

## How Self Funding Works

*Features of a well designed, partially self-funded plan and how they protect you.*

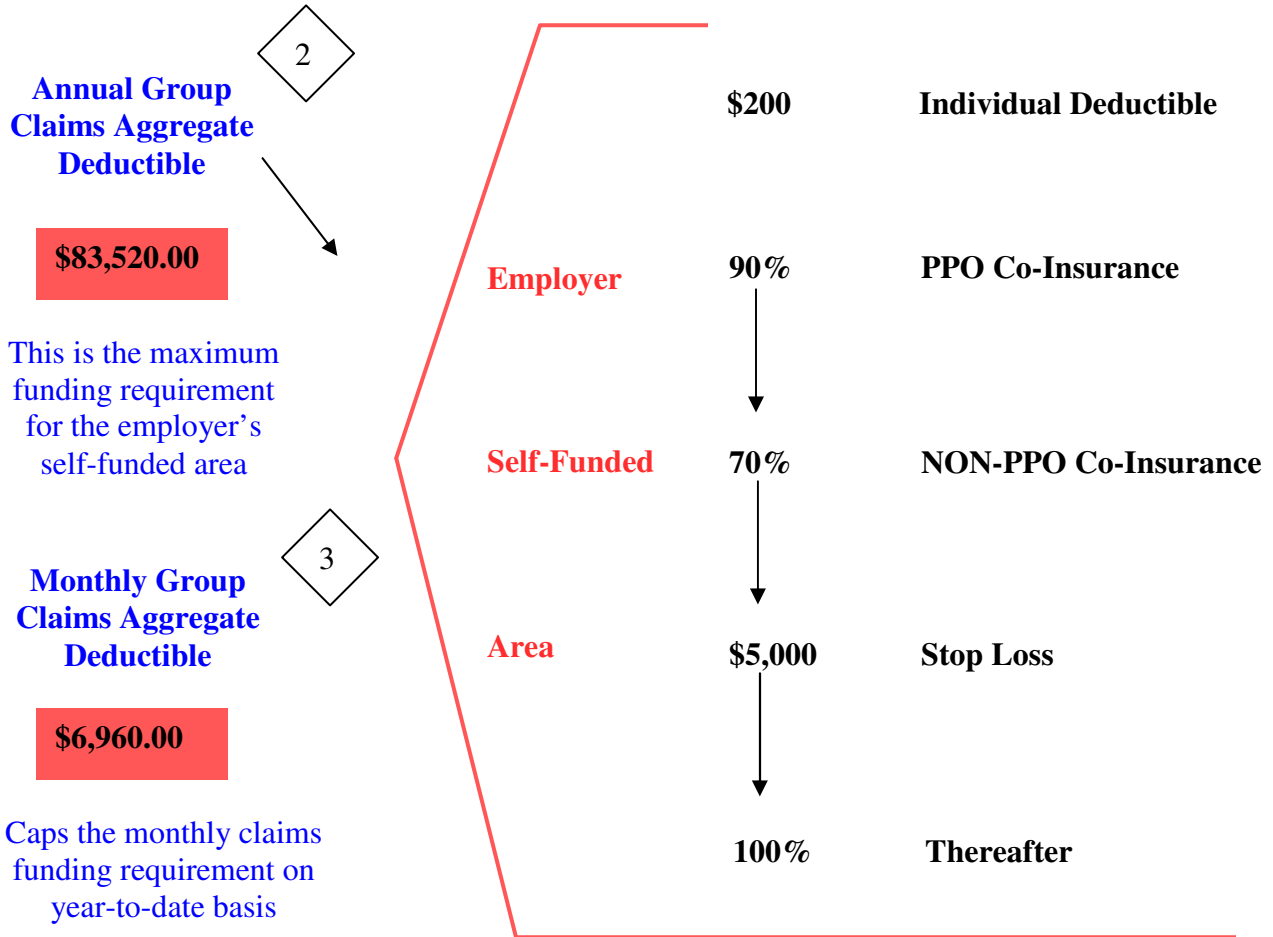
- Large Single Claim Protection (specific deductible)
- Monthly Cash Flow Protection (monthly aggregate cap)
- Total Group Claims Protection (aggregate deductible)
- Large Claim Cash Flow Protection (specific advancement)
- Terminal Liability Protection (run-out claims cap)

## Self Funding

### Self-funding protects you from large claims cost five ways:

- 1. First – Individual Claims Specific Deductible:** This coverage goes into effect when an individual's total medical claims in a Plan Year are greater than your company's Individual Specific Deductible amount. For example, if your company has an Individual Claims Specific Deductible as shown in the diagram on the next page, Diamond #1, and one of your Covered Plan Members has incurred claims that exceed the amount, the Third Party Administrator pays the amount up to your specific deductible out of your claims fund and the excess loss carrier pays the balance.
- 2. Second – Group Claims Aggregate Deductible:** This coverage is for all of the smaller claims that are less than your Specific Deductible amount. The coverage goes into effect when the sum of all eligible claims that are paid in the Plan Year exceed your company's Group Claims Aggregate Deductible amount. Self Funding caps your group claims exposure at a predetermined level on an annual basis. See Diamond #2 example.
- 3. Third – Monthly Group Claims Aggregate Deductible Cap:** This feature is intended to smooth out the month to month cash flow requirement of the employer. This excess loss carrier will advance funds for payment of any claims that exceed the year to date claims liability. See Diamond #3 for example. Once the carrier has advanced funds, the employer must continue to fund at the maximum claims liability level until the advancement is paid back or the end of the Plan Year, whichever comes first.

## Proposal for ABC Manufacturing Company



### Individual Specific Claims Deductible

**\$10,000** (1)

All eligible claims over this amount are paid 100% by the excess loss carrier up to

**\$1,000,000**

Black = Benefit Plan  
Blue = Excess Loss Carrier Area  
Red = Employer Self-Funded Area

See proposal for full explanation and exact details for your company

4. **Fourth – Individual Claims Specific Deductible Advancement:** The excess loss carrier indemnifies you from an individual with a large claims total while protecting your cash flow. You pay only the portion up to your selected Individual Claims Specific Deductible and the excess loss carrier pays the remaining portion of the claim immediately. See example.

**Funding Responsibility for \$30,000 in Claims for an Individual**

**Using a \$10,000 Specific Deductible**

	<b>Claims \$</b>	<b>Covered Plan Member</b>	<b>Employer</b>	<b>Excess Loss Carrier</b>
1 <sup>st</sup>	\$200	\$200	\$0	\$0
Next	\$5,000	\$500	\$4,500	\$0
Next	\$5,500	\$0	\$5,500	\$0
Next	\$19,300	\$0	\$0	\$19,300
<b>Total</b>	<b>\$30,000</b>	<b>\$700</b>	<b>*\$10,000</b>	<b>**\$19,300</b>

\* All eligible claims funded by the employer count towards the Group Claims Aggregate Deductible.

\*\* All claims over the Specific Deductible amount are paid by the Excess Loss Insurance Carrier. The Plan Sponsor **does not fund these claims.**

**5. Fifth – Terminal Liability Protection (Run-Out Claims Cap:**

*When the Plan Renews:*

All eligible claims incurred during the first Plan Year that are paid in the renewal Plan Year are covered by the renewal contract if a 24/12 or “paid” excess loss contract is chosen. Refer to Examples 1, 2 and 3.

*If the Plan Terminates at the End of the Contract Period:*

The Employer/Plan Sponsor is responsible for the annual Group Claims Aggregate Deductible for the Plan Year plus up to a percentage of the final annual Group Claims Aggregate Deductible for run-out claims. Claims exceeding the percentage or corridor will be reimbursed by the excess loss carrier. The Terminal Liability feature covers all eligible claims that are incurred during the Plan Year and submitted and paid within a specific time period, 180 days after the termination of the Plan. Please refer to the contract for the specific provisions which apply. Refer to Example 4.

**Example 1**  
**1<sup>st</sup> Year – 12/12 Excess Loss Contract**

<b>Plan Year Month 1</b>				<b>Plan Year Month 12</b>			
<b>Specific Deductible \$10,000</b>							These paid claims are not covered by the 1 <sup>st</sup> year excess loss contract, but will be covered if renewed with a 24/12 contract
In/pd	In/pd	In/pd	In/pd	In	/pd		
<b>Aggregate Deductible \$100,000</b>							

In = Claim incurred date  
 Pd = Claim paid date  
 In/pd = incurred and paid date

- This example shows an excess loss contract for \$10,000 Specific Deductible and a \$100,000 Aggregate Deductible covering all claims that are **incurred and paid** during the 12 month Plan Year.
- The Plan Sponsor self-funds the first \$10,000 of claims per Plan Member, but no more that \$100,000 in total for all Plan Members. The **excess loss carrier** pays all eligible claims that exceed these limits which are incurred and paid during the Plan Year.
- Claims that are incurred during the Plan Year and paid during the subsequent Plan Year are not applicable to the first year 12/12 excess loss contract. These claims will only be applied to the renewal contract if renewed with a 24/12 excess loss contract.

**Example 2**  
**Renewal Year – 24/12 Excess Loss Contract**

<b>Prior Plan Year</b>	<b>Beginning of Renewal Plan Year</b>				<b>End of Renewal Plan Year</b>	
	<b>Specific Deductible \$10,000</b>					
	In/	Pd	In/pd	In/pd	In/pd	In/pd
	<b>Aggregate Deductible \$100,000</b>					

- This example shows a renewal contract for a \$10,000 Specific Deductible and a \$100,000 Aggregate Deductible. This excess loss contract covers all eligible claims that are incurred in both the prior and the renewal plan years and paid in the renewal Plan Year.

**Example 3**  
**Renewal Year – 12/12 Excess Loss Contract**

Prior Plan Year	Beginning of Renewal Plan Year			End Renewal Plan Year				
In/pd	In/pd	In/pd	In/pd	In/pd	In/pd	In/pd	In/pd	
			<b>Aggregate Deductible \$100,000</b>					

- This renewal contract shows a \$10,000 Specific Deductible and a \$100,000 Aggregate Deductible. This excess loss contract covers claims incurred in the renewal year and paid in the renewal year. **Any claims incurred but not paid in the prior Plan Year will have to be fully self-funded by the Employer/Plan Sponsor.** As a result of this additional liability, the aggregate deductible is less than a 24/12 renewal contract.

**Example 4**  
**Non-Renewal of Excess Loss Contract (End of Plan Year)**  
**Aggregate Terminal Liability Protection with 180 Day Run-Out Period**

Plan Year Month 1	Any Plan Year	Plan Year Month 12	Month 18
<p style="text-align: center;"><b>Specific Deductible \$10,000</b></p> <p style="text-align: center;">in in in</p>	<p style="text-align: center;">pd</p>		<p style="text-align: center;">Terminal Liability Cap</p> <p style="text-align: center;">pd pd pd</p>
<p style="text-align: center;"><b>Aggregate Deductible \$100,000</b></p>	<p style="text-align: center;">Annual Aggregate +30%</p>		<p style="text-align: center;"><b>6 Months</b></p>

Total Claims Incurred During Plan Year \$300,000

Actual Plan Sponsor Liability for Claims Incurred and Paid During Plan Year and Run-Out Claims \$130,000

- **Terminal Liability Protection** is included in most Self Funded plans. If the excess loss contract is not renewed at the end of the Plan Year, the Employer/Plan Sponsor is responsible only for the annual Group Claims Aggregate Deductible for the Plan Year plus up to a percentage of the annual aggregate amount (as stated in the contract), less any aggregate claims paid during the Plan Year. **If the plan is terminated prior to the end of the contract period, the terminal liability cap will not apply.**
- Eligible claims incurred during the Plan Year have to be paid within six months after the end of the Plan Year to be eligible for the terminal liability cap. All eligible claims that exceed the cap will be reimbursed by the excess loss carrier.
- In the example above, the Employer's/Plan Sponsor's total run-out liability would be limited to an additional \$30,000 based on the Plan Year aggregate deductible and the run-out liability percentage stated in the excess loss contract.
- Please refer to the contract specific provisions which apply.