SELF-FUNDING

Alternative Financial Arrangements for Group Benefit Plans

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Blue Cross Blue Shield of North Dakota is an independent licensee of the Blue Cross & Blue Shield Association

SELF-FUNDING

Why Self-Fund your benefits program?

- Groups with more than 26 employees enrolled have a choice of several standard design plan options available. There is additional flexibility for custom-designed benefit plans for groups with more than 50 employees enrolled.
- Potential lowering of health care costs.
- Elimination of carrier risk charge.
- Self-Funded groups are exempt from state-mandated benefits.
- Group holds their own reserves.
- Significant cash flow benefits may result.
- Promotes greater cost awareness and consumerism.
- Immediate Individual Stop-Loss protection.

What to consider:

- Group size must have a minimum of 26 employees enrolled.
- What are the demographics of your employee group?
- What is the health care utilization of your group?
- Do you have the financial resources to meet cash flow fluctuations?
- Would a Self-Funded plan be an affordable alternative to standard health care coverage?
- Will the additional risk jeopardize your business.

You decide what your company needs.

An increasing number of employers are looking for a better way to manage their health care costs. Self-Funded groups have more flexibility in the design of your company's employee health care plan. Under a Self-Funded plan, you contract with Blue Cross Blue Shield of North Dakota to process your claims, manage claims costs and pay providers directly on your behalf.

With Self-Funding you gain greater control by actively participating in the design of your plan. You'll have the advantage of containing health care costs by Self-Funding the expected claims and transferring the unexpected risk to Blue Cross Blue Shield of North Dakota.

We help control the costs associated with Self-Funding.

1. **Administrative Costs**
   - Administrative fees are calculated as a percent of total claims paid.
     - All services, such as employee Summary Plan Descriptions, Case Management and certain reporting are included in this fee.
     - Using this method to calculate administrative fees involves the employer in the administration of the health plan and allows the employer to participate in favorable claims experience.

2. **BlueCard®**
   - The BlueCard® Program allows access to substantial discounts in every state across the nation. These deep discounts not only help employer groups control their costs but also help control the member's liability.
3. **Stop-Loss Premium**
   - Claims experience is pooled with other groups to avoid wide fluctuation from year to year.
   - Our rates remain very competitive at all Stop-Loss levels.
4. **Claims Payment**
   - Our contracts and financial arrangements with 99% of North Dakota's physicians and 100% of our state's hospitals lower the cost of paying claims.
   - Discounts received by Blue Cross Blue Shield of North Dakota help control the increasing costs of your health care program.
   - If you have employees residing or traveling outside North Dakota, you can also take advantage of provider discounts through the BlueCard program. More than 85 percent of health care providers nationwide participate with a Blue Cross Blue Shield plan and its universal BlueCard.

How does Self-Funding work?

In a traditional insurance plan, you pay a premium to your health insurance carrier. In return, the carrier processes and pays claims according to your plan. The carrier is solely responsible for all risk.

By examining your employees' past claims experience, demographics and plan design, we can estimate the expected claims for your group. We can then suggest how much you should set aside each month to cover expected claims and related costs. As claims are submitted, Blue Cross Blue Shield of North Dakota will process and pay them from your designated account.

Administrative fees that are calculated as a percentage of paid claims plus BlueCard® fees are billed on the weekly claims billing. These fees are only paid if a claim is processed and paid from the designated account.

Actual claims and administrative costs will vary monthly, and cash flow fluctuations are limited by a Stop-Loss insurance arrangement.

Stop-Loss Protection limits your risk.

Most Self-Funded groups limit their risk by purchasing Stop-Loss coverage. Stop-Loss insurance protects against claims that exceed a predetermined amount. Blue Cross Blue Shield of North Dakota offers two types of Stop-Loss insurance: one for an individual and one for your entire company.

Specific

Your Individual Stop-Loss insurance will begin paying once a member of your plan exceeds your predetermined Stop-Loss level. For example, if your Individual Stop-Loss level is $25,000, BCBSND will automatically calculate and credit any claim payments made in excess of $25,000 for an individual member.

Aggregate

Your Aggregate Stop-Loss insurance will begin paying once the entire company's claims exceed an annual predetermined level. Typically, an Aggregate Stop-Loss Attachment Point is set as a percentage of expected claims, i.e., 120% of expected claims.

Stop-Loss insurance premiums are billed monthly and list each employee covered by your group insurance program.

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Self-Funding may provide alternatives to state mandates.

Self-funded businesses may be exempt from having to provide some mandated benefits.

Your guide to understanding general terminology in a Self-Funded plan:

Administrative Services
These services include medical review, processing and payment of claims, processing of employee applications, maintenance of membership files, conversion plans for terminating employees, assistance in the development and preparation of Summary Plan Description, distribution of identification cards, and completion of actuarial and statistical reports.

Aggregate Stop-Loss
The maximum level of claims payment for which the Self-Funded employer has liability. Claims in excess of this level are reimbursed by the Stop-Loss carrier. Such a plan is set for the contract year based on a percentage of expected claims during the contract period.

Aggregate Stop-Loss Attachment Point
The total dollar amount of paid or incurred benefits for all members per contract period, beyond which the insurance carrier will reimburse you, up to the maximum reimbursement.

BlueCard®
This program allows you the freedom to choose a Blue Cross Blue Shield provider anywhere in the United States—an important advantage if you receive services outside North Dakota. More than 85% of all hospitals and health care providers nationwide are participating with a Blue Cross Blue Shield Plan.

BlueCard® Fees
BlueCard® Fees are charged by BlueCard® Par/Host Licensee for delivering the benefits of its provider contracts or networks to another BlueCard® Control/Home Licensee. There are two components to these fees: Access Fees and Administrative Fees.

BlueCard® Access Fees
BlueCard® Access Fees are a percentage of the provider discount and are part of a claim's billed amount.

BlueCard® Administrative Fees
BlueCard® Administrative Fees are charged on a per claim basis and are billed as a separate line item on a group's weekly billing summary.

Claims Administrator
A company appointed by the employer to handle all administrative duties including the processing and paying of claims from the employer's designated account.

Claims Experience
Past claims utilization for an employer group.

Coordination of Benefits (COB)
A method of integrating benefits payable under more than one group health benefit plan.

Covered Charges
Charges for medical care or supplies which, if incurred by a participant or other covered person, create a liability for the insurer under the terms of a group policy.

Immediate Stop-Loss Protection
Coverage that begins immediately once the Individual Stop-Loss has been reached. This limits the employer's maximum claims responsibility for an Individual that has claims exceeding the Individual Stop-Loss.

Incurred Claims Basis
Individual and Aggregate Stop-Loss is based on the date the claim is incurred.

Incurred Contract
A self-funded contract based on the date in which claims are incurred by the eligible members.

Individual Stop-Loss
The dollar amount per individual per contract year which is the employer's responsibility. Also referred to as Specific Stop-Loss.

Maximum Reimbursement
The maximum amount of benefit payments payable to or for a member under the terms of the plan.

Paid Claims Basis
Individual and Aggregate Stop-Loss is based on the date the claim is paid.

Paid Contract
A self-funded contract based on the date in which claims are paid on behalf of the eligible members.

Retention
That portion of the funding retained by the administrator for expenses, contingencies and conversion.

Risk Corridor
The difference between expected claims and the Aggregate Stop-Loss Attachment Point. This is the risk the employer is accepting in the Self-Funded plan.

Self-Funding
A group benefit plan where the employer funds the claims incurred by their employees rather than the health insurance company. The employer assumes responsibility for the organization's health care expenses.

Stop-Loss Insurance
A supplemental protection plan employers may purchase to establish a cap on their claims responsibility. Provides protection against catastrophic or unpredictable losses.

Suggested Funding Level
The recommended dollar amount you should set aside per contract, per month, to adequately fund expected claims expenses, expected administrative costs and Stop-Loss premium.

Trend
Year to year medical inflation influenced primarily by utilization, advances in medical technology and increasing cost of medical services.

Questions and Answers:

Q. Why is it necessary to have an accurate census of my employees?

A. Reliable census information helps us determine premiums and liability limits for your Stop-Loss policy.

Q. I understand that under the Employee Retirement Income Security Act of 1974 (ERISA), Self-Funded employers may be exempt from providing the various mandated benefit requirements that all 50 states impose on insured plans. Is this true?

A. Yes. The U.S. Supreme Court has ruled that under ERISA, most employer self-funded health care programs are exempt from state laws imposing benefit requirements on fully insured plans.

Q. What percentage of group insurance sold by Blue Cross Blue Shield of North Dakota is Self-Funded?

A. Approximately 55% of all BCBSND group members are covered by a Self-Funded plan; 70% of all BCBSND large group members (50+ employees) are covered under a Self-Funded plan.

Q. How large does the group need to be to qualify for a Self-Funded insurance program?

A. We require a minimum of 26 participating employees for Self-Funding a group.

Q. If my Self-Funding arrangement isn't working, can I terminate the program?

A. Yes. In most cases, a fully insured program will be available on anniversary month. However, application to convert the group's policy must be made in writing within 31 days prior to the date of termination.

Q. Are specific and aggregate Stop-Loss insurance administered on an incurred or paid claim basis?

A. Both methods are available.

Q. Why do I need Stop-Loss insurance?

A. A Stop-Loss policy will limit your financial responsibility. A "catastrophic claim" could seriously impact your company's finances. A Stop-Loss policy will pay claims once they exceed a certain level. Stop-Loss coverage is strongly recommended for companies with fewer than 1,000 employees.

Q. When will my Stop-Loss coverage be administered?

A. Your Individual Stop-Loss policy will begin when claims exceed a specified maximum dollar amount.

Q. Are there different types of Stop-Loss coverage?

A. There are two types of Stop-Loss coverage: individual and aggregate. Individual Stop-Loss coverage will provide a limit to your liability on an individual member basis; Aggregate Stop-Loss coverage limits your liability on a total group claims basis. Most Self-Funded arrangements combine both types of coverage.

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To find out more about our products and services, visit our website at www.BCBSND.com

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