

What is stop-loss insurance?

Self-funded employers either establish a fund to pay the medical expenses of its workers and their families, or they use current cash flow to pay the medical expenses as they arise.

Self-funding can be a cost-effective alternative to traditional insurance, but it can also be risky.

- If an unexpectedly large number of employees get seriously ill, their medical bills could wipe out the entire medical fund or require payments beyond the employer's ability to pay.
- If medical bills are unpaid, the employer will be exposed to lawsuits from other employees with unpaid medical bills of their own. In some cases, this could bankrupt a company.

Stop-loss insurance can help guard against this risk. It pays the employees' medical bills after the employer has paid a certain predetermined amount.

Stop-loss insurance can be a great source of financial protection, but employers have to weigh the cost against the potential benefits to determine if this type of insurance makes sense for their business.

If the risk exposure is relatively low (that is, the employees are young and healthy), the employer may choose to self-insure without using stop-loss insurance for added protection.

Or, after considering the estimated claims likely to pay and the premium for the stop-loss coverage, the employer may find that it's actually better to purchase a group insurance plan for employees.

An employer who decides that stop-loss insurance is needed will want to compare cost and coverage. Policies often vary widely. It's important to choose one that meets the employer's needs *and* budget.

Specific and aggregate stop-loss insurance

Specific stop-loss insurance: Some policies are designed to protect the employer against high claims by *any one employee or family member*. This is "specific" stop-loss insurance. Once the employer has paid the specified amount (such as, \$25,000), the insurance pays for the rest of the individual's medical expenses, up to the policy's coverage limits.

Fully insured groups find that most insurance companies will determine the employer's pooling point based on the number of employees or industry classification.

However, when a group becomes self-funded, the specific stop-loss insurance deduction is a function of corporate cash flow considerations, claims experience, and the employer's risk management strategy. The employer decides the amount of risk that he is willing to assume.

Aggregate stop-loss insurance: Other policies protect the employer against an unexpectedly large amount in *total claims*. This is "aggregate" stop-loss insurance. In this case, the coverage kicks in once the employer has paid a certain amount toward all of the employees' medical bills. (Again, coverage limits apply).

The annual aggregate attachment point is calculated by adding a margin (usually 25%) to expected claim. At the end of each coverage period, the stop-loss carrier will reimburse the employer's plan for all eligible paid claims during the plan year in excess of the annual aggregate attachment point, after final claims review.

Maximums for both specific stop-loss and aggregate insurance vary for each employer.

Additional Features

Specific accommodations reduces the cash flow concerns resulting from the natural delays between the plan payment date and the stop-loss reimbursement date. The "plan payment date" is the date the TPA actually pays a plan claim. The "stop-loss reimbursement date" is the date the TPA reimburses the employer for the plan losses.

To pre-qualify a specific claim for accommodations, the employer must provide the TPA with all the information necessary to adjudicate a stop-loss claim before releasing payment to the provider.

After the TPA approves the accommodation, a reimbursement draft will be issued to the employer. After releasing the provider payment, the employer deposits the TPA's reimbursement to fund the provider payment.

Aggregate accommodations reduce cash flow strains that may occur when eligible plan losses exceed the accumulated aggregate deductible by providing funds to offset eligible plan expenses.

If the shortfall increases in subsequent months, additional advances may be provided.

Only plan losses below the specific deductible apply toward the annual aggregate deductible.

At the end of the policy period, the TPA determines whether an aggregate claim exists and either pays the remainder of the aggregate stop-loss claim, or the employer will reimburse the excess accommodations. If repaid within 60 days, no interest is charged for the excess accommodations.

Aggregated specific allows employers to assume additional specific claim liability to reduce fixed stop-loss costs. The additional specific claim liability assumed is called the aggregated specific deductible.

Eligible plan losses may be reimbursed, if the sum of all claims over the specific deductible exceeds the group's aggregated specific deductible.

Specific extensions protect groups terminating their self-funded medical plan, from individual run-out claims. Upon termination of a group's self-insured plan, specific deductibles are increased.

Losses incurred during the original policy period, and paid within the three months immediately following the original policy period, are eligible for reimbursement.

Aggregate extensions protect groups terminating their self-funded medical plan, from run-out aggregate claims. Upon termination of a group's self-funded plan, aggregate deductibles are increased.

Losses incurred during the original policy period, and paid within the three months immediately following the original policy period, are eligible for reimbursement.

Employers should review the stop-loss policy and riders for more information regarding the terms and conditions of the coverage and its features.

Claims Basis

The types of coverage available for specific and aggregate stop-loss insurance are as follows:

Key:

	Incurred
	Paid

Incurred and Paid Basis (12/12) reimburses 100% of eligible losses in excess of the specific deductible or aggregate attachment point, provided such losses are incurred during the policy period and paid during the policy period.

Incurred and Paid Basis (12/12)											
J	F	M	A	M	J	J	A	S	O	N	D

Run-In and Claim Basis (15/12) reimburses 100% of eligible losses in excess of the specific deductible or aggregate attachment point, provided such losses are paid during the policy period and incurred during the

policy period or up to three months prior to the policy.

Run-In and Claim Basis (15/12)														
J	F	M	A	M	J	J	A	S	O	N	D	J	F	M

Run-Out Claim Basis (12/15) reimburses 100% of eligible losses in excess of the specific deductible or aggregate attachment point, provided such losses are incurred during the policy period and paid during the policy period, or up to three months thereafter.

Run-Out Claim Basis (12/15)														
J	F	M	A	M	J	J	A	S	O	N	D	J	F	M

Paid Basis reimburses 100% of eligible losses in excess of the specific deductible or aggregate attachment point, provided such losses are incurred while continuously covered by a stop-loss policy and paid during the policy period.

Paid Basis

J	F	M	A	M	J	J	A	S	O	N	D			

Additional “Stop Loss” terms

Aggregate Factor: The dollar figure that is multiplied by the number of covered persons each month during the contract period, to calculate the annual aggregate deductible.

Aggregate Stop Loss: The form of stop loss coverage that provides protection for the employer against the accumulation of total claims for the group as a whole exceeding a stated level.

Annual Aggregate Deductible: Generally, this number represents the overall limit of claim liability for the group’s health benefit plan. Beyond this point, the stop-loss policy indemnifies the group at the end of the contract period. Also called “attachment point.”

Attachment Point: *See Annual Aggregate Deductible.*

Binder Premium: The first month’s premium required to initiate coverage with the reinsurer for a new group, and the first month’s premium of the renewal contract period for a renewing group. On new groups, it is typically required in advance of the effective date to show intent of the group to purchase coverage.

Disclosure Statement: Form used to notify carriers of all large and/or ongoing claims prior to the binding of coverage for all new and renewal business groups. The underwriter may also require this form at the time of reinstatement for terminated groups.

Simultaneous Funding: A claim reimbursement advance service provided to clients in that the client needs only to fund claims up to the specific deductible and then submit an advance funding to the carrier for amounts over the specific deductible. Must be received within seven days after the expiration date of the policy.

Specific Deductible: The specified dollar amount paid on an individual claimant by an employer’s plan before the stop loss policy will reimburse additional expenses. This amount also is referred to as the employer’s liability under the contract.

Split Funding Corridor: An additional amount of liability assumed by the employer in exchange for lower premium rates. The employer is then responsible for paying claims over the specific deductible until the additional liability amount is exhausted. If claims do not exceed the specific deductible, then all the employer pays is the reduced premium amount.

Terminal Liability: A product that provides the employer with additional coverage upon termination of the self-funded plan for claims paid within three months after the end of the policy. This product is designed to prevent a gap in coverage when the employer purchases a fully insured product. This product is usually only offered at the inception of the policy and can only be used in the event that the group converts from a self-funded plan to a fully insured plan.