

**Answers to Request for Information about Stop-Loss
Department of the Treasury, Requested by IRS, Department of Labor, EBSA, HHS, CMS
May 1, 2012**

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Request for Information – Stop Loss

HMA is a Third Party Administrator (TPA) based in Bellevue WA and primarily serving the states of Washington and Oregon. We have approximately 120 groups that we administer with approximately 60,000 employees (120,000 members). The groups range in size from just over 50 employees to just under 10,000 employees. Our responses are based on information as it pertains to our block of business and from the perspective of a TPA. We do not pretend to be experts on many of the issues raised and will not attempt to answer anything that is out of our scope of expertise.

1. How common is the use of stop loss insurance in connection with self-insured arrangements? All of our clients have specific stop loss coverage. The vast majority also have aggregate coverage though that may be skewed by the fact that the State of Washington requires aggregate coverage.

Does the usage vary (and, if so, how) based on the size of the underlying arrangement or based on other factors?

Very few entities go without stop loss coverage. See the comment above.

How many individuals, if known, are covered under stop loss insurance (either nationally or on a state-specific basis)?

Unknown.

What are the trends? Are past trends expected to be predictive of future trends?

Given the increasing frequency of high dollar claims and the magnitude of those claims we would anticipate that most self-funded plans will continue purchase stop loss coverage.

Is the Affordable Care Act expected to affect these trends (and, if so, how)?

While the Affordable Care Act may influence how many employers choose to self-fund their healthcare benefit plans we do not expect it to affect whether self-funded groups will choose to purchase stop loss coverage.

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?

The specific deductibles we see are in the range of \$30,000 to \$250,000. While smaller groups tend to have the lower deductibles, there are other factors that drive the attachment point. The level of the deductible is largely based on an employer's ability to bear risk balanced with a desire to minimize premium payments.

The vast majority of our clients have an aggregate deductible that is set at 125% of expected claims. While aggregate coverage is mandated in the State of Washington a few of the more financially stable accounts in Oregon have chosen to go without aggregate coverage.

3. Are employee-level (“specific”) attachment points more common, or are group-level (“aggregate”) attachment points more common?

As indicated in 1. above, all of our clients purchase specific coverage and most of our clients purchase aggregate coverage.

What are the trends? What are the common attachment points for employee-level and group-level policies?

While the specific attachment points vary greatly from group to group, the general trend is for groups to increase their deductibles to help offset the increase in premium rates.

4. 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?

The purpose of stop loss insurance is to protect the employer from catastrophic events. For example; A self-funded group with limited resources could be put out of business if they have an individual who incurs a \$1,000,000 claim. As indicated in 2. above, the goal is to set the attachment point at a level that appropriately balances the group’s tolerance of risk and the premium payments.

Do self-insured group health plans purchase stop loss insurance anticipating that they will purchase it every year?

Yes, they do anticipate purchasing stop loss coverage every year.

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? How much do the relative percentages vary for different attachment points?

This is driven by the attachment points and the group’s experience. For example; If a group has a \$30,000 deductible and several individuals with high claims dollars, then the stop loss coverage will be reimbursing the group for a large portion of the claims. If on the other hand, a group has a \$250,000 deductible and few high dollar claimants, the group will be covering most or possibly all of the medical costs.

What are the loss ratios associated with stop loss insurance policies?

This is a question better answered by the stop loss carriers.

6. 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?

The administrative costs are primarily incurred by the TPA and are associated with identification of the large claims, submitting the claims, and tracking and processing the payments received from the stop loss carrier. These costs are typically imbedded in the general administration fee charged to the group and are a small portion of that fee.

7. Is stop loss insurance more prevalent in certain industries or sectors?

As indicated above in 1. virtually all self-funded employers purchase stop loss.

Are there any minimum employee participation requirements for a small employer to be offered stop loss insurance?

Stop loss carriers set minimum group sizes that they will underwrite. In general they prefer not to go below 100 employees but some will write business down to 50 employees.

8. What types of entities issue stop loss insurance?

There are primarily two categories, direct carriers and MGUs. The direct carriers are typically subsidiaries or branches of larger organizations that offer diversified insurance and financial products. The MGUs may take some of the risk but typically function as intermediaries seeding their risk to direct carriers.

**How many small entities issue stop loss insurance policies?

Do not know.

9. Do stop loss issuers increase fees for groups below a certain size or exclude those groups? If so, how?

There are some carriers that do not write smaller business. We will leave the pricing approach for the carriers to answer.

10. 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?

Stop loss carriers seek to determine the risk they are taking on with a given group. This includes a review of historical claims cost, information regarding the health status of the group's members, demographics, and benefit/plan design.

11. 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?

We will not address how states regulate the stop loss insurers.

The state of Washington has regulations stipulating that a specific deductible can be no lower than 5% of expected annual claims or \$100,000 whichever is lower. It also mandates aggregate coverage at no lower than 120% of expected claims.

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?

Without stop loss coverage it would be too risky for small employers to self-fund their benefit plans. However, the availability of stop loss coverage does not impact the decision of a small employer to offer health insurance to their employees. There are much more significant factors such as the overall cost of coverage and the ability to attract quality employees.

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

As indicated in 12. above, without stop loss insurance a small employer would not be able to take on the risk of self-funding. Beyond that, the proportion of small employers that choose to self-fund is small so the impact to the small group fully insured market is minimal.

** For this purpose, a small entity is defined as (1) a proprietary firm meeting the size standards of the Small Business Administration or (2) a nonprofit organization that is not dominant in its field.