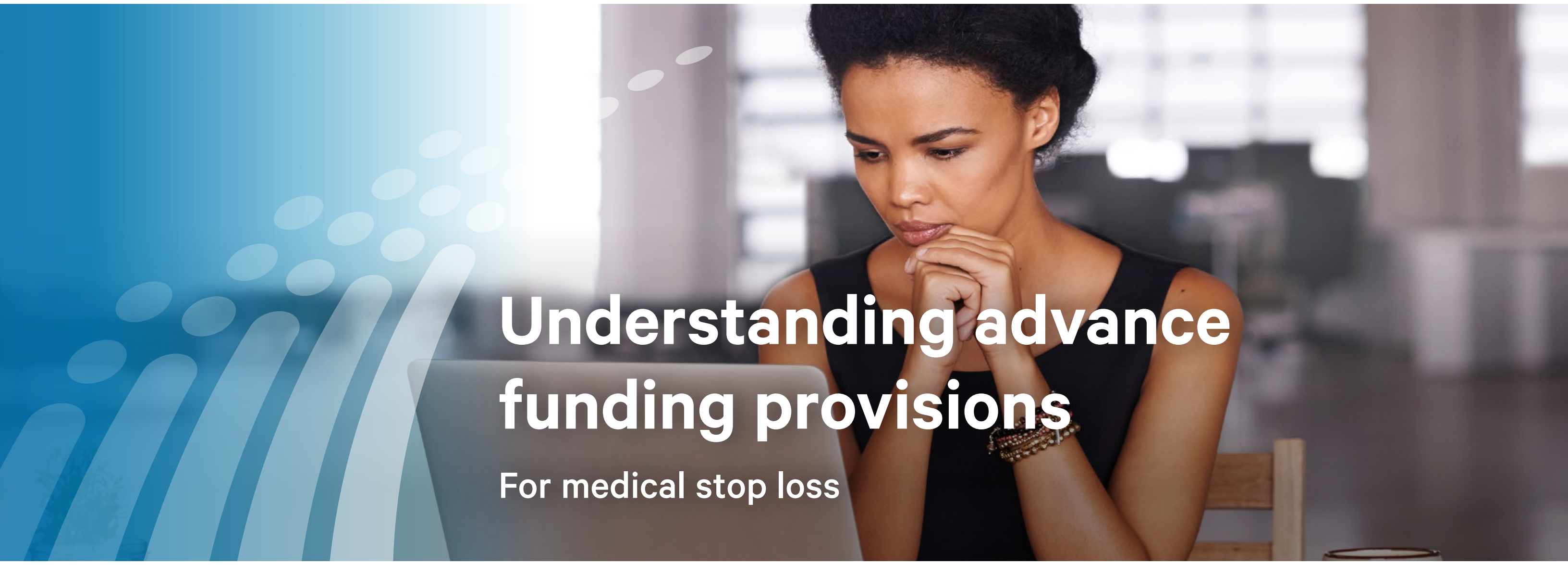

Understanding advance funding provisions

For medical stop loss

> Advance funding arrangements can help employers by ensuring funds are available for unexpected large claims.

Employers who self-fund their group medical plan enjoy flexibility and advantages that fully insured coverage may not provide. But they must be prepared for sometimes shockingly large claims and ensure they have reserves on hand—or access to funds—to pay providers in a timely manner.

Unexpected claims from high-cost conditions like a premature birth, organ transplant or cancer diagnosis can be difficult to pay, especially for groups operating on slim margins or limited budgets. That's why self-funded employers typically purchase a medical stop loss policy. Stop loss is designed to reimburse policyholders when claims for an individual and/or the entire group are higher than expected. But notice that the term "reimburse" is used here. At its core, stop loss is a reimbursement product. Employers who choose to self-fund must be prepared to make all initial claims payments themselves, or ensure their stop loss policy includes a provision that gives them advance access to those reimbursement dollars.

Advance funding provisions

As noted earlier, a sudden and unexpected catastrophic claim could be difficult for some self-funded employers to pay, and may even require a short-term loan. Fortunately, many stop loss carriers include advance funding provisions in their contracts that can accelerate the reimbursement of qualifying catastrophic claims.

Advance funding arrangements were created by stop loss carriers to streamline the reimbursement process and help protect the financial solvency of their clients' self-funded plans. By ensuring that funds are available for covered, unexpected large claims, advance funding provisions can eliminate the redundancy of employers borrowing to pay a claim only to receive a stop loss reimbursement just a few weeks later.

These arrangements vary by carrier, so it's important to carefully review the provisions of each contract to ensure you're not caught unaware.

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When comparing stop loss contracts, employers should work with their broker to carefully review advance funding provisions and be sure they are clear on any exclusions or limitations that would impact their access to funds.

How does it work?

Advance funding is typically only available once the policy's specific deductible has been met. If the claims administrator is a third-party administrator (TPA), the claims are typically pended until the advance reimbursement is received from the stop loss carrier. This process may take a few days or a few weeks, depending on the carrier.

Advance funding may not be available when the self-funded employer's claims administrator is an insurance carrier that provides administrative services only (ASO) claims support. In those cases, the stop loss carrier may have a different program designed to assist the self-funded employer with the funding of large claims. The stop loss carrier may accept a simplified claims request in order to accelerate the reimbursement, with a formal claim submission to follow at a later date. Employers can often receive payments in as little as one or two business days and, typically, on the condition that these funds are used to pay the providers within a short time frame.

The carrier will complete a full post-payment audit of the advance funded claim once the ASO reports are available to reconcile any claim adjustments and/or process additional reimbursements due for that claims month.

What to look for in a stop loss contract

When comparing stop loss contracts, pay attention to differences in advance funding provisions. Key questions include:

- Is advance funding available?
- What terminology does the stop loss carrier use to describe this feature? (e.g., advance funding, simultaneous transactions, expedited reimbursement, etc.)
- How is it addressed in the contract? (e.g., endorsement, discretion, etc.)
- If at the discretion of the carrier, is it contingent on renewal?
- Are there additional costs for the feature?
- Is advance funding available through the end of the policy year? If not, what are the limitations?
- How quickly can the carrier make funds available?
- Does the carrier provide advance funding if the claims administrator is an ASO?

It's important to understand the specifics of the underlying contract with regards to any advance funding arrangements. If due diligence is not done at the initial contract review, employers may discover that they do not actually have access to these funds when needed.

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Comparing carriers

For example, compare these sample stop loss contracts:

- **Carrier A:** Does not offer advance funding of any kind.
- **Carrier B**: Offers advance funding, but it is not available in the last two weeks of the policy year.
- **Carrier C:** Offers advance funding and allows claim filings up to 30 days after the policy year.

Now consider this scenario: An employer with a self-funded plan is faced with a $2 million claim for a premature birth at the end of the policy year in December. The employer must pay the claim quickly, but this adds significant financial pressure, especially at the end of the year when reserves are limited.

- If the employer is using **Carrier** A, they will likely have to take a short-term loan to pay the claim while the carrier completes its standard review process.
- With **Carrier B**, the employer may request advance funding, but if it's during the last two weeks of the policy year, the carrier may deny the request and the employer will have to fund and pay the entire claim and then seek reimbursement.
- With **Carrier C**, advance funding is available through the entire policy year, and the employer can request it up to a month after the birth occurs.

Depending on their carrier of choice, the employer in this scenario may have immediate access to funds, or they may have to wait longer than expected to receive reimbursement.

Understand the details

The stop loss industry created the advance funding option to help ease the financial burden of paying catastrophic claims. Brokers should help their clients understand the details in various carrier provisions and ensure they understand how any exclusions or limitations could impact their access to funds. With this guidance, employers can make informed decisions to help ensure funds are available when needed for unexpected large claims.

To learn more about advance funding provisions, contact your stop loss representative.

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