

Unified Group Services Response to Departments Request for Information

Q1. How common is the use of stop loss insurance in connection with self-insured arrangements? Does the usage vary (and, if so, how) based on the size of the underlying arrangement or based on other factors? How many individuals, if known, are covered under stop loss insurance (either nationally or on a state-specific basis)? What are the trends? Are past trends expected to be predictive of future trends? Is the Affordable Care Act expected to affect these trends (and, if so, how)?

A1. Although we have seen a relatively small amount of employers that choose not to have stop loss, the vast majority of our clients do choose stop loss as part of their self-funded arrangement. We would say stop loss with self funded arrangements are very common and the usual method.

For those clients we see that choose no stop loss they are typically (1) clients with a large number of lives; or (2) a hospital with a large number of lives; or (3) part of a larger employer arrangement with a large number of lives. The clients usually have the view that taking the risk on the number of covered lives as opposed to paying the stop loss premium of each of the lives is the better option. Hospitals also have the extra protection of high dollar services being performed in their own facility which reduces their own out of pocket benefit costs.

Due to the high cost of health care we think the trend is that most self funded plans will continue to utilize stop loss, predictable from past trends. PPACAs effect on stop loss will be determined by how health care costs react. However with the implementation of unlimited lifetime maximums some of the larger groups may look to purchase stop loss insurance to help cap their liability in the same way the annual and lifetime maximums did prior to PPACA. So in the future there might be more utilization of stop loss insurance by self-funded groups.

Q2. 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?

A2: Attachment points are typically associated with aggregate coverage. The attachments start as low as around \$150,000. The attachment points will vary from group to group as it is based upon the group's demographics (age/sex) of employees, benefit plan design, industry, PPO Network, and actual prior claims experience. Groups with more than 500 employees typically don't have aggregate coverage as due to their size the aggregate claims from year to year are typically predictable and chance of an aggregate claim is very minimal. Typically smaller groups carry the aggregate coverage as they are most susceptible to spikes in claims activity and need that overall protection to protect their cash flow.



Q3. Are employee-level ("specific") attachment points more common, or are group-level ("aggregate") attachment points more common? What are the trends? What are the common attachment points for employee-level and group-level policies?

A3: The most prevalent attachment point is on the "specific" level where each covered member has a specific deductible that the plan has to pay before the reinsurance carrier reimburses claims. The lowest specific deductibles are around \$15,000 with the largest going up to \$1,000,000. Groups under 50 lives typically carry a specific deductible of \$50,000 or less. Groups 50 to 150 lives are \$50,000 to \$100,000 specific deductibles. Groups with over 150 can have specific deductibles over \$150,000. The size of the specific deductible will vary by the ability of the group to handle the cash flow of funding that deductible and the amount of risk they are willing to take vs the fixed premium. "Aggregate" attachment points are most common with smaller groups, schools, & municipalities that need to have a maximum in place for budgetary purposes.

Q4. Are employee-level ("specific") attachment points more common, or are group-level ("aggregate") attachment points more common? What are the trends? What are the common attachment points for employee-level and group-level policies? How do insurers work with small employers to integrate stop loss insurance protection with self-insured group health plans? What kinds of options are generally made available? Are policies customized to meet the needs of different employers? How are the attachment points for a stop loss policy determined for an employer? Do self-insured group health plans purchase stop loss insurance anticipating that they will purchase it every year?

A4: Insurers have developed some creative stop loss options to help the smaller groups.

1. No laser guaranteed contracts. In this type of contract a group will pay a higher specific premium up front for the guarantee that the stop loss carrier won't laser an individual with a higher specific deductible in the future and that the premiums won't go up more than a specific % that next year. This has helped smaller groups & those with budgetary needs to be able to forecast future liability better.
2. Aggregate Only contracts. In this type of contract a group will pay each month a fixed amount for premium & for claims. If their actual claims exceed the amount they paid for claims that month the stop loss carrier will cover the excess claims. This allows a smaller group to be able to have a set amount to budget each month for their healthcare costs. This has allowed many smaller groups to transition from fully insured contracts to self-funded contracts and takes advantage of saving money if their claims aren't as high as the claim budget.

The stop loss policies are customized to each group as it takes into account the group's prior experience, plan of benefits, provider networks, industry, and population demographics. Most self funded groups do anticipate purchasing stop loss insurance every year unless they get to the size that it might not be prudent to maintain coverage; however that is only a few groups.

Q5. 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? How much do the relative percentages vary for different attachment points? What are the loss ratios associated with stop loss insurance policies?

A5. Stop loss claims are not based on % of claims but more so individual or aggregate claims experience. There may be times when the stop loss policy would reimburse a high % if there was high claims experience, and other times the policy would reimburse 0%.

- Q6: What are the administrative costs to employers related to stop loss insurance purchased for the employers' self-insured group health plans? How do these costs compare to the administrative costs related to purchasing a health insurance policy from an issuer?
- A6: There is rarely administrative costs for the employer to have stop loss as the administrative functions related to stop loss are typically handled by the TPA.
- Q7: Is stop loss insurance more prevalent in certain industries or sectors? Are there any minimum employee participation requirements for a small employer to be offered stop loss insurance?
- A7: Stop loss is utilized by all sizes and types of employers. The decision to carry stop loss is typically based upon budget, claims experience and tolerance for risk. Stop loss carriers do have minimum employee participation requirements but they vary widely amongst stop loss carriers so there is quite often a stop loss carrier that can meet most of the small group needs.
- Q8: What types of entities issue stop loss insurance? **How many small entities issue stop loss insurance policies?
- A8: Some insurance carriers specialize in selling stop loss directly to the plan or employer. Others use MGUs. Size is not relevant because the issuer or MGU may be small, but their coverage representation may be large.
- Q-9: Do stop loss issuers increase fees for groups below a certain size or exclude those groups? If so, how?
- A9: Stop loss issuers rate each group on their own merits and don't have a blanket policy to increase fees for a small group. Typically the smaller the individual specific deductible is for a group the higher the premium. Then as the specific deductible increases the premium gets smaller. This is because with a smaller deductible the stop loss carrier is taking on more risk so they require more premiums. When the specific deductible is higher the stop loss carrier is further away from the risk of paying monies out so the premium they need is smaller. Some stop loss carriers will exclude certain types of industries as they are very risky to insure.
- Q10: How do stop loss insurers evaluate the plans seeking coverage and how is this evaluation reflected in the coverage or premiums offered? Does the profile of the plan have an effect on the attachment points available?
- A10: Stop loss insurers evaluate each group based upon the group's prior experience, plan of benefits, provider networks, industry, and population demographics. All of these factors go into determining the appropriate premiums & attachment point to offer to the group. Some industries that put an individual into a more adverse health position will receive higher rates than others. Costs will vary by geographic region so as to reflect the cost of healthcare in those locations. A group with a higher average age of its employees will receive a higher cost rating than that of a younger employee population.
- Q11: How do States regulate stop loss insurance? 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?
- A11: These are questions best answered by the stop loss community.

Q12. 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?

A12: Having many stop loss markets allows there to be many options to seek for smaller groups. There are some stop loss markets that specialize in providing options to small groups to be able to self-fund their health plan.

Q 13. What impact does the use of stop loss insurance by self-insured small employers have on the small group fully insured market?

A13. Stop loss has stabilized self funding, much the same way as reinsurance in insured plans. Stop loss is not unique in the growth of employers desire to self fund. The attraction of self funding lies in the ability to have more control over the benefits offered and to have the opportunity to save money in years when the claims are not as much as the premium.