

## II. Solicitation of Comments

The Departments are requesting comments to contribute to the Departments' understanding of the current and emerging market for stop loss products, both generally and with respect to the following specific areas:

### **Background Information on the financial structure of Employer based group health insurance.**

When you study the financial structure behind a larger Group Health Plan you quickly discover there is **NO "insurance" in Group Insurance!** Depending on the state insurance laws this could be for groups of 25 and up.

- The Carriers actuarially calculate what the premiums should be to pay for the following:
  - All of the claims
  - All of the administration charges
  - All of the pooling charges for the disaster claim (similar to stop loss for self-funded plans)
  - All of the claim reserves
  - All of the home office and other company overhead
  - And a profit
- In the vast majority of years the premiums cover all of these expenses and you get an increase at renewal
- When they miss you get a huge renewal...

### **Why Self-Funding is so appropriate for the vast majority of eligible groups?**

- Larger Group Health Plans can pay the almost all of the claims themselves
- They then hire a Third Party Administrator (TPA) to professionally perform the essential administrative services
- They can buy umbrella coverage (Stop-Loss) to protect them from the disaster claim (like the pooling charges of an insured plan)
- They will eliminate all of the unnecessary charges
- They will minimize the necessary ones
- It is a good business decision

1. How common is the use of stop loss insurance in connection with self-insured arrangements? Virtually all of the self-funded plans have stop loss coverage. Only the very large (several thousands of covered employees) or very well-funded companies do not have

**stop loss coverage.** Does the usage vary (and, if so, how) based on the size of the underlying arrangement or based on other factors? **Yes, there is no formula that is carved in stone because there are so many variables. Namely:** a) How many employees are covered? b) What is the risk tolerance of the buyer? c) What is the financial strength of the employer? d) How much flexibility is needed to give the employees the benefits they value? E) How the health plan can integrate with the companies wellness initiatives? **Etc.** How many individuals, if known, are covered under stop loss insurance (either nationally or on a state-specific basis)? **Usually all those covered on the plan regardless of state of residence.** What are the trends? **Self-funding is on the rise as more employers understand the facts outlined above.** Are past trends expected to be predictive of future trends? **I believe so, for obvious reasons.** Is the Affordable Care Act expected to affect these trends (and, if so, how)? **For the larger employers who value their employees I feel there will be little effect. For the groups under 50 employees it depends on the penalties for not having a value plan. A successful business is one that makes good business decisions. If the penalties are perceived to be a lot cheaper than actually offering coverage there will be dumping into the exchanges, especially for the plans with really sick people. At the end of the day, however, the exchanges are destined to be a high premium option, but not on the employer's dime.**

2. What are common attachment points for stop loss insurance policies, and what factors are used to determine these attachment points? What are common attachment points by employer size (e.g., for plans with fewer than 50, between 50 and 100, or between 100 and 250 employees, and how do these compare to attachment points used by larger plans)? What are the lowest attachment points that are available? What are the trends?

We have analyzed our block of business for a “**Real World**” Answer based on what is actually happening. The results are as follows:

Employees From	Employees To	Range	<u>Average</u> stop loss Deductible
Under 50	50	25,000 - 60,000	\$ 32,500
50	100	25,000 - 75,000	\$ 51,750
100	200	40,000 - 90,000	\$ 57,500
200	400	40,000 - 140,000	\$ 101,900
400	500	70,000 - 225,000	\$ 112,500
500	1000	100,000 - 250,000	\$ 160,000
1000	2000	175,000 - 300,000	\$ 225,000

**In addition, I posed the same questions to one of the stop loss carriers we use and below is their response:**

- What are common attachment points for stop loss insurance policies, and what factors are used to determine these attachment points? Pooling points generally range from \$10,000 to \$1 million, depending on the size of the group, and typically fall within 3 to 6 percent of the annual expected claim amount.
- What are common attachment points by employer size (e.g., for plans with fewer than 50, between 50 and 100, or between 100 and 250 employees, and how do these compare to attachment points used by larger plans)? Pooling points generally range from \$10,000 to \$1 million, depending on the size of the group, and typically fall within 3 to 6 percent of the annual expected claim amount.

- What are the lowest attachment points that are available? \$25,000 Specific Deductible, some carriers will not go down that low.
- What are the trends? 10 to 12%

**The following grid is an underwriting “guideline” from a different carrier**

Number of Covered Employees	Minimum Per Person	Maximum Per Person
101 -150	\$ 25,000	\$ 50,000
151-250	\$ 50,000	\$ 100,000
251-500	\$ 75,000	\$ 150,000
501-1000	\$ 100,000	\$ 250,000
>1000	\$ 150,000	\$ 500,000

3. Are employee-level (“specific”) attachment points more common, or are group-level (“aggregate”) attachment points more common? In most cases a company will purchase both. Once a company gets to a certain size or is financially sound, the aggregate coverage is not as important as the individual stop loss coverage. Rarely does a company purchase aggregate coverage. What are the trends? What are the common attachment points for employee-level and group-level policies? See #2
4. How do insurers work with small employers to integrate stop loss insurance protection with self-insured group health plans? Most work the same as the larger plans except the specific attachment point is lower.  
There are some hybrid programs that combine the specific and aggregate into a monthly liability equal to a premium equivalent (monthly funding amount). A portion of the

monthly funding amount is pre-allocated to claims and the rest to stop loss and administrative costs. If the employer doesn't use all of the claims allocation the balance is returned after the contract period is closed. If the claims exceed the claims allocation the stop loss contracts reimburse the claims fund.

What kinds of options are generally made available? The Plan is based on the benefits that the employer wants to provide to their employees. The stop loss is underwritten based on the plan of benefits. The stop loss attachment points are determined by the employer based on the carriers offering. Are policies customized to meet the needs of different employers? Generally only to the extent of the underwriting to the benefit plan and the stop loss levels. How are the attachment points for a stop loss policy determined for an employer? Based on the carrier's offering the deductible is chosen by determining the best blend of premium and the risk that the employer wishes to assume. The more risk the employer wants to assume the higher the stop loss deductible and the lower the resulting premium will be. Do self-insured group health plans purchase stop loss insurance anticipating that they will purchase it every year? YES! Unless the employer's enrollment grows to the point that they feel they have a sufficient spread of risk that they no longer wish to buy stop loss. This is usually for employers with more than 5,000 employees.

5. For a given attachment point, what percentage of total medical costs incurred by the employees is typically paid for by the employer and what percentage is typically paid for by the stop loss insurance policy? If the employer has a good year and there is no stop loss reimbursement, then it would be 0%. We will have some of these every year. In a more normal year the reimbursements may range from 5-8% and in a bad year they would range from 10-15%. If there was a particularly really bad year it could be as high as 25-30% How much do the relative percentages vary for different attachment

points? Generally, the higher the attachment point the lower the percentage will be. What are the loss ratios associated with stop loss insurance policies? We have seen a range from 0% to over 500% depending on the employer and how good or bad of a year they are having.

6. What are the administrative costs to employers related to stop loss insurance purchased for the employers' self-insured group health plans? Normally the cost to handle the administration of the plan is around 3%. When you add the stop loss premium and other fixed fees for PPO access, Utilization Management and others, there is another 10-12%. The total fixed costs are around 15% leaving the claims at about 85% of the total Plan cost for the year. How do these costs compare to the administrative costs related to purchasing a health insurance policy from an issuer? The cost of having a self-funded plan will usually be considerably lower than an insured Plan for the reasons outlined in the background information at the beginning of my response.
7. Is stop loss insurance more prevalent in certain industries or sectors? In our experience the answer is no. Are there any minimum employee participation requirements for a small employer to be offered stop loss insurance? The carriers will have their own requirements but from an employer stand point it is based on their financial strength and their risk tolerance. A financially strong employer with a high risk tolerance of 25 employees or less may want to self-fund. Over the years this could be a good business decision for them.
8. What types of entities issue stop loss insurance? Life carriers, property casualty carriers and Managing General Underwriting (MGU) companies representing reinsurers. How many small entities<sup>11</sup> issue stop loss insurance policies? I do not know.
9. Do stop loss issuers increase fees for groups below a certain size or exclude those groups? If so, how? Carriers may have groups they choose not to underwrite and

may have higher rates for specific industries that carry a higher risk based in that industry's historical claims experience.

10. How do stop loss insurers evaluate the plans seeking coverage and how is this evaluation reflected in the coverage or premiums offered? **The richer the benefit plan, the more coverage provided for less traditional coverages (such as infertility that will promote more premature babies), and the lower the deductible level that the employer chooses to fund, the higher the premiums will be.** Does the profile of the plan have an effect on the attachment points available? **To the extent of the number of covered employees, yes.**
11. How do States regulate stop loss insurance? **Most States do not nor should they.** Most of these plans are ERISA plans and that provides more protection than any State could hope to provide. For the non ERISA plans many States have a mandated benefit which increases the cost of the plan, but the States don't generally regulate **the stop loss coverage.** In States that are regulating this insurance, what are the licensing processes and standards? Have States proposed laws, regulations, or best practices with regard to stop loss insurance? Do such proposals focus on attachment points, size of the group, percent of total claims paid by the stop loss insurer, or other criteria? What are the issues States face in regulating stop loss insurance? **I am not aware of what is happening in all of the States, but from what I have seen in a few States they will drive up the cost to employers and employees.** There can be no good that comes from State laws because they cannot protect the employees any better than ERISA and will add layers of cost and administrative burden and will make things worse while improving nothing. The States that have

mandated benefits to self-funded non ERISA plans have proven this.

12. What effect does the availability of stop loss insurance with various attachment points and other particular provisions have on small employers' decisions to offer insurance to employees? It has been proven in the past that when restrictions and limits have been placed on employers regardless of size, some will stop offering plans due to the complexity and cost. Any time the government interferes with free enterprise, the enterprises are free to stop offering valuable benefits to their employees because it just is no longer worth the expense and effort.
13. What impact does the use of stop loss insurance by self-insured small employers have on the small group fully insured market? For the most part each employer makes a business decision based on their ability and need to provide benefits. The availability of a more cost effective alternative is always a good thing. If self-funding is restricted or taken away it will have a negative effect on those who are self-funded and possibly cost those who are insured even more. When you eliminate the cost effective competition the prices go up.