Understanding Self-Funded Contract Types

Stop-Loss is Serious Business

Some employers have had bad experiences with vendors who have perilous provisions in their stop-loss contracts. This is the result of ignorance regarding the consequences of selling low-ball rates originating from weak contracts. Nowadays, most brokers illustrate health plans on a spreadsheet, in order to appear competitive to employers through spreadsheets, vendors succumb to the temptation to place favorable contract provisions in the policies which will result in low appearing rates. *Not all unfamiliar or obscure contract provisions are dangerous; many are favorable for both parties. But caveat emptor, if it sounds too good to be true….*

Basic Terminology:

- **Incurred**: Covers claims that are incurred during the contracted period. (note: a claims can be legally incurred, but no one knows about it because it hasn't been reported)
- **Paid**: Covers claims that are actually paid by the administrator during the contract period.
- **Specific Deductible:** The plan's internal deductible for each individual (e.g. $50,000) before the stop-loss is responsible to pay.
- **Aggregate Deductible:** The plan's entire annual deductible before the stop-loss is responsible (e.g. $3,350,000).
- **Accommodation**: A contract provision that allows for near instant reimbursement to the plan so claims can be paid immediately.
- **Laser:** The act of raising an individual's specific deductible

Special Terminology: Terminal Liability, Laser, Minimum Monthly Attachment Points, Aggregating Specifics, Named Aggregating Specifics, Deficit Carryforwards, Specific and Aggregate Accommodation, Run In Limitations, Specific Coinsurance, 2-10-2, Leveraged Trend.

A Case Study on Bad Contracting

An employer was ready to move to an ERISA plan. Their untrained broker shopped stop-loss contracts, separate from the claims administrator. **Lowest price was the most important factor.** The TPA quoted low fees and simply planned to auto pay all the bills. When large claims were submitted to the stop-loss vendor, they were denied on audit because of serious mismanagement. The stop-loss vendor had provisions in their contract allowing denials for this reason. The TPA had no reason to straighten it out because they just performed the job they had been contracted to do. The Stop-Loss vendor couldn't violate its contracted position because of its treaty with its carrier. And the broker simply didn't know what to do. Everyone was fired and self-funding was given a bad reputation.