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Editor's note: This article addresses the importance of a proper actuarial analysis of a managed care health plan provider network when offering employer stop loss coverage for self-funded employee benefits programs. It also outlines a spectrum of potential net risk retention and service options supported by reinsurance through a managing underwriter.

Employers continually search for ways to control the escalating costs associated with providing a company-sponsored employee medical benefits program subject to ERISA. Many have engaged managed care health plans by any name (HMO, PPO, ACO, MSO) to control health care costs. Others have looked to the cost and control aspects inherent in self-funding their employee health care benefits. Employers that select both administrative services and managed care programs with strong provider networks have the best of both worlds.

NETWORK OPTIONS

Networks come in a variety of shapes and sizes. A self-funded employer and its third party administrator (TPA) may access a national network from one of the major national insurance carriers such as Blue Cross and Blue Shield, United/Optum, CIGNA or Aetna. This is most important for an employer with employees in multiple locations and because the national players often have strong discounts given their volume pricing position. Regional networks are often offered by provider-owned health plans which receive strong discounts from their provider owner and allow them to compete with the national chains listed above. Larger employers may enter into a direct negotiation with various hospital facilities to create their own direct network. Lastly, employers may also utilize a "wrap" network to access discount arrangements for out-of-network providers. It matters not whether these networks are owned or rented, but rather their cost-effectiveness. Rented and "wrap" networks typically have lesser discounts than proprietary or owned networks.

Alternatively, one program design in the market requires no specific provider network, but rather focuses on reference-based pricing associated with percent of Medicare allowable charges to control costs. It still works better with a strong provider network to minimize the impact of the pricing limits versus actual negotiated provider contract arrangements.

Provider networks demonstrate various regional differences. Rural areas more so than urban areas may be subject to a single or two dominant provider group(s). The larger the market, the more competitive it typically is in terms of options for provider negotiated arrangements with competing hospital systems. These arrangements may be offered by a TPA which is renting a network or by an insurer which has contracted with the providers for offering to its insured groups. Proprietary networks more so than rentals have the potential for customization for various product designs (e.g., tiered PPOs which provide different reimbursements for different utilization of tiered providers).

STAKEHOLDERS

All parties involved with ERISA self-funded plans have a stake in the strength of the managed care and the provider arrangements:

Employer/employee—the employer bears the liability for the cost of the employee benefit program and the employees have to utilize the given network and non-network providers to minimize their out of pocket costs.

Hospital/Physician—they enter into these arrangements to increase their hospital volume/fill their beds.

Insurer—although it may not share the underwriting risk with the self-funded health plan (except for the employer stop loss insurance), they also offer fully insured options in addition to self-funded options and these should be consistent with one another relative to the risks assumed.

TPA—the TPA has to administer the benefit arrangements in a timely and accurate manner, and this includes repricing of provider claims in strict adherence to contractual arrangements.

Employer stop loss carrier—this sleep insurance still provides protection for adverse claim experience per member and for the group as a whole. Pricing considerations are described later.

Broker—the broker is the fiduciary representative of the employer in the administration of the employee benefits program pursuant to ERISA guidelines. They only want what is best for the client based upon the client's expressed desires. Their job is to help the client find the best options for administration, provider network and employer stop loss carrier.

THE DATING GAME

There are numerous considerations in selecting an appropriate provider network partner. These include the cost-effectiveness as described above—which is not simple percentage discount, but rather quality and net cost to the employer assuming the liability for claims. Clearly, the ERISA plan is better receiving 100 percent of a $50,000 cost than 50 percent of a $200,000 cost. Health plans have to have broad access to providers—therefore, the depth and breadth of the network and access to those network providers is critical to an employer and an employee. Further, it is not just the discount arrangement, but how well the care is managed within the managed care program. Enter discussions of disease management, utilization review, population health management, etc. The TPA needs to have strong administrative capabilities for network repricing and also provide the client employer group access to information to help them make decisions on their benefit program year over year.

"HELP ME HELP YOU"

Many self-funded employers will purchase specific and aggregate stop loss insurance to mitigate the claim severity and frequency risks they have assumed. A managed care plan can establish a strong relationship with an employer stop loss carrier to offer this coverage. It is critical that the employer stop loss coverage produces pricing that reflects the value of the network provider agreements and medical management capabilities of the managed care plan. The network discounts will support the specific stop loss price and the aggregate claim attachment point amount. This requires the managing underwriter in the employer stop loss program to understand the managed care network provider agreements and develop specific employer stop loss base rates for the provider network and medical management programs being offered in the self-funded environment. This requires knowledge of the patterns of delivery of care in the provider network, the contract type (percent of billed charges, fixed fee contracts, and outlier provisions) as well as the TPA ability to proactively identify and manage routine and catastrophic claims consistent with the sound employee benefit plan design and managed care vendor support. This requires analysis of where the care will actually be delivered, not just the most cost-effective arrangements on paper—for example, if you are in Cheyenne, Wyoming, the complex neonatal risk will still likely migrate to Denver Children's hospital. It is also important to analyze the experience of the employer group itself with the given provider network, if it is not a new option.

Table 1 shows a sample network discount calculation for employer stop loss coverage.

Table 1
Hospital Discount Comparison (by ZIP Code)

	CMP		CMP - Plus					Number 2 Care					
Hospital	Regular	Platinum	LP - Choice	LP - Exclusive	LP - Exclusive +	TRP	TRP +	XYZ - Dual	XYZ - E1	XYZ - E2	XYZ - E3	XYZ - E4	XYZ - EPO
Hospital 1	33%	53%	30%	45%	50%	55%	60%	0%	0%	0%	0%	0%	0%
Hospital 2	12%	12%	12%	12%	12%	15%	15%	12%	12%	12%	12%	12%	18%
Hospital 3	34%	54%	25%	35%	38%	38%	38%	5%	5%	5%	5%	5%	5%
Number 2 City	15%	31%	0%	0%	0%	0%	0%	30%	32%	38%	40%	44%	50%
Number 2 Rural	6%	23%	5%	5%	5%	0%	0%	20%	23%	30%	33%	35%	40%
Number 2 Rural 2	5%	5%	10%	10%	10%	0%	0%	12%	12%	12%	12%	12%	17%
Big City Memorial	15%	15%	10%	10%	10%	10%	10%	16%	16%	16%	16%	16%	16%
Discount Range	24–37%	39–60%	24–36%	32–50%	35–55%	38–59%	41–61%	24–37%	26–39%	30–46%	32–49%	35–53%	40–61%

The final network discount factor is simply determined by calculating the percentage of discounts to various categories of in-network versus non-network claims times the expected utilization of in-network versus non-network providers (see Figure 1).

This 35 percent assumed discount for "from ground up" claims is then leveraged as it has more impact on claims exceeding various deductible levels (see Figure 2).

Having outlined this employer stop loss provider network pricing algorithm, it is to be remembered that the impact of the (35 percent) discount is more important to overall plan costs since it affects all in-network claims, not just those 5–10 percent which may exceed the chosen specific individual deductible per member for employer stop loss coverage.

Figure 1
Specimen Network Rating Calculation for Employer Stop Loss Pricing

In-Network Pricing Factor 58%	×	Network Utilization for Excess Claims 85%	=	Weighted In-Network Factor 50%
Non-Network Pricing Factor 100%	×	Non-Network Utilization for Excess Claims 15%	=	Weighted Non-Network Factor 15%
		Stop Loss Premium Factor	=	50% + 15% = 65%
		Stop Loss Discount	=	1 – 65% = 35%

"DO YOU FEEL LUCKY?"

Health plans interested in utilizing their provider network and medical management capabilities in a self-funded product environment have several important decisions to make. The first is whether to file and utilize their own insurance policy for employer stop loss coverage. Secondly, they must decide what functions they would like to perform versus having them performed by an external party such as a managing underwriter. Lastly, they must determine their risk tolerance, i.e., whether they will retain the entire specific and aggregate stop loss risk or share the risk on an excess of loss (XL) or quota share (QS) basis with a professional reinsurer. This presents the health plan with a spectrum of options from consulting services only to full risk transfer. Table 2 outlines these issues and choices.

Figure 2
Discounts by Deductible

Specific Deductible	Leveraged Discount
$0	35%
$25,000	44%
$40,000	46%
$60,000	50%
$80,000	50%
$100,000	53%
$150,000	57%
$200,000	60%
$250,000	67%
$350,000	67%

Table 2
Employer Stop Loss Facility Options

	Client Profile	Description of Option	Front Paper	Specific Case Underwriting & Pricing	Policy Issue, Premium & Claim Admin	Retained Risk by Health Plan
1	Start-up or non-risk taker with no brand desire beyond TPA/ PPO. Less expertise or time commitment.	Full service managing underwriter	Issuing carrier	Managing underwriter	Managing underwriter	None
2	Health plan interested in full service vendor, wants some risk but has no ability or no desire to issue policies.	Full service managing underwriter with reinsurance	Issuing carrier	Managing underwriter	Managing underwriter	Health Plan or captive reinsures XL/QS from issuing carrier
3	Health Plan branded but no risk or other administration role.	Full service managing underwriter with Health Plan front	Health Plan	Managing underwriter	Managing underwriter	None
4	Health Plan interested in branding and retaining some risk.	Full service managing underwriter with Health Plan retaining risk	Health Plan	Managing underwriter	Managing underwriter	Health Plan cedes XL/QS to reinsurer
5	Health Plan interested in controlling administration, pricing and underwriting, and retaining some risk.	Stop loss consulting plus XL/QS reinsurance placement	Health Plan	Health Plan	Health Plan	Health Plan cedes XL/QS to a reinsurer
6	Health Plan interested in controlling administration, pricing and underwriting, and retaining all risk.	Stop loss consulting	Health Plan	Health Plan	Health Plan	Health Plan retains all risk

CONCLUSION

Constructing one of the best employee medical benefits solutions by integrating self-funding with managed care is not easy, but is worthwhile and critical in controlling rising health care costs. The provider network rating process is important to establish expected claims and employer group stop loss rates and includes analysis of utilization of available provider networks and discounts, type of group (single site versus multi-location), referral patterns and managed care cost control programs.

A health plan's and managing underwriter's success in these arrangements is dependent upon their ability to develop the right provider network discounts or loads (as addressed previously in this article), provide a customized employer stop loss contract, underwrite and support competitive proposals, and cultivating a personalized relationship with the producers (agents, TPAs, brokers, consultants), all within agreed upon service capabilities and risk tolerances. ■

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