

Stop Loss for Self-Funded Plans

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Introduction

Today, many employers elect to self-fund their employee health plans to take advantage of benefits such as plan design flexibility, improved cash flow and potential financial savings. But the potential risks of self-funding can be as significant as the rewards. Stop Loss insurance is a critical consideration for employers who may decide to self-fund their medical plan benefits. It enables employers of all sizes to enjoy the benefits of self-funding while limiting the associated risk.

Stop Loss insurance is often viewed as a commodity where price is the primary variable considered. But to ensure adequate protection, it's important to understand how the nuances of Stop Loss options and contract terms affect coverage when a high claim situation arises. In some cases, saving a little money up front can prove costly down the road.

This whitepaper examines the rationale for purchasing Stop Loss coverage with self-funded medical plans. We examine the different types of Stop Loss coverage available and illustrate how subtle differences in coverage terms or policy language can erode the risk protection that Stop Loss is intended to provide. Examples are cited throughout the paper to highlight gaps that may be exposed in coverage and contract areas.

CIGNA's Stop Loss coverage focuses on eliminating gaps and surprises. We provide a straight-forward, client-focused approach to contracts, underwriting and account management. Our wide array of contract and product options allow us to meet the unique risk tolerance and cost objectives of each of our clients.



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What is Self-Funding?

Employers have a choice in how they want to fund their medical benefit plans.

In a **fully insured arrangement**, the employer pays a fixed monthly premium to the insurer providing the medical benefits. The premium amount covers the expected claims and administrative costs, as well as an insurance risk charge. If actual claims are lower than expected, the insurer keeps the difference. If actual claims are higher than expected, the insurer pays the difference.

In a **self-funded arrangement**, the employer typically pays a fee to a plan administrator, who performs functions such as claim processing and securing discounted services from health care providers. The employer takes on the risk of claim fluctuation, paying the actual claims incurred by enrolled employees and their dependents.

Risk and Benefits of Self-Funding

Today, many employers elect to self-fund their employee health plans so that they can take advantage of benefits unique to this funding option:

- **Plan design flexibility:** Self-funded arrangements are exempt from most state mandates.
- **Improved cash flow:** Self-funding minimizes the amount of time between employer funding of claims and actual claim payments.
- **Potential savings:** If claims are lower than expected, the employer retains the financial savings. Self-funded employers also benefit from reduced premium taxes.

In exchange for the benefits of self-funding, the employer accepts an increased amount of risk. If claims are higher than expected—due to catastrophic illness, accident or overall adverse utilization shifts—the employer is liable for all claims, including those exceeding the expected amount.

Why Invest in Stop Loss Insurance?

Stop Loss is a critical consideration for employers who may decide to self-fund their medical plan benefits. It enables employers of all sizes to enjoy the benefits of self-funding while limiting the associated risk.

From time to time, many employers experience claim fluctuation due to an unexpected serious illness or accident, such as a premature infant, a transplant or cancer claims. Likewise, particularly for smaller employers, a shift in overall utilization (such as a widespread flu outbreak) can significantly impact an employer's cash flow as well as their bottom line, even if a catastrophic claim incident does not occur.

Stop Loss is designed to limit an employer's liability to a pre-determined amount for each covered individual on the plan, per policy year. It can also be used to limit overall claim liability per policy year, if desired. As a result employers gain the peace of mind of knowing that their financial stability will not be impacted by unexpected fluctuations in claims.

Types of Stop Loss Coverage

There are two common types of Stop Loss coverage:

Individual Stop Loss (also called Specific Stop Loss) limits an employer's liability to a set dollar figure per individual, per policy year. This limit is known as a pooling point or "deductible." For example, an employer may elect a pooling point of \$100,000 per policy year. That means their maximum liability per person on their benefit plan for that policy year will be \$100,000. The Stop Loss policy will reimburse them for claims in excess of that amount. Pooling points generally range from \$10,000 to \$1 million, depending on the size of the group, and typically fall within 3 to 6 percent of the annual expected claim amount.

Aggregate Stop Loss limits an employer's liability to overall claim fluctuation. The employer's maximum liability is expressed in terms of a percentage of total expected claims, typically 125 percent. If paid claims exceed expected claims by more than 25 percent, the Stop Loss coverage will reimburse the employer for the difference. Claims reimbursed under Individual Stop Loss coverage do not apply to the Aggregate Stop Loss threshold.

Stop Loss Contract Terms and Options

In order to compare Stop Loss policies, it is necessary to understand the basic Stop Loss contract terms and options.

Coverage is most often labeled based on the number of incurred months covered followed by the number of paid months covered. For example, policies may be quoted on a 12/12 basis. With this type of contract, only claims that are both incurred and paid during the 12-month policy year will be covered. Due to claim lag—provider billing or standard medical claim processing delays—this is considered an **immature policy**.

Run-In contracts such as a 15/12 include some claims incurred prior to the policy effective date that are paid by the prior carrier during the first active policy year with a new carrier. So a 15/12 contract would cover claims incurred up to three months prior to the effective date.

Terminal Liability contracts extend the paid period by a set number of months in the year of termination only, covering claims paid after the termination date.

Stop Loss Renewal Options

When renewing a Stop Loss policy, contracts are usually written on either a Paid or Rolling basis.

Paid Stop Loss contracts cover all claims paid during that policy year, regardless of incurred date, as long as the claims were incurred since the policy effective date.

A **Rolling Stop Loss Contract** (also referred to as a Rolling Run-Out contract) limits coverage to a defined number of paid and incurred months each year. For example, a Rolling 12/15 covers claims incurred during the 12-month policy period that are paid during that 12-month policy period or in the three months directly following. Therefore, in a Rolling contract with a January renewal, a claim that is incurred in December, but not paid until the following April or later (due to claim lag), would not be covered.

CIGNA renews all 12/12, Run-In or Terminal Liability contract types on a Paid basis, meaning that all claims paid during the policy year accumulate together toward the Stop Loss pooling levels, provided they were incurred at any point on or after the CIGNA policy effective date. If Terminal Liability is purchased, the additional months of paid claims are also accumulated with the final policy-year claims in the year of termination.

Example of 12/12 First-Year Contract with a Paid Contract Renewal and Terminal Liability Coverage Executed in Year Three

	2011				2012				2013				2014	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
First Year Immature 12/12	Incurred													
	Paid													
Second Year Paid	Incurred													
					Paid									
Third Year Paid + 3 month TLO	Incurred													
									Paid					

- This client begins on a 12/12 basis in Year One.
- Upon renewal, the contract becomes a Paid contract (the account will renew on a Paid basis each year unless they terminate).
- In Year Three, they terminate and the paid dates are extended for three additional months at the end of the policy year.

Incurred Contracts

An **Incurred Stop Loss** contract is an alternative to the typical Paid approach.

Due to the lag involved in provider billing and standard medical claim processing, it is possible to have claims incurred within one policy year that are paid partially within that policy year and partially within the following policy year. For Stop Loss purposes, splitting claims between two policy years potentially eliminates a reimbursement to the customer or requires them to cover claims up to the Stop Loss pooling level for both policy years, reducing their reimbursement amount. This is particularly likely in the case of high-dollar, high-complexity hospital bills, especially toward the end of each policy year.

Incurred contracts accumulate claims based on incurred dates (rather than paid dates), eliminating claim payment timing from the Stop Loss equation. An Incurred contract also provides built-in terminal liability protection in the final year of coverage. Because the incurred contract matches the Stop Loss liability with the way employers think about their medical liability, an Incurred contract is a natural choice for a client converting from a fully insured plan.

CIGNA's Incurred Accumulation option operates as a 12/36 contract each policy year, including claims incurred in the 12-month policy year and paid within that policy year or in the 24 months immediately following. In effect, all claims incurred in one policy year accumulate together toward the Stop Loss limits, regardless of paid dates. Incurred contracts renew on an Incurred basis each year.

Benefits of Incurred Contracts

- Accumulates claims toward the pooling point based on the year the claims were incurred, rather than the year they were paid—matching employer liability.
- Once the individual hits the pooling point in a given year, all other claims incurred by that individual within the year (paid within the 36-month paid period) will be covered.
- Provides built-in Run-Out protection.
- Eliminates the need for future Run-In protection.
- Eliminates the first-year maturation adjustment.

	2011				2012				2013				2014			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
First Year	Incurred															
	Paid															
Second Year					Incurred											
					Paid											

Be Aware of Coverage Variations

Stop Loss should not be viewed as a commodity where price is the only variable. Stop Loss coverage has many nuances with significant variation between the contracts offered by different Stop Loss carriers. This can have a dramatic affect on how or even whether a claim is covered under Stop Loss. Without a clear understanding of contract terms, an employer could face unexpected exclusions or claim denials.

The CIGNA Stop Loss Advantage Checklist, included as the final page of this whitepaper, can be used to identify coverage and contract terms that could negatively impact an employer. In order to assess the true value of a Stop Loss policy, it is important to understand where gaps in coverage may exist, such as:

Unique Lifetime or Annual Maximums

Unique coverage limits may also be applied to specific conditions, such as transplants, or in exclusions applied to individuals. Stop Loss coverage that contains separate maximums can result in increased claim liability for the employer.

CIGNA's standard practice is to mirror the maximums of the underlying medical plan.

Run-In Claim Caps

Some Stop Loss policies contain a Run-In cap that limits the new carrier's liability for claims that were incurred prior to the new policy effective date. For example, a policy with a \$100,000 pooling level may include a Run-In liability cap of \$50,000 per individual. If a plan member incurs \$500,000 in charges in the final months of the previous policy year and the claims are paid during the new policy year, the Stop Loss carrier will only apply the first \$50,000 in paid claims toward the current year pooling point and the remaining \$450,000 will not be covered under Stop Loss. Caps may also be applied to Aggregate Stop Loss coverage.

CIGNA's standard practice is to offer unlimited Run-In coverage.

Inconsistencies with Medical Plan

Stop Loss contractual provisions, eligibility rules or definitions that differ from those contained in the underlying medical plan can end up costing you more. Examples include actively at-work or non-confinement provisions, and the definition and interpretation of terms such as medical necessity, pre-existing condition, and experimental or investigational treatment.

Stop Loss coverage that differs from the underlying medical plan on these important terms can result in claim reductions or denials under the Stop Loss policy for claims that are paid under the medical plan.

Real-life example: An employer placed their Stop Loss coverage with a third party carrier and experienced a claim denial for a \$700,000 heart transplant due to an "experimental" treatment exclusion. Under the medical plan, the procedure was not defined as an experimental treatment. However, because the Stop Loss carrier included a definition of experimental treatment within the policy that differed from the medical plan, Stop Loss coverage for the claim was denied.

CIGNA's standard practice is to mirror the maximums of the underlying medical plan. The definition and interpretation of terms such as medical necessity, pre-existing condition, and experimental and investigational treatment between the medical and Stop Loss plans are consistent.

Disclosure Requirements

Some Stop Loss carriers may impose strict disclosure requirements and contingent (or illustrative) quoting that could be costly in the long run. In addition, carriers may advertise premium rates as "firm" even though they still require disclosure, which enables them to impose exclusions or lasers closer to the coverage effective date.

Disclosure is a common process in the Stop Loss marketplace whereby a carrier requires completion of a disclosure form identifying all known and emerging claims. Disclosure forms can be used to impose exclusions or lasers—a unique pooling point for a high-risk individual—just prior to the effective date of the policy. In addition, claimants not properly disclosed may result in unexpected claim liability in the form of claim reductions or denials.

Required information typically includes diagnosis (including all individuals that may not have large claims today, but have a "trigger" diagnosis), current/planned treatment patterns, prognosis and a signature of an officer of the company.

CIGNA does not require completion of a signed disclosure form at presale or renewal.

CIGNA offers options to lock in firm rates and terms well in advance of the effective date.* In addition, CIGNA can always provide 'no laser' quote options.

*Assuming a group size of more than 250 employees

Real-life example: An employer placed their Stop Loss coverage with a third party carrier and experienced a \$190,000 claim denial for an End-Stage Renal Disease claimant that was not disclosed on a "trigger diagnosis" list.

Contingent Quotes

Contingent quotes require updated claim information within 15–60 days of, or sometimes after, the effective date. Based on updated information, rates may be revised and exclusions or lasers may be imposed.

Real-life example: An employer placed their Stop Loss coverage with a third-party carrier effective 1/1/10 and was asked to provide updated disclosure information 30 days prior to the effective date. One plan member was involved in a car accident in late November 2009 and became part of the updated disclosure information provided to the third-party carrier, based on his appearance on a pre-authorization report. The third-party carrier applied a \$300,000 laser on this individual shortly before the coverage effective date.

CIGNA offers firm quote options that can lock in rates and terms up to six months in advance of the effective date. We also offer options to increase renewal rates predictability a full year in advance. Our Renewal Planner option guarantees no new lasers upon renewal and guarantees that no premium loads will be applied for any high-dollar claimants at renewal. The Individual Stop Loss renewal rate increase will be medical trend only, approximately 10 percent (plus maturation, where applicable). If any ongoing or potential high-dollar claims are identified during the renewal underwriting process, the case will still be renewed as a 'clean' case.

Accountability and Service

When choosing a Stop Loss carrier, it is important to understand the required reimbursement process. It is also critical to know who will be there to provide support, answer questions and ultimately make the decisions impacting your coverage.

CIGNA never outsources any services related to Stop Loss. We have a dedicated and experienced business team consisting of underwriters, a reimbursement team, product specialists and account managers who are experts in both CIGNA medical plans and Stop Loss coverage.

When both the medical and Stop Loss plans are with CIGNA, there are no claim notifications or filing requirements and we process Stop Loss claim reimbursements quickly, accurately and directly to the employer's bank account.

In addition, 100 percent of the Stop Loss risk is retained by CIGNA; there are no outside reinsurers. This offers our clients the peace of mind of knowing that we are fully accountable and solely responsible for decisions impacting underwriting and service.

Continuing Education

CIGNA offers two Stop Loss training courses that are available for Continuing Education credit for brokers and consultants:

Stop Loss 101: an introduction to product and contract options, pricing fundamentals and the competitive environment (Two continuing education credits).

Stop Loss 201: an advanced course including the drivers of cost increases and the process of matching employers' risk tolerance to the appropriate Stop Loss coverage (Two continuing education credits).

In addition to our structured continuing education courses, CIGNA can tailor an interactive Stop Loss session to meet your firm's needs.

To schedule a session, please contact your local CIGNA Sales representative.

Individual Stop Loss Comparison			
Provision	Explanation and Value	CIGNA Quote	Competitor Quote
“No Gap” Coverage, Consistent with the Medical Plan			
No Unique Annual or Lifetime Maximums	Maximums mirror the underlying medical plan. Conditions resulting in claims greater than \$1 million are more prevalent today due to advances in medical technology and improvements in life-extending care.	<input type="checkbox"/>	<input type="checkbox"/>
No Actively At Work or Non-Confinement Limitations	There are no provisions in the quote or policy that exclude coverage for those not at work due to accident or illness, or for those in confinement on the date coverage starts. Inclusion of these provisions could result in unexpected claim denials.	<input type="checkbox"/>	<input type="checkbox"/>
No Limitations or Exclusions for Transplant Coverage	Transplant coverage is consistent with the medical plan (no specific exclusions or limitations apply). Transplant claims routinely cost several hundred thousand dollars.	<input type="checkbox"/>	<input type="checkbox"/>
Definitions are Consistent	The definition and interpretation of terms such as medical necessity, pre-existing condition, experimental and investigational treatment between the medical and Stop Loss plans are consistent.	<input type="checkbox"/>	<input type="checkbox"/>
Disclosure and Quote Options			
Signed Disclosure Reporting is Not Required for Presale or Renewals	The carrier does not require completion of a signed disclosure form including all known and emerging claims, which may be used to re-rate or laser close to the effective date, and/or to later reduce or deny claim payments.	<input type="checkbox"/>	<input type="checkbox"/>
Firm Quote Option	Options to lock in rates and terms well in advance of the effective date are available. A firm quote with no disclosure requirements can be worth up to 15% more when compared to a contingent quote requiring disclosure.	<input type="checkbox"/>	<input type="checkbox"/>
Lasers			
Lasers are Not Required	Lasers (excluding individuals or setting a unique, higher pooling level for individuals who are expected to have large claims, increasing customer liability) are optional, depending on risk tolerance.	<input type="checkbox"/>	<input type="checkbox"/>
Flexible Contract and Product Options			
Run-In Coverage with No Dollar Limit is Available	Uncapped Run-In coverage for claims incurred under a prior carrier but paid on or after the Stop Loss effective date is available. This can be worth up to 15% when compared to capped Run-in.	<input type="checkbox"/>	<input type="checkbox"/>
Renewal Rate Predictability Options are Available	Options to guarantee renewal terms and certainty of coverage in the renewal year are available.	<input type="checkbox"/>	<input type="checkbox"/>
Incurred Contract Options are Available	Allows claims to accumulate based on incurred dates rather than paid dates, providing a better match to the underlying plan liability and eliminating the impact of claim payment timing.	<input type="checkbox"/>	<input type="checkbox"/>
Integration Discounts	Rates are reduced when purchased in conjunction with maternity and oncology case management programs.	<input type="checkbox"/>	<input type="checkbox"/>
Pharmacy Inclusion is Available	Pharmacy claim dollars can be included toward the Stop Loss limits. This can be worth up to 5 percent when compared to quotes excluding pharmacy coverage.	<input type="checkbox"/>	<input type="checkbox"/>
Reimbursement Triggers			
No Claim Filing Requirements	Reimbursements are processed automatically, with no claim filing or notification requirements.	<input type="checkbox"/>	<input type="checkbox"/>
Risk Retention and Accountability			
100% Risk Retention	There are no outside reinsurers. The carrier is accountable and solely responsible for decisions impacting underwriting and service.	<input type="checkbox"/>	<input type="checkbox"/>
Confidentiality of Medical Data	All personal health information is kept in-house (not distributed to multiple parties).	<input type="checkbox"/>	<input type="checkbox"/>
Dedicated Team of Experts	A dedicated and experienced Stop Loss team is available to answer questions and provide support.	<input type="checkbox"/>	<input type="checkbox"/>

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