

Stop Loss Coverage - Getting Even More Important

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Typical Occupations

§ Typical Policeman



§ Typical Nurse Practitioner



§ Typical Insurance Professional



§ Typical Stop Loss Underwriter



Why are Stop Loss Underwriters stressed?

- § High Claims are occurring much more frequently
- § The dollar amount of high claims is increasing substantially
- § High claims are very unpredictable
- § Incorrect pricing of coverage can create huge losses
- § Incorrectly setting the stop loss level (re-insurance threshold) can create huge losses
- § Selecting the wrong stop loss arrangement can create huge losses

Why stop loss insurance is needed

§ In 2000 - less than one \$1,000,000 claim per million members

§ In 2005 - 11 claims of \$1,000,000 per million members

§ In 2010 - Over 24 claims of \$1,000,000 per million members

§ 20% of claimants generate 80% of claims

§ 1% of claimants generate 25% to 35% of claims

Introduction to Stop Loss Coverage

§ Aggregate Stop Loss (ASL)

Protection for the plan, on an aggregate basis, against poor claims experience. If total claims at the end of the plan year exceed a pre-determined level (the aggregate attachment point), the plan is reimbursed for those additional claims.

§ Specific Stop Loss (SSL) - also called Individual Stop Loss (ISL)

Protection against a single large claim. Limits the employer's liability for eligible medical expenses for each covered individual to a pre-determined level, the SSL deductible.

§ Stop Loss underwriters

- Insurance companies
- Specialty underwriters

§ Stop Loss in benefit plans

- Variations of aggregate and specific stop loss are included in insured programs
- Employers who self-fund, usually, but not always, obtain stop-loss insurance to protect themselves
- Stop loss coverage is purchased in many forms (paid, incurred and paid) and includes or excludes prescriptions drugs and commissions

Aggregate Stop Loss

- § The plan is only liable for claims up to the attachment point.
- § The attachment point is set based on a corridor above expected claims. The most common corridor is 25%. With the 25% corridor, the maximum claims liability of the plan is 125% of expected claims.
- § The attachment point is determined by the insurance company through standard underwriting practices. First, the expected claims level is determined. Then, the aggregate corridor is added.
- § Eligible benefits under aggregate coverage can include: medical, prescription drugs, and sometimes dental and vision.
- § There is a year-end accounting done that compares actual claims (less any SSL reimbursements) to the aggregate attachment point (lives * pepm attachment point). Any amounts in excess of the aggregate attachment point are reimbursed to the plan by the reinsurer.

Stop Loss Levels - ASL

- Aggregate Stop Loss

- § 125% is fairly standard

- § Other levels: 110%, 115%, 120%

- § Some states have requirements (example: Colorado must be a minimum of 120%, nothing lower)

- § Carriers often impose their own restrictions on % levels

- § Average monthly premium varies: If alongside a SSL of \$150,000 or less, the average is \$6.05. At higher SS levels the average is \$3.12 (2010 Aegis Risk Survey)

ASL - Sample Accounting

Specific StopLoss Deductible = \$150,000

Aggregate Stoploss = 25%

	Enrolled	Expected Claims	Attachment Point (125%)	Aggregate Attachment	YTD Att. Point	Actual Claims	YTD Claims
January	620	\$483.68	\$604.60	\$374,852	\$374,852	\$362,548	\$362,548
February	618	\$483.68	\$604.60	\$373,643	\$748,495	\$420,586	\$783,134
March	610	\$483.68	\$604.60	\$368,806	\$1,117,301	\$305,765	\$1,088,899
April	619	\$483.68	\$604.60	\$374,247	\$1,491,548	\$328,741	\$1,417,640
May	622	\$483.68	\$604.60	\$376,061	\$1,867,609	\$489,623	\$1,907,263
June	625	\$483.68	\$604.60	\$377,875	\$2,245,484	\$589,671	\$2,496,934
July	638	\$483.68	\$604.60	\$385,735	\$2,631,219	\$258,368	\$2,755,302
August	624	\$483.68	\$604.60	\$377,270	\$3,008,489	\$987,542	\$3,742,844
September	631	\$483.68	\$604.60	\$381,503	\$3,389,992	\$681,258	\$4,424,102
October	629	\$483.68	\$604.60	\$380,293	\$3,770,285	\$235,468	\$4,659,570
November	630	\$483.68	\$604.60	\$380,898	\$4,151,183	\$285,047	\$4,944,617
December	639	\$483.68	\$604.60	\$386,339	\$4,537,522	\$335,808	\$5,280,425
Totals					\$4,537,522		\$5,280,425

	<u>Large Claims:</u>	<u>SSL Deduct</u>	<u>SSL Reimbursements</u>
	\$289,658	\$150,000	\$139,658
	\$468,258	\$150,000	\$318,258
	<u>\$189,562</u>	<u>\$150,000</u>	<u>\$39,562</u>
Totals	\$947,478	\$450,000	\$497,478

Accounting:	
Total Claims:	\$5,280,425
<u>Less SSL Reimbursements</u>	<u>\$497,478</u>
Allowable Claims	\$4,782,947
<u>Less Attachment Point</u>	<u>\$4,537,522</u>
Reimbursement Due	\$245,425

Specific Stop Loss

- § For any one participant, the plan is only liable for claims up to the specific stop loss deductible
- § Self-funded plans determine their own SSL deductible level. The SSL deductible level should be based on the plan's risk tolerance. There should be a balance between expected claim liability under the plan, premium and deductible level
- § Typical specific stop loss levels range from \$50,000 to \$300,000 in \$25,000 increments
- § Eligible benefits under SSL coverage can include medical and prescription drugs
- § Contracts are written in a variety of ways depending on the time period of paid and/or incurred claims to be covered

Contract Types

- “12/12” -- Incurred during the plan year and paid during the plan year.

§ Example: Plan year = 2009, contract is “12/12”

- Claims must be incurred during 1/1/2009 - 12/31/2009 and paid during 1/1/2009 - 12/31/2009.
- Lowest premium option.
- Only viable in first year of plan.
- Generates artificial savings for first year and leads to very large increases in second year due to change in contract type.
- Creates run-out liability.

Contract Types

- “12/15” (or “12/18” or “12/24”) -- Three months of run-out protection. Claims must be incurred during the plan year and paid during the plan year or the three months after the end of the plan year.

§ Example: Plan year = 2009, contract is “12/15”

- Claims must be incurred from 1/1/2009 through 12/31/2009 and paid during 1/1/2009 - 3/31/2010.
- Usually, next lowest premium option.
- Optimal for creating most flexibility for plan upon renewal. Makes it much easier to change carriers at renewal. Great option for first year programs.
- Leads to stable renewal action in future years because the contract type will not be changing.
- Creates minimal gap liability from year to year.

Contract Types

§ "15/12" (or "18/12" or "24/12") -- Three months of run-in protection. Claims must be incurred in the three months prior to the effective date or during the plan year and paid during the plan year.

§ Example: Plan year = 2009, contract is "15/12"

- Claims must be incurred from 10/1/2008 - 12/31/2009 and paid during 1/1/2009 - 12/31/2009.
- Usually, next lowest premium option (slightly higher than "12/15").
- May be good option when changing reinsurers. In these situations, many reinsurers will want to limit the run-in timeframe.
- Creates run-out liability and may create some run-in liability.

Contract Types

§ “Paid” -- Claims must be paid during the plan year, regardless of when incurred. There is usually a restriction that claims must be incurred no earlier than the first contract year with the stop loss carrier.

§ Example: Plan year = 2009, contract is “Paid”

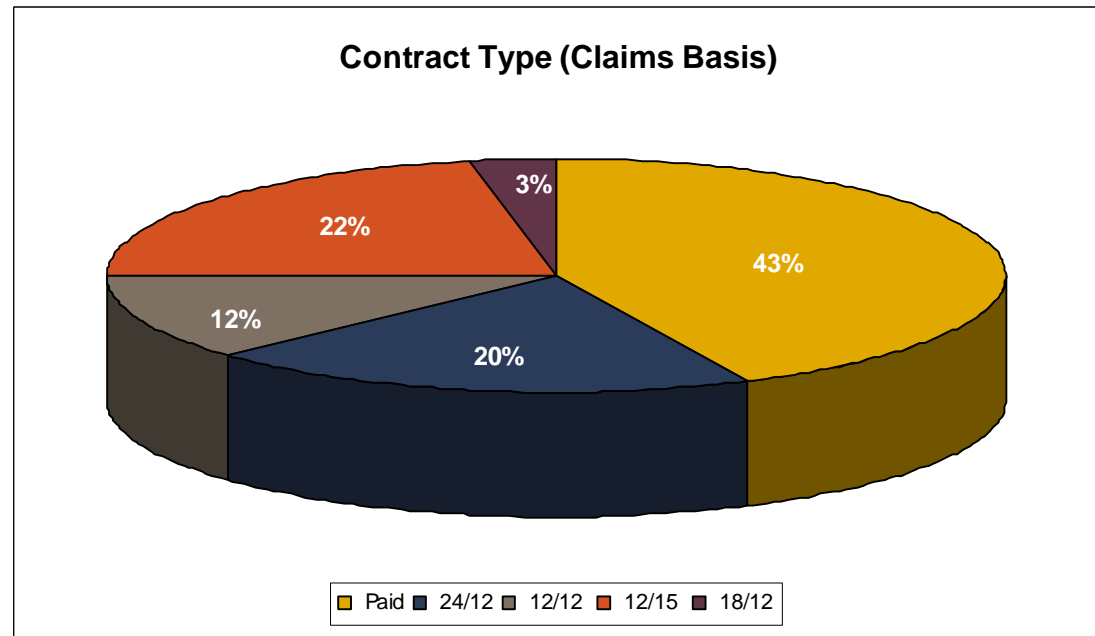
- Claims must be paid during 1/1/2009 - 12/31/2009.
- Highest premium option.
- Used often for subsequent years after a “12/12” or “15/12” contract period.
- Leads to stable renewal action in future years because the contract type will not be changing.
- Creates run-out liability.

Contract Types

§Run-out coverage - Can usually be negotiated for a "12/12", "15/12" or "Paid" contract. (Usually this coverage is expensive.) The plan should try to negotiate any run-out options and costs at the beginning of the plan year. Especially if a marketing is anticipated for the next renewal.

Contract Types

Contract Type	
Paid	43%
24/12	20%
12/12	12%
12/15	22%
18/12	3%



2010 Aegis Risk Stop Loss Survey

Contract Types - Strategies

§Go with "12/15" in first year and subsequent years.

- Higher premium than "12/12" in first year

- Lower premium in subsequent years than "Paid"

- Allows group to more easily change stop loss vendors because of run-out coverage providing more leverage on carrier during renewal

- May create coverage gap for claims not paid within 3 months of incurred date at end of plan year ("12/18" or "12/24" options should take care of almost all run-out liability and alleviate nearly all of this risk)

§First year of self-funding: go with a "12/12" contract and in subsequent years go with a "Paid" contract.

- Lower premium in first year for "12/12"

- Big increase in second year to change from "12/12" to "Paid"

- No run-out protection if group wants to change stop loss carriers or go back to fully-insured. May have to purchase run-out protection from current carrier (costly) or negotiate run-in protection from new carrier (sometimes difficult and costly)

Contract Types - Transitions

§Self-funded to fully-insured

- What is the contract type that is ending? If it is a "Paid", "15/12" or "12/12" contract, there is a run-out liability created.
- May be able to negotiate "run-out" with current vendor. This is usually for three more months of protection and may mean re-starting any deductible accumulation. Carrier holds almost all leverage. The plan should try to negotiate any run-out options and costs at the inception of the contract.
- Could go without coverage. Not recommended as liability could be big.

§Stop Loss Carrier change

- Try not to create any coverage gaps:
- If current plan is "Paid", try to move to another "Paid" contract.
- If unavailable, try to get the new contract to include run-in coverage ("15/12", "18/12", "15/15" etc.). May not be easy to obtain.
- If current contract covers run-out claims, no coverage for run-in claims should be needed for new contract. (Do not pay for unnecessary double coverage.)

Specific Stop Loss Deductible Level - Calculator tool

Target Individual Specific Based on Group Size:

Employees: **620**
 Members/Contract: **2.50**
 Members: **1,550**

Minimum	\$100,000
Maximum	\$225,000
Mid-Point	\$162,500

	Average Incidence ¹	Benchmark Measure	95% Confidence Interval		
			Low	High	
Bin Range	>\$49k	12	7.990 / 1,000 mem	4	21
	>\$59k	9	6.083 / 1,000 mem	2	17
	>\$74k	6	4.175 / 1,000 mem	0	13
	>\$99k	4	2.540 / 1,000 mem	0	9
	>124k	3	1.790 / 1,000 mem	0	7
	>\$149k	2	1.350 / 1,000 mem	0	6
	>\$174k	2	0.978 / 1,000 mem	0	4
	>\$199k	1	0.746 / 1,000 mem	0	4
	>\$224k	1	0.560 / 1,000 mem	0	3
	>\$249k	1	0.420 / 1,000 mem	0	3
	>\$299k	0	0.290 / 1,000 mem	0	2
	>\$349k	0	0.180 / 1,000 mem	0	1
	>\$500k	0	0.100 / 1,000 mem	0	1

¹ Average Incidence rounded to the nearest whole claimant

Specific Stop Loss Alternative Deductible Level - Analysis tool

Stop Loss Alternatives

Carrier				
	\$75,000	\$100,000	\$125,000	\$150,000
Specific Deductible				
Specific Premium Rate	\$57.73	\$45.81	\$37.97	\$30.56
Annual Specific Premium	\$429,511	\$340,826	\$282,497	\$227,366
Difference in Stop Loss Premium		-\$88,685	-\$147,014	-\$202,145
Difference in Stop Loss Deductibles		\$25,000	\$50,000	\$75,000
Ratio		3.5	2.9	2.7

Number of Claimants over:*	\$75,000	\$100,000	\$125,000	\$150,000
2008	1	1	1	0
2009	4	1	1	1
2010	3	3	3	1

*These claimants are not exclusive. I.e. In 2010 the same 3 claimants that surpassed \$100,000 surpassed \$75,000

of enrollees: 620

Current Stop Loss Premiums

2010 Avg. Mo. Premium by Deductible & Contract Type (PEPM)						Actual	Projected
Individual Deductible	Paid	12/15	15/12	12/12		Increase over 2009	Increase over 2009
\$100,000	\$ 73.11	\$ 71.68	\$ 70.30	\$ 58.02		17.8%	18.0%
\$200,000	\$ 31.68	\$ 31.06	\$ 30.46	\$ 25.14		23.9%	
\$300,000	\$ 19.42	\$ 19.04	\$ 18.67	\$ 15.41		26.8%	
\$400,000	\$ 13.73	\$ 13.46	\$ 13.20	\$ 10.90		29.3%	
\$500,000	\$ 10.49	\$ 10.28	\$ 10.09	\$ 8.33		31.3%	

Source: 2010 Aegis Risk Medical Stop Loss Premium Survey

§ Premiums are projected to increase 20% in 2011

Leveraged Trend - Examples

§ Underlying medical trend: 11%

§ First year - claim of \$210,000

§ Second year - claim goes to \$233,100

- SSL deductible = \$50,000
 - First year SSL claim = \$160,000
 - Second year SSL claim = \$183,100
 - "Leveraged Trend" = 14.44%
- SSL deductible = \$75,000
 - First year SSL claim = \$135,000
 - Second year SSL claim = \$158,100
 - "Leveraged Trend" = 17.11%
- SSL deductible = \$100,000
 - First year SSL claim = \$110,000
 - Second year SSL claim = \$133,100
 - "Leveraged Trend" = 21.00%
- SSL deductible = \$150,000
 - First year SSL claim = \$60,000
 - Second year SSL claim = \$83,100
 - "Leveraged Trend" = 38.50%

Alternatives - Aggregating Specific Stop Loss

§Aggregating Specific Stop Loss

- Group takes on additional fixed layer of risk on an aggregate basis above SSL deductible
- Lower fixed premium
- Could be a good option if group expects good claim experience and can budget for different cash flow
- Strive for premium reduction of at least \$0.95 for each \$1.00 added to aggregating specific corridor.

§Example:

- Specific deductible = \$120,000
- Aggregate layer = \$100,000
- Claim #1 = \$170,000
- Claim #2 = \$200,000
- Claim #3 = \$140,000
- Total amount above specific deductible = \$150,000
- Aggregate layer = \$100,000
- \$50,000 total reimbursements paid by stop loss carrier

Alternatives - Aggregating Specific Stop Loss

		Large Claim Scenario's					
		Low	Medium	High	Actual ABC Claim History		
		Claims > \$175k	Claims > \$175k	Claims > \$175k	2009 Actual	2010 Actual	
Potential Claims	Potential Large Claims	\$600,000	\$200,000	\$200,000	\$268,346	\$184,654	
		\$750,000	\$250,000	\$300,000	\$301,805	\$197,665	
		\$0	\$300,000	\$300,000	\$563,860	\$202,831	
		\$0	\$350,000	\$350,000	\$0	\$253,667	
		\$0	\$450,000	\$400,000	\$0	\$680,525	
		\$0	\$0	\$450,000	\$0	\$175,793	
		\$0	\$0	\$500,000	\$0	\$0	
		\$0	\$0	\$0	\$0	\$0	
Renewal Cost							
	ISL Level \$175k						
	Overall Cost	\$1,268,000	\$1,268,000	\$1,268,000	\$1,268,000	\$1,268,000	
SL Carrier Proposals	C. Standard Specific Contract (HighMark)						
		ISL Premium - ISL Level (\$250k)					
		Overall Cost	\$1,050,467	\$1,225,467	\$1,375,467	\$1,125,467	\$1,111,410
		Cost Differential to Retrospective Cost	-\$217,533	-\$42,533	\$107,467	-\$142,533	-\$156,590
	D. Aggregating Specific Contract (HighMark)						
		ISL Premium - ISL Level \$200k					
		Aggregating Specific Limit \$300k					
		Overall Cost	\$1,195,702	\$1,145,702	\$1,145,702	\$1,220,702	\$1,253,814
		Cost Differential to Retrospective Cost	-\$72,298	-\$122,298	-\$122,298	-\$47,298	-\$14,186
E. Aggregating Specific Contract (HighMark)							
	ISL Premium - ISL Level \$225k						
	Aggregating Specific Limit \$300k						
	Overall Cost	\$1,078,846	\$978,846	\$978,846	\$1,128,846	\$1,139,789	
	Cost Differential to Retrospective Cost	-\$189,154	-\$289,154	-\$289,154	-\$139,154	-\$128,211	

Alternatives – Loss Ratio based pricing

- Proposal #1
 - In consideration of the ***Policyholder's*** acceptance of the Retrospective Premium Option and paying
 - premium at the ***billed premium rate*** as stated on the Schedule, the ***Policyholder*** agrees to pay an
 - additional premium (the difference between the ***billed premium rate*** and the ***contract premium rate***) at
 - the end of the ***policy period*** if ***specific reimbursements*** exceed 70% of the sum total of the ***billed premium rate*** multiplied by the number of ***covered units*** during each month of the ***policy period***.

Alternatives – Loss Ratio based pricing

- Proposal #2
 - The claims to premium loss ratio needs to perform to 75%. The group will not pay more premium unless the claims exceed 75% of the Billed Premium.
 - If the claims do exceed 75% then there is ONLY due an additional premium that returns the loss ratio to 75% again. i.e they do not have to pay the full additional premium to the Contract Premium.

Placement Considerations

§ Lasering. Lasering is when the reinsurer will put a higher specific deductible (than the group deductible) on an individual with a known, large, on-going claim. There are carriers who write into their contract that they will not laser any participant upon renewal. As part of the proposal process, you should ask a carrier about their lasering policies.

§ What claims to cover. ASL and SSL can be written to cover medical claims only or medical and Rx claims (these are the two most common). Some plans will determine that it is not necessary to cover Rx under the SSL or ASL coverage as these claims are a bit more stable.

Placement Considerations

§ Underlying plan. As part of the proposal process, any potential reinsurer needs to agree that the ASL and SSL programs will cover all claims that are covered under the underlying medical plan. They should not place any restrictions or exclusions on what is covered. (example: bariatric surgery)

§ Timing to bind coverage. It is a customary practice among reinsurers to gather information up to 30 days prior to locking in coverage and rates. This includes claims experience information for ASL calculations and on-going individual claims activity and diagnosis information for SSL coverage. They will usually have a caveat that they can change rates and terms based on this information. This could lead to last minute drastic premium increases

§ Limits of coverage. Any SSL coverage should have an annual limit that matches the underlying medical plan

Healthcare Reform

§ Lifetime limits - for plan years starting on or after 9/23/10

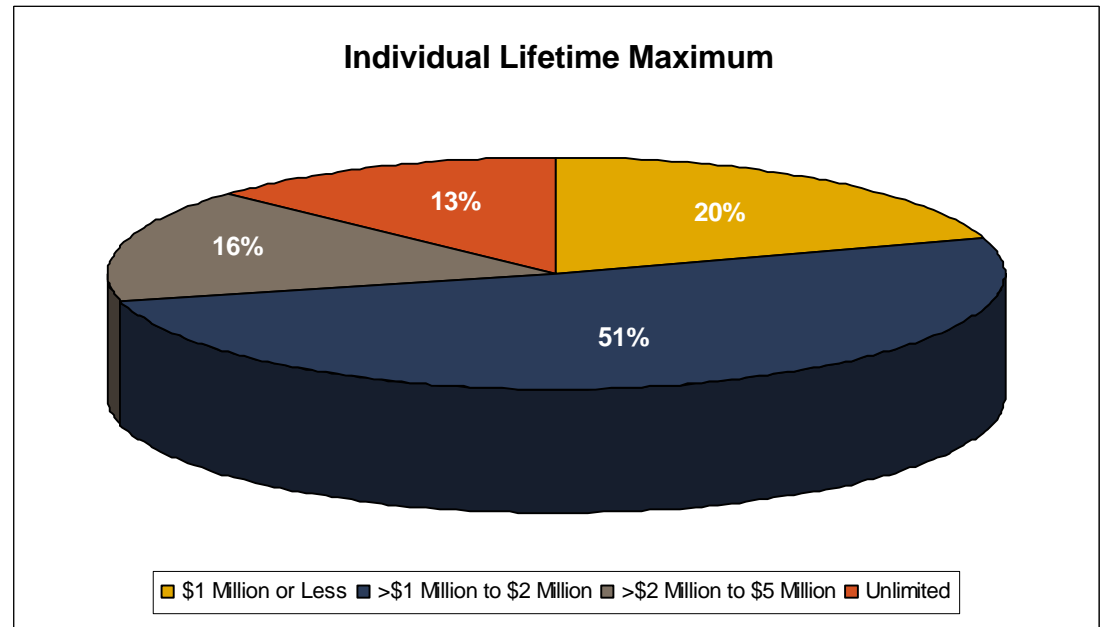
- No lifetime dollar limits on “essential health benefits”
- Individuals who have previously exhausted the plan’s lifetime limit
- (and are otherwise eligible for coverage) - the limit will no longer apply
- Individuals no longer enrolled in the plan must be given a special enrollment opportunity (30 days)

§ Annual Limits - for plan years starting on or after 9/23/10

- No annual dollar limits on “essential benefits”
- There is a phase in period
 - \$750,000 for plan years between 9/23/10 - 9/22/11
 - \$1,250,000 for plan years between 9/23/11 - 9/22/12
 - \$2,000,000 for plan years between 9/23/12 - 12/31/14

Healthcare Reform - Current 2010 Lifetime Limits

Individual Lifetime Max	
<u>2010 Limits</u>	
\$1 Million or Less	20%
>\$1 Million to \$2 Million	51%
>\$2 Million to \$5 Million	16%
Unlimited	13%



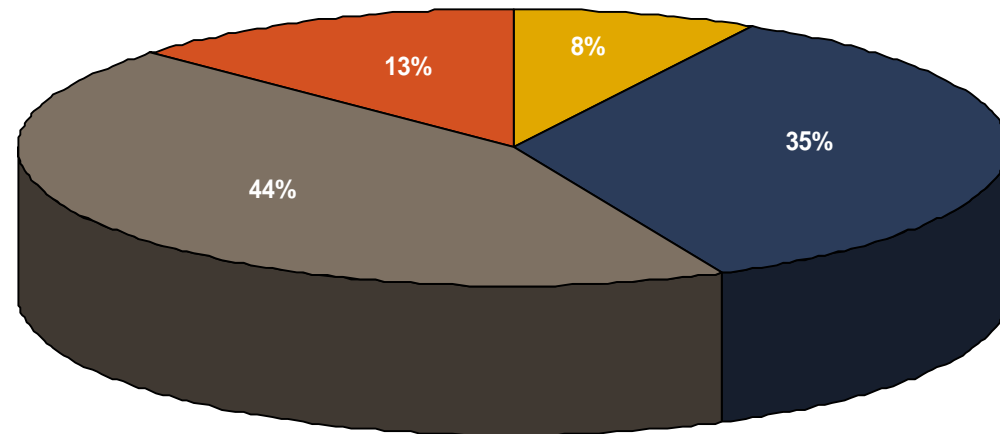
- 2010 Aegis Risk Stop Loss Survey

Healthcare Reform - Anticipated Unlimited Maximums

Anticipated Request of an unlimited maximum, 2011

None - Will Keep Existing	8%		
Will Review, As an Option	35%		
Must Have an Unlimited	44%		
Already Have it	13%		

Anticipated Request for an Unlimited Maximum (2011)



■ None - Will Keep Existing ■ Will Review, As an Option ■ Must Have an Unlimited ■ Already Have it

2010 Aegis Risk Stop Loss Survey

Stop Loss Coverage

§ Questions - ????

§ Stop Loss Implementation and Transition Checklist