CAPTIVE PROGRAMS HELP TO STEM THE RISING TIDE OF HIGH-COST MEDICAL CLAIMS

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The alarming prevalence of high-cost medical claims emerges as a significant threat to the financial stability of self-insured health plans, as industry observers characterize the menace as a "silent killer" to the fiscal well-being of payors. These costly claims, often associated with complex and chronic conditions like cancer, cardiovascular diseases and neonatal care, can quickly escalate into millions of dollars.

The percentage of self-insured employers incurring claims over $1 million ranges from 20% to 31%, based on various surveys over the past five years. This significant increase in high-cost claims poses a substantial threat to the sustainability of self-insured health plans.

As the frequency and severity of these claims continue to rise, self-insured employers are increasingly turning to innovative risk management strategies to mitigate this growing financial burden. Recent data highlights the severity of the issue: Million-dollar-plus claims per million covered employees rose 8% in 2023 and are up by 50% over the past four years.

Unlike fully insured plans, where the insurance carrier absorbs the cost of large claims, self-insured employers bear the financial responsibility directly. This exposure to potentially catastrophic expenses underscores the need for robust risk management strategies to protect the financial health of the plan.

THE IMPACT OF REGULATORY CHANGES

The landscape of high-cost claims and the strategies used to manage them are also influenced by evolving regulatory frameworks. The Affordable Care Act (ACA) introduced significant changes that have affected how employers manage their health plans. One of the most notable changes was the elimination of lifetime benefit maximums, which has contributed to the rise in high-cost claims.

Before the ACA, many health plans had lifetime limits on benefits, which helped cap the financial exposure of employers. With the removal of these limits, employers are now potentially liable for much larger claims, making the need for effective risk management strategies even more critical.

Another regulatory consideration is the ongoing debate around surprise billing, which has led to the implementation of the No Surprises Act. This legislation, which took effect in 2022, protects patients from unexpected medical bills for out-of-network services in certain emergency and non-emergency situations. While this law is a step forward in protecting consumers, it also places additional responsibilities on employers and insurers to manage the costs associated with these out-of-network claims.

THE NATURE OF HIGH-COST CLAIMS

High-cost claims are medical expenses that exceed a significant financial threshold, which varies by employer but typically begins between $100,000 and $500,000. These claims are typically driven by conditions that require prolonged hospital stays, advanced surgical procedures or expensive medications.

According to the National Alliance of Healthcare Purchaser Coalitions, the majority of healthcare spending for high-cost claims is split between chronic conditions (53%) and acute conditions (47%). A report by Sun Life further delineates the top conditions contributing to high-cost claims, including malignant neoplasm, cardiovascular diseases, orthopedic conditions and newborn and infant care. The report notes that the incidence of million-dollar claims has risen significantly, with claims exceeding $3 million, nearly doubling over the past four years.

In addition to the significant financial burden, high-cost claims can also create unpredictability in health plan budgeting. The wide variance in potential claim amounts makes it difficult for employers to accurately forecast health plan costs, leading to challenges in financial planning and risk management.

MANAGING RISK THROUGH CAPTIVES

To mitigate these risks, self-insured employers increasingly adopt stop-loss captive insurance arrangements. These are single-source, turn-key health benefits solutions for self-insured businesses seeking innovative risk management tools for their employee healthcare programs.

The flexibility of these captives is particularly important in the current healthcare landscape, where costs are rising rapidly, and traditional insurance models often fail to provide adequate control or savings. The Kaiser Family Foundation Employer Health Benefits Survey indicates that much of the increase in captive use is driven by employers with fewer than 500 employees, who are increasingly opting for self-funding to better manage their healthcare costs.

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This explosion in stop-loss captive growth is part of a seismic shift in the healthcare industry brought on by clients demanding greater transparency and looking to take greater control of their health plan costs. Stop-loss captives provide both affordability and flexibility, giving clients the control they seek. This approach allows employers to pool their risk with other similar organizations, creating a shared layer of protection that can help stabilize costs and reduce volatility. This opportunity is particularly attractive to small and mid-sized employers who may not have the financial resources to absorb large claims on their own.

Risk pooling is a proven actuarial strategy that spreads the risk of loss across a group of individuals or entities. Spreading risk across a captive layer achieves efficiency of scale, allowing clients to pay only for what they use while collectively sharing in Experience Rated Refunds (ERR) annually based upon plan performance. As a result, premiums are more affordable, more transparent and less volatile year-over-year, providing long-term premium stabilization for self-insured employers. Financial performance and overall risk management can be easily tracked or adjusted via sophisticated financial reporting and claims analytics.

Ideally, a stop-loss captive provides tailored risk management programs to self-insured businesses across diverse industries. There is a nexus -- a natural win-win -- in stemming the rising tide of high-cost medical claims. It revolutionizes the methodologies used to review and adjudicate out-of-network and catastrophic claims, accounting for a captive's overall success that is attributed to its capabilities to insure a layer of risk based upon plan performance.

Ensuring the accuracy and integrity of medical bills before actual payment to a provider has a direct and positive impact on a client's medical loss ratio, another factor that directly influences the performance of a stop-loss captive.

Employers are invited to imagine the impact on their own plans if they engage in a systematic review of every single claim that is incurred. This is also an opportunity to envision the power of completely eliminating any out-of-network balance bills or tail liability with a legally defensible repricing methodology backed by an indemnity captive to protect payors and patients from balance billing or collection attempts.

This dynamic pairing potentially reduces overall claims spend substantially and positions the stop-loss captive brilliantly as the tail-end risk is entirely eliminated.

Any next-generation captive management expenses should be completely transparent in nature. Old-fashioned barriers to captive entry or handcuffs that prohibit exit and severely limit a client's mobility should no longer exist in the captive or self-insurance space.

Free market considerations should reign supreme in accordance with federal and state transparency regulations affecting everything from pharmacy benefit management selection to the RFP review and selection process as a whole. Red flags should signal the wariness of hardline exclusives that explicitly prohibit or limit any consultant's ability to provide stewardship of their clients' best interests.

THE ROLE OF BILL REVIEW IN COST CONTAINMENT

Think of stop-loss captives in their role of protecting employers against high-cost claims as analogous to protecting one's home from the ravages of storms, fires and intruders with alarm systems, reinforced windows, safety locks and other safeguards against destruction or home invasion.

One critical component of this captive protection is the effective use of bill review processes. Medical billing is notoriously abusive and fraught with egregious billing practices, errors and inflated charges. For this reason, stop-loss captives may partner with bill review services to carefully scrutinize medical bills to ensure accuracy, eliminate overcharges and reduce the overall cost of claims.

The entire bill review process is increasingly automated using AI and machine learning algorithms, which allow for a thorough and rapid review of every claim. This is particularly important as the first step in a layered approach to cost containment. Red-flagged claims are then subjected to a detailed review by physicians and surgeons with firsthand expertise in the medicine behind medical billing.

It's important to emphasize that this review must focus on the itemized bill, not just the Uniform Bill (UB-04). By understanding the nuances of medical treatment and coding, physician review experts can identify errors or

unjustified charges that might otherwise go unnoticed. Bill review services should involve a detailed analysis of each line item on a medical bill, comparing charges against standard pricing and reimbursement guidelines. This process often results in significant reductions in the amount paid by the health plan.

Estimates of the pervasiveness of billing errors indicate the magnitude of overbilling. In 2013, the American Medical Association estimated that 7.1% of paid claims contained an error, while a NerdWallet analysis of 2013 hospital compliance audits by Medicare and the Office of Inspector General found that 49% of the medical claims audited contained billing errors. More recently, the Medical Billing Advocates of America determined that 80% of hospital bills contain billing errors.

Unlike traditional reference-based pricing (RBP) models, some organizations employ a unique cost-based repricing strategy that is not reliant on Medicare rates, which are often seen as an inadequate guide for fair pricing. This approach positions these strategies as alternatives to conventional RBP methods. The effectiveness of this cost-based repricing strategy has been increasingly recognized as providing substantial savings while ensuring fair and defensible payments to providers.

The strategy emphasizes legal defensibility, reducing the likelihood of disputes or litigation and fosters better provider relations by prioritizing fair and transparent payment practices. This approach not only minimizes friction but also promotes accuracy and trust across all stakeholders.

CASE EXAMPLES OF REAL-WORLD SUCCESS

These examples demonstrate the tangible benefits of combining stop-loss captives with rigorous bill review processes. By leveraging these tools, self-insured employers can reduce their immediate costs and create a more stable and sustainable health plan over the long term.

- Slashing Overpriced Bills for Newborn Care: When an underweight newborn was placed in the Level II Neonatal Special Care Nursery for five days, the hospital issued an invoice totaling $119,245. Upon review, the bill was found to be highly inflated. By considering the facility's average contractual discount (ACD) and scrutinizing each charge, the bill was repriced to $14,810—just 12.5% of the original charges.
- Containing Costs for Common Surgical Procedures
- A podiatrist's assistant surgeon in New York City billed $169,410 after performing two common procedures on a patient. Following a thorough clinical bill review, this charge was reduced to $632.
- Correcting Overcharges in Oncology Surgery
- In another instance, a surgeon billed $99,380 for three mastectomies performed on a 47-year-old cancer patient. After an external review, the bill was reduced to $3,072.

Bill review processes alone do not prevent balance billing, which is a common issue where providers charge patients far more than what the payor covers. To fully address balance billing, a comprehensive approach is often necessary.

This approach typically involves three key steps: rigorous bill review, followed by cost-based repricing, and finally, indemnifying down to the single claim level. Such a strategy helps ensure that payors and patients are protected from balance billing and collection attempts, significantly reducing out-of-pocket expenses and dissatisfaction with the health plan.

PROACTIVE RISK MANAGEMENT: THE PATH FORWARD

The rising tide of high-cost medical claims presents a serious challenge for self-insured employers, but it is not insurmountable. By adopting proactive risk management strategies, such as participating in a stop-loss captive insurance arrangement and utilizing thorough bill review, defensible repricing and claim indemnification processes, employers can protect their health plans from high-cost claims that drive higher premiums for stop-loss coverage.

For self-insured employers, the key to success lies in a comprehensive approach that integrates multiple risk management strategies. Stop-loss captives provide the foundation by pooling risk and stabilizing costs, while bill review and repricing services ensure that every claim is scrutinized for accuracy and fairness. Together, these tools offer a powerful solution to the growing challenge of high-cost medical claims, enabling employers to maintain control over their healthcare costs, bring added protection to their employees and protect the financial health of their plans. ■

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