2016.

10. These recommendations are based on comments by David B. Angerman, UMR Northeast Regional Sales Director, speaking at the 2015 Sun Life Summit panel "Employer Decision Points" and on guidance provided directly to Sun Life.

Here are the common types of entities that send in claims to the claims administrator for payment:

- Hospitals
- Outpatient clinics
- Physicians' offices

How are claims processed?

Claims can be processed through a variety of methods. In auto-adjudication, a system provides claims analysis and decisions based on criteria developed from the underlying plan document. If a claim is complex, manual adjudication may also be performed to support case management and use of additional services such as cost containment.

Common claims analysis factors include:

- **Diagnosis codes**: The International Statistical Classification of Diseases and Related Health Problems (ICD-10) identifies medical conditions
- **Service codes**: The Current Procedural Terminology (CPT)/Healthcare Common Procedure Coding System (HCPCS) identifies medical procedures and services
- **Billed charges**: The initial amount that a health care provider (such as a hospital) charges
- **Negotiated discount**: The amount that the charge is reduced by based on negotiations
- **Paid charges**: The amount paid to the health care provider (such as a hospital) after discounts were applied

Claims best practices

The claims administrator needs to adjudicate claims according to the medical plan document. The employer should ask the prospective administrator to explain how it manages claims costs.

Here are some best practices to consider:

Contain costs for high-dollar claims[12]

1. Develop a systematic cost-containment approach toward high-dollar claims. Aspects to consider include understanding medical plan document language and specifying how to apply it to claim adjudication, determining if the treatments are appropriate and medically necessary, and creating a price comparison protocol.

2. Assess if there are opportunities for cost containment for the services provided. Look at the providers of the services—they could be through the plan's in-network preferred provider organization (PPO) or out-of-network (OON) providers. Are there vendors available (through the claims administrator or stop-loss carrier) that can provide needed medical or specialty services that support improved patient outcomes at reduced or discounted rates? For example, if the medical condition is the need for a kidney transplant, the claims administrator or the stop-loss carrier might have access to a Centers of Excellence facility.

3. Negotiate with the OON provider and get a signed release showing that the provider accepts the negotiated charge in full and will not charge the difference to the claimant (sometimes referred to as "balance-billing the claimant"). To determine the most appropriate payable charges, ask the administrator, stop-loss carrier, or specialized service provider to conduct the negotiation.

Negotiation actions might include:

- Performing a medical bill review (pay special attention to billing and coding accuracy)
- Performing a diagnosis-related review if the diagnosis is in question
- Reviewing the medical plan document to determine if there is UCR language about treatment costs
- Comparing the medical price to both the average wholesale price (which usually only applies to medications and durable medical equipment) and to Medicare Plus pricing

The dual broker/administrator role

Some claims administrators are also licensed to advise and sell stop-loss insurance to employers. These professionals are referred to as "broker/administrators."

11. Types of catastrophic diagnoses come from the 2015 Sun Life Stop-Loss research report "Top Ten Catastrophic Claims Conditions," which covers four years of catastrophic claims that Sun Life paid.

12. Content based on the Sun Life September 2015 webcast "Cost-Containment Insights: Partnering to Get the Solutions You Need" presented by Brad Nieland, FSA, MAAA, Sun Life Stop-Loss Vice President; Mark S. Hartmann, Jr., MS, EthiCare Advisors Managing Partner and CEO; and Lisa Hundertmark, RN, CCM, AATMC, Sun Life Claims Services and Clinical Resources Senior Manager.

Properly manage costs associated with dialysis treatments[12]
Review the medical plan document language that relates to Medicare coverage for dialysis treatment. This language tells the administrator when the covered member may need to enroll in Medicare. The dialysis provider may or may not be in a PPO network. If not, there may be an opportunity for the administrator to negotiate costs.

If OON negotiation takes place on charges for services provided, it's important to get a signed release from the provider showing that the provider accepts the negotiated price in full and will not balance-bill the claimant. Administrators should review all cost-containment opportunities available through the PPO network, external vendors, and stop-loss carrier. In addition, the administrator should investigate opportunities for rate reduction through vendor negotiation.

If possible, the administrator should also negotiate with the provider before treatments begin and get a signed release stating that the dialysis provider accepts the negotiated price in full and will not balance-bill the claimant. The administrator should develop a relationship with a knowledgeable dialysis consultant so there is someone to ask for advice.

Focus on controlling prescription medication costs[12]
Watch specialty drugs used for chemotherapy, bleeding disorders, immunoglobulin therapy (also known as IVIg), and Hepatitis C. In addition, administrators need to watch generic drugs—spikes in cost can be quite high.

The New York Times has covered increases in a variety of articles. In September 2015, it reported that Turing Pharmaceuticals raised the price of Daraprim, a drug that treats parasitic infection, from $13.50 a tablet to $750. According to the article, this type of price increase is not an isolated situation.[13] In October, in another article, *The New York Times* reported, "[A]fter Valeant acquired Salix Pharmaceuticals this year, it raised the price of one Salix drug, the diabetes pill Glumetza, about 800 percent."[14]

Another way to manage prescription costs is to find out how the Pharmacy Benefit Manager (PBM) handles both oral prescriptions and specialty prescriptions. Generally, specialty prescriptions require extra care in handling (keeping the medication at a certain temperature, for example) and are delivered in non-oral methods, such as intravenously. Ask the PBM to provide a regularly updated list of medications it provides. This way, administrators can be aware if they can get the medication directly from the PBM, if the PBM works with a specialty Rx vendor that can provide it, or if it makes sense to ask the stop-loss carrier if it can provide access to a specialty Rx vendor that might be able to provide better pricing.

Track higher-cost innovations[12]
To stay on top of innovations, administrators can participate in a dialogue with cost-containment vendors and the stop-loss carrier to make use of all available resources. In addition, the administrator can connect with the broker to recommend changes in plan document language that relate to innovations.

Together, the team should keep close watch on emerging drugs, procedures, and devices, as these are often high-priced. Administrators can get data from ClinicalTrials.gov, Drug Compendia, the stop-loss carrier, and cost-containment vendors—such as those that provide specialty pharmacy plans.

13. Andrew Pollack, "Drug Goes from $13.50 a Tablet to $750, Overnight," *The New York Times*, September 20, 2015, http://www.nytimes.com/2015/09/21/business/a-huge-overnight-increase-in-a-drugs-price-raises-protests.html.

14. Andrew Pollack and Sabrina Tavernise, "Valeant's Drug Price Strategy Enriches It, but Infuriates Patients and Lawmakers," *The New York Times*, October 4, 2015, http://www.nytimes.com/2015/10/05/business/valeants-drug-price-strategy-enriches-it-but-infuriates-patients-and-lawmakers.html.

Key decision #3:
Stop-loss insurance

Catastrophic claims exposure

Once the employer has decided to self-fund and has selected a claims administrator, then what? Remember, self-funding means that the employer is taking on risk because it is responsible for costs that are not always predictable. In simple terms, without protection against catastrophic claims risk, the self-funded employer is vulnerable.

How businesses respond to risk

Self-funded employers that want to cap exposure purchase stop-loss insurance. This type of employer takes on some—but not all—of the risk. The employer initially pays 100% of the medical claims but also buys stop-loss insurance. Stop-loss insurance mitigates the risk by providing reimbursement for large claims.

Self-funded employers that are comfortable with a potentially large amount of claim volatility may decide not to purchase stop-loss insurance. Typically, this happens with very large employers that have the financial strength to absorb unknown catastrophic risk. The employer pays 100% of the medical claims.

Self-funded with stop-loss

Pay claims, administrator fees, and stop-loss insurance carrier premiums

Capped maximum claims exposure

Self-funded without stop-loss

Pay claims, administrator fees, but no premiums

Unknown and uncapped maximum exposure

What can add up to over a billion dollars?

Here's what: The amount of claims reimbursements on just the top ten claims conditions. Sun Life reported that from 2011 to 2014, conditions in the top ten represented over $1.1 billion in stop-loss claims reimbursements. Those top ten represented 52.8% of all reimbursements that Sun Life made.[15]

Choosing stop-loss coverage

Stop-loss coverage helps the employer by mitigating a portion of the risk of self-funding. Stop-loss insurance "stops the losses" that can result due to catastrophic claims. It does that by providing reimbursement to the self-funded employer for claims above a pre-determined amount. Most of the self-funded community purchases stop-loss.

There are two main types of stop-loss coverage:

- **Specific**: Protection from large claims that occur for any one covered individual.
- **Aggregate**: Protection from the situation where the cost of all claims under the Specific deductible is higher than expected.

Many employers purchase both products, though an employer can decide to purchase Specific stop-loss alone. But how can an employer figure out what products to buy and what coverage level (often referred to as a "deductible level") makes sense for its business? To determine the stop-loss coverage types and deductible levels that fit best, the employer needs to decide what its risk tolerance is, analyze the health and demographics of its plan members, and develop a general understanding of projected claims costs for its group.

Tips for employers

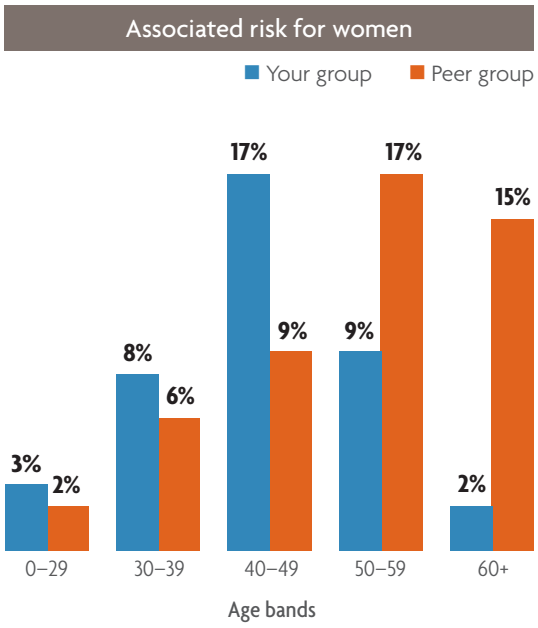
- As catastrophic claims risks are not always predictable, it's prudent to use stop-loss insurance to protect against that risk exposure.
- Ask your broker for benchmarking data that analyze your business's demographics and claims experience compared to those of your industry peers and the marketplace at large to help inform the stop-loss coverage and deductible decisions.
- Ask your broker to provide a few choices of stop-loss carriers and to explain the advantages of each.

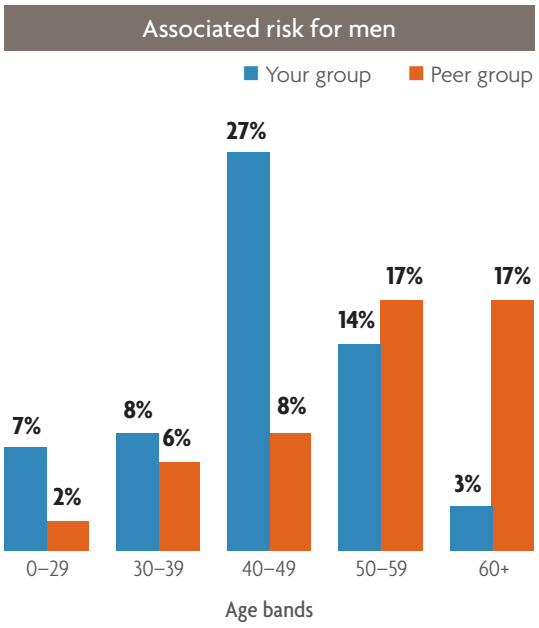
15. All information according to the 2015 Sun Life Stop-Loss research report "Top Ten Catastrophic Claims Conditions," which covers four years of catastrophic claims that Sun Life paid.

Determining stop-loss coverage

Using the employer's census data, it is possible to get a sense for how the demographics of the group could impact its stop-loss risk. Factors such as gender and age contribute to the group's overall risk profile and the likelihood of experiencing catastrophic claims. Assessment of potential risk, along with other criteria such as stop-loss deductible level and contract type, can affect the cost of stop-loss coverage.

From a broader perspective, it can be helpful for an employer to understand how it compares to groups that are similar in terms of industry and size. Ask the broker to provide industry and marketplace benchmarks on associated stop-loss risks, stop-loss coverage, and deductible level options. Every employer is unique; if an employer knows how it compares to industry peers, it can make more informed coverage decisions.





Source: The graphic is for educational purposes; it was created by Sun Life Stop-Loss Benchmark, which shows stop-loss deductible levels from stop-loss quote requests that Sun Life received from 2009 to May 2015, and provides hypothetical data for the "your group" statistics.

How stop-loss works

Stop-loss provides reimbursements to the employer for eligible claims. The most common type of stop-loss is called "Specific stop-loss." It provides protection for the self-insured employer from large claims that occur for any one covered individual. Here's how it works:

The self-funded employer (or "Plan") purchases stop-loss insurance from a carrier.

The employer pays all of the claims of members covered by the health plan.

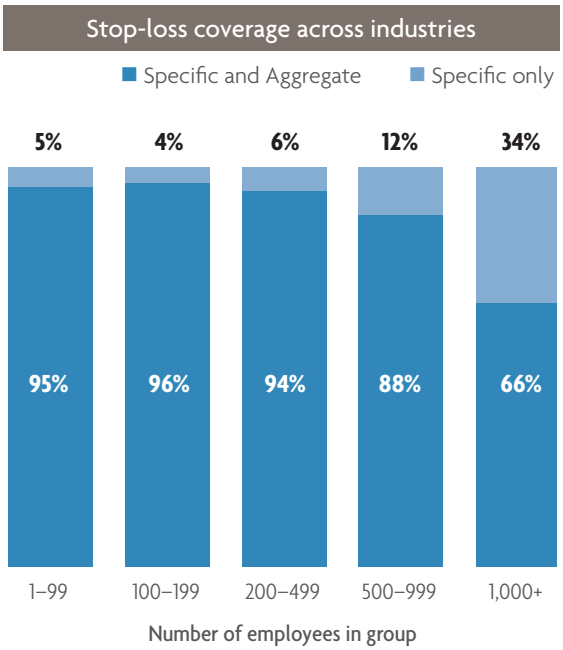
The stop-loss carrier sends the employer reimbursement dollars for claims costs above a pre-determined amount (referred to as the "individual" or "Specific" stop-loss deductible).

For example, if the stop-loss deductible is $50,000 and the claim is $1M, the employer pays the $1M claim. Then, the stop-loss carrier sends the employer a $950,000 reimbursement.

Popularity of different types of stop-loss coverage

This graph shows the distribution of Specific stop-loss compared to Aggregate stop-loss in the marketplace. In general, employers get both types of coverage. The smaller an employer is, the greater the chance that the coverage includes both. The larger an employer is, the greater the chance that employers will choose to get only Specific coverage.

For example, of employers with 99 or fewer employees, 5% had Specific only, and 95% had both Specific and Aggregate coverage. For employers with over 1,000 employees, 34% had Specific-only coverage, and the remaining 66% chose a combination of Specific and Aggregate coverage.



Source: The graphic was created by Sun Life Stop-Loss Benchmark, which shows stop-loss deductible levels from stop-loss quote requests that Sun Life received from 2009 to May 2015.

What should the stop-loss deductibles be?

The employer or its broker should ask the stop-loss provider for benchmarks for stop-loss coverages and deductibles and for specific information about those benchmarks for employers in the same industry as its own. This knowledge can aid the broker and employer when making coverage and deductible decisions.

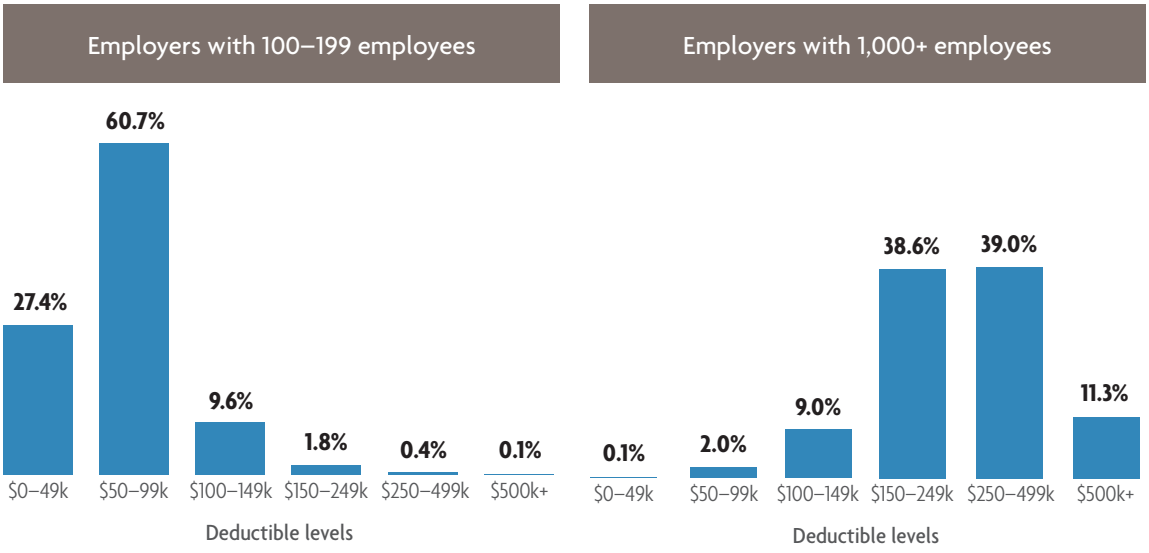
Based on an analysis of a variety of factors, the employer selects the deductible levels for stop-loss coverage. Those factors can include risk tolerance, industry, size, employee demographics, claims experience, and typical medical costs in the employer's geographic location.

Deductible trends vary based on case size and industry. As you can see in the charts below, deductibles range from $49,000 or below to over $500,000. As case size increases, so does the likelihood that a higher deductible level will be selected.

Once the employer selects a deductible, should it always remain the same?

No. It's a good idea to analyze a set of factors every year, such as changes in risk tolerance, current industry coverage trends, a decrease or increase in staffing levels, employee demographics, claims experience, and typical medical costs in its geographic location. Based on that analysis, the employer can decide how to change the stop-loss deductibles. In fact, picking different deductibles year over year is a common thing to do and can be used to reduce stop-loss premium increases.

Stop-loss deductible choices



Source: This data is from Sun Life Stop-Loss Benchmark showing stop-loss deductible levels from stop-loss quote requests that Sun Life received from 2009 to May 2015 across a range of employer sizes and industries.

Different types of stop-loss contracts

	Standard contract	Run-in contract	Run-out contract
Charges incurred	During the policy period	During the policy period **and a few months before the policy period**	During the policy period
Charges paid	During the policy period	During the policy period	During the policy period **and a few months after the policy period ends**

What should the stop-loss contract period be?

Next, you need to set the contract period. The stop-loss policy period itself is usually 12 months. The contract period determines which claims are covered by stop-loss. Stop-loss carriers provide a variety of options in order to serve a particular employer's preference. The graph above shows a few examples. A run-in contract might be offered to add stop-loss coverage for claims incurred before the beginning of stop-loss policy period. A run-out contract extends stop-loss coverage for claims paid after the end of the stop-loss policy period.

In addition, a carrier might also offer a "paid contract," which covers claims that are actually paid during a 12-month timeframe. The incurred period, for a paid contract, expands to the beginning of the active policy relationship with the carrier. Brokers typically analyze what's available from the stop-loss carrier and advise the employer on what will work best.

Options to investigate

To increase the strength of coverage, it's a good idea to consider available options. Carriers may provide additional products and services that can improve cash flow, manage costs, and better align the stop-loss coverage with the underlying medical plan document.

Ask the broker to explore these stop-loss features with the stop-loss carrier:

- **Advance Funding,** which improves cash flow by allowing the employer to receive funds before it has to pay for eligible claims
- **An Aggregating Specific deductible**, which lowers stop-loss premiums in exchange for the employer retaining more risk
- **Claims Experience Refund,** which returns a portion of stop-loss premium when claims run lower than expected
- **Mirroring,** which aligns the medical plan document with the stop-loss policy to help guard against coverage gaps
- **Monthly Aggregate Accommodation option,** which provides for earlier reimbursement when non-catastrophic first-dollar claims exceed projected monthly levels
- **No new lasers (a higher deductible for a particular plan member) at renewal option,** which can make it easier for employers to manage potential high-cost, high-risk claims
- **Renewal rate cap,** which can help create more predictable renewals and support longer-term budget planning

Who provides stop-loss?

An employer can get stop-loss from a health insurer or a stop-loss carrier. The decision generally depends on which type of experience the employer prefers—standardized or customized.

1. Standardized

The standardized approach (sometimes referred to as "bundled") means that the company (typically, a health insurer) that provides administrative services only (ASO) also provides the stop-loss insurance.

The ASO company then administers and adjudicates all claims including first-dollar claims (which are claims that occur before the stop-loss deductible is breached) and catastrophic claims (which are claims that are eligible for reimbursement after the stop-loss deductible is breached).

In the standardized approach, there is a proprietary network provider (which can frequently offer national reach) and the administration is centralized, but programs and services can be limited to a pre-determined set of options.

2. Customized

The customized approach (sometimes referred to as "unbundled") means that one company administers the self-funded health plan, and a separate company provides the stop-loss. Claims are administrated either by a TPA or through an ASO plan provided by a health insurer.

A separate stop-loss carrier can provide more flexibility to the employer in stop-loss coverage options. For example, a stop-loss carrier can provide one stop-loss policy that covers multiple administrators. In addition, it can leverage its specialized knowledge of how to make stop-loss most effective for the employer. When a TPA plan is in place, the employer can choose among the "plug and play" specialty services—such as enhanced cost-containment programs—according to its needs.

Highly effective stop-loss carriers are adept at working well with all the stakeholders (brokers, administrators, cost-containment vendors, pharmacy benefits managers, and others) so administration is not an issue for employers. The customized approach provides more choices but requires a commitment from the stakeholders to deliver a positive administration experience to the employer.

Key decision makers

Who's making the decision on what type of stop-loss insurance to buy? Human resources directors, chief financial officers, risk managers, and other senior executives.[16]

Seamless experience

How can an employer ensure that it gets a seamless reimbursement experience from the stop-loss carrier? This is one of those times when either option can deliver the goods. Both stop-loss approaches—standardized and customized—can provide a seamless experience. Ask your broker to investigate the typical reimbursement experiences associated with potential stop-loss carriers.

16. 2015 Employer Voice-of-the-Customer Research Study conducted by Conifer Research and sponsored by Sun Life. This blind study included 20 in-depth interviews with senior managers and executives from self-funded employers ranging in size from 100 to 5,000+ employees across a variety of industries.

Selecting a stop-loss carrier

To help you evaluate stop-loss carrier candidates, look for these key attributes.

Strength

- High financial ratings from independent agencies
- Decades of experience so things are handled properly
- Ability to reimburse the largest claims
- Autonomous underwriting decision-making without reliance on a re-insurer's approval
- Leadership based on expertise and listening to the customer

Specialization

- Commitment to the stop-loss industry and to providing educational opportunities
- Knowledgeable sales, underwriting, and service professionals who all specialize in stop-loss
- Seamless reimbursement experience with processes that help ensure claims-payment accuracy
- Nurse consultants who work with case managers and who can help identify opportunities to improve patient outcomes and lower claims costs

Solutions

- Choice among a wide range of products so you get what fits your organization
- Innovative approaches to new employer needs or legislative requirements
- Convenient cash flow options such as the carrier advancing funds to the employer to pay for claims or arranging to get claims data more quickly to speed up the reimbursement process
- Access to cost-containment services and consulting that help support the employer's self-funding and benefits strategies

After you select the potential stop-loss carriers, you will need to provide information so they can underwrite the stop-loss coverage for you. Typically, that includes providing:

- A complete census
- At least two years of claims history
- The current/proposed medical plan document
- A list of plan changes in the last two years
- The current/proposed claims administrator and network
- Broker commission percentage
- Policy requirements, the desired Specific and/or Aggregate stop-loss deductible(s), and the policy basis (timeframe of when claims are incurred and paid)

Typically, employers rely on brokers or plan administrators to manage the stop-loss carrier relationship. This approach simplifies things for the employer. Employers make their needs known, and their designated partner will work with the stop-loss carrier and claims administrator to meet those needs.

What do employers really want from a stop-loss carrier?

When asked what they valued most in a carrier, employers said they wanted financial strength, a seamless reimbursement experience, and claims payment accuracy.[16]

Action plan

Strategic teamwork

"It's more important now than ever for the employer, broker, administrator and stop-loss carrier to work collaboratively to manage the risk of very large catastrophic claims."[17]

—*Brad Nieland, FSA, MAAA, Sun Life Stop-Loss Vice President*

To plot the way forward, consider creating an action plan. It can be a formal written document or simply a list of items to discuss. The broker, claims administrator, and stop-loss carrier can work together to meet the employer's needs.

Funding arrangement

Action	Steps	Include
Evaluate if self-funding makes sense for the particular business	• Determine the business's benefits strategy and financial goals. Understanding its risk tolerance and cash-flow needs will help the employer decide if it should be fully insured, self-funded with stop-loss insurance, or self-funded without stop-loss insurance. Seek counsel from your broker and plan administrator.	☐

If the employer decides to become self-funded (or already is), it can decide which of the following elements shown on the next few pages to incorporate into the action plan.

Claims administration

Action	Steps	Include
Finalize the medical plan document	• Using guidance from the broker and claims administrator, make sure the plan document follows all applicable laws and describes the benefits the employer is offering to the covered plan members.	☐
	• Confirm with the claims administrator that it can administer the plan document.	☐
Perform an annual plan document review	• Review the plan document every year. A variety of factors can create a need to make amendments to the plan document. Examples include new federal or state regulations, changes in the business, new benefits, or an interest in adding new cost-containment language to the plan document.	☐
Select or change the claims administrator	• Consider what type of networks, service, data, vendors, and programs the business needs. Choose the claims administrator that meets those needs—typically either an administration services only (ASO) plan through a health insurance company, or a third party administrator (TPA) plan.	☐
	• Check to see if the claims administrator uses claims best practices such as giving high-dollar claims special attention, properly managing costs associated with dialysis treatments, focusing on controlling prescription medication costs, and tracking higher-cost innovations.	☐
Apply data analytics	• Ask the broker or claims administrator for marketplace and industry benchmarks—this information can provide key insights to help make plan design and coverage choices.	☐
	• Ask the broker or claims administrator to provide additional guidance based on predictive modeling, which can help reduce health care risks and costs for the both the covered employee population as a whole and for individual covered employees.	☐

17. Bruce Shutan, "Avoiding Catastrophe—How to Manage Skyrocketing $1 Million-plus Medical Claims without Health Benefit Caps and in Response to Rising Claims," *The Self-Insurer*, November 2015, http://issuu.com/sipconline/docs/self-insurer_nov_2015?e=8828922/31162630.

Stop-loss insurance

Action	Steps	Include
Select stop-loss coverage and deductibles	• Analyze a set of factors such as changes in federal and state laws, current industry coverage trends, the employer's risk tolerance, a decrease or increase in staffing levels, employee demographics, claims experience, and typical medical costs in its current or new geographic location. Based on that analysis, the employer can decide how to change the stop-loss deductibles, modify the policy basis, or add or remove certain features or services.	☐
	• Ask the broker to investigate options to tailor stop-loss coverage to meet the needs of the particular employer.	☐
Perform an annual stop-loss review	• Using the same factors described above, determine how to adjust deductibles and coverage. A special consideration should be addressing ongoing high claims. Higher deductibles (sometimes called "lasers") can be set for particular employees at high risk for higher-cost claims. Some employers are willing to accept the additional risk of a laser at the annual stop-loss renewal. Some employers don't want to take on more risk at renewal. For those employers, ask the stop-loss carrier about an option that provides no new lasers at renewal with a renewal rate cap so upcoming costs are more predictable.	☐

Cost containment

Action	Steps	Include
Leverage resources	• Ask the broker to find out what's available and work with the claims administrator and stop-loss carrier to help determine when certain resources will be used. Stop-loss carriers and claims administrators both have resources to contain costs and support better patient outcomes. For example, a claims administrator or stop-loss carrier might give access to specialized services or programs such as: –Cancer Centers of Excellence facilities network –Congenital heart disease Centers of Excellence facilities network –Hospital bill audit –Kidney dialysis –Medical review –Organ and tissue transplants –Out-of-network claim negotiation –Specialty pharmacy distribution and services –Utilization review and case management –Ventricular assist devices Some stop-loss carriers also have nurse consultants on staff who can provide consultation and recommend opportunities to reduce cost.	☐

Cost containment (continued)

Action	Steps	Include
Share cost-containment best practices	• The broker, the stop-loss carrier, and the administrator should share what works and look for ways to apply successful strategies more widely. These can be approaches that have been in use for years or new methods that are showing positive results.	☐
Follow the plan document	• Include clear cost-containment language and ensure that the claims administrator processes claims according to the plan document.	☐
Review the hospital charges	• Apply discounts and perform an accuracy review, so the employer pays the correct amount.	☐
Explore wellness programs	• Match programs to the particular employee population. However, it's wise to be realistic about savings goals and timeframes. According to *The New York Times*, "[W]ellness programs that target specific diseases that may drive employer costs could achieve savings, though perhaps only after several years. When more broadly implemented and focused on lifestyle management, as many wellness programs are, savings may not materialize, and certainly not in the short term."[18]	☐

Employers talk about self-funding

In 2015, Sun Life sponsored the "Employer Voice-of-the-Customer Research Study" conducted by Conifer Research. This blind study included 20 in-depth interviews with senior managers and executives from self-funded employers ranging in size from 100 to 5,000+ employees across a variety of industries. When asked to discuss their goals for and experience of self-funding, here's what a few employers had to say.

"The goals really were to provide the best possible coverage at the lowest cost for employees."

–Chief Financial Officer, 15 years' experience, transportation industry, 500–1,999 employees

"[O]n an ongoing basis, on a monthly reports, year-end reports, we can look at what was our total exposure out there, potential exposure and then what was our actual exposure and we can look at that and it's a pretty simple math to look at the savings that come down to at least hundreds of thousands of dollars over the course of the year—often approaching a million."

–Senior Human Resources Manager, 12 years' experience, telecommunications industry, 100–499 employees

"It's good, every year we go and look at the medical plan from both a fully funded perspective and a self-funded perspective, and the fully funded plan always comes in at least a million dollars more a year than what we've experienced."

–Human Resources Vice President/Consultant, 12 years' experience, manufacturing industry, 500–1,999 employees

18. Austin Frakt and Aaron E. Carroll, "Do Workplace Wellness Programs Work? Usually Not," *The New York Times*, September 11, 2014, http://www.nytimes.com/2014/09/12/upshot/do-workplace-wellness-programs-work-usually-not.html.

Learn more

Education

Self-Insurance Institute of America, Inc.

U.S. Department of Labor: Guidance on State Regulation of Stop-Loss Insurance

U.S. Department of Health and Human Services: Medical Expenditure Panel Survey

Sun Life Self-insurance 101: A Practical Guide video

Sun Life King v. Burwell webcast

Sun Life Cost-Containment Insights: Partnering to Get the Solutions You Need webcast

2015 Sun Life Top Ten Catastrophic Claims Conditions research report

2014 Sun Life Top Ten Catastrophic Claims Conditions research report

2013 Sun Life Top Ten Catastrophic Claims Conditions research report

Sun Life Stop-Loss features and services

Stop-Loss fact sheet

Advance Funding

Monthly Aggregate Accommodation

No New Lasers at Renewal

Aggregating Specific

Stop-Loss Benchmark

Medical Intelligence

What's Missing from Your Plan Doc?

SunResources®

Sun Life employee benefits

Fight Back Against Cancer

Disability Taxation and Reporting white paper

Military Service and Group Insurance white paper

Notes

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To find out more about what Sun Life has to offer, ask your broker or Sun Life Stop-Loss Specialist.

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