From:	William Brusda
To:	E-OHPSCA-STOPLOSS.EBSA
Subject:	Request for Information Regarding Stop Loss Insurance
Date:	Wednesday, May 02, 2012 4:25:13 PM

Response to a Request for Information relating to Stop Loss Insurance from a TPA located in Elkhart, IN.

Question 1:

Stop loss insurance is placed on each of our clients for both specific and aggregate attachment points. The size of our clients range from a small client of 15 covered employee lives to our largest of over 1,000 employee lives. The Affordable Care Act is expected to affect these trends. The cost shifting resulting from healthcare providers wanting to push higher costs for their services to the private sector will expose self-funded clients to higher claim expense under their programs. Factors affecting the level of stop loss attachment points can be complicated. They include the "financial" ability of the employer to handle risk exposure, the number of employees to be covered may dictate a higher specific attachment point due to the financial strength of the employer. Although smaller clients with solid balance sheets are certainly able to accept a higher individual stop loss limit due to financial resources.

Question 2:

Our client base has specific attachment points that range from a low of $15,000 for our smallest client, to $70,000 for our largest client. Again financial strength and size of the employer will typically dicatate the level for a specific attachment point. The amount of a specific attachment point is less driven by the size of the employer. The "expected" claim exposure based on past claims experience and the financial ability to handle the risk will typically drive the decision on where the employer wishes to set his specific attachment point. Larger health plans may elect to purchase a specific stop loss attachment, but forgo purchase of the aggregate attachment stop loss coverage. All of our clients have purchased both and we would advise against them doing otherwise. The trend is for the client to "buy up" on the specific attachment point if the premium charged by the carrier is sufficiently reduced in order for them to take on higher risk. For example, a client may elect to replace his current $20,000 specific attachment point with a $30,000 attachment point if the savings in premium is sufficient to justify the move. If the client had been averaging 3 claims per year of over $20,000 can he save more than $30,000 in premium by moving to a $30,000 specific attachment point? If three individuals exceed the $30,000 stop loss the client would fund an additional $30,000 in claims (3 claimants times the difference between a $20,000 stop loss versus a $30,000 stop loss), this would require a savings in premium of at least $30,000 to justify the move to a higher specific attachment point of $30,000.

Questions 3:

All of our clients purchase both specific and aggregate stop loss protection. The trends for financial security would be for this process to continue. There are no "common" attachment points for our clients. Although size of the employer may drive the selection of a specific attachment point, the past claim experience is most likely to drive size of the group-level or aggregate attachment point. Our stop loss carriers do have formulas that will dicatate the level of the specific attachment point based on where the aggregate attachment point is calculated.

Question 4:

Fully insured carriers and stop loss coverage for small employers work well as long as both options are not involved with the medical plan. The spread of risk associated with a self-funded plan requires that all eligible employees be enrolled under one type of coverage. That coverage can be fully insured through an insurer, or self-funded, not both. The fully insured carriers will offer their fully insured

ancillary benefits such as disability, life insurance, dental and vision along side a self-funded medical plan although some employers do elect to self-fund their disability, dental and vision plans as well. Self-insured health plans will determine their attachment points based on their ability to handle risk. Typically smaller clients will have lower specific attachment points and larger employers will accept higher attachment points. Policies are designed to meet the specific needs of each employer. Stop loss coverage for self-funded plans is purchased in anticipation that it will be purchased every year.

Question 5:

For specific attachment points the employer funds (pays) 100% of the risk up to the individual stop loss or attachment point. All amounts above that level are funded (paid) by the stop loss or reinsurance carrier. The aggregate stop loss contract for the entire group accepts all claims funded by the employer under the Specific stop loss contract. Example: the self-funded plans purchases a $30,000 indiviudal stop loss limit. All claims up to $30,000 are funded by the employer plan. These same amounts go against the aggregate or group stop loss as a credit toward the aggregate attachment level. The employer is confident that any claim in excess of $30,000 will be funded by the reinsurance carrier and once the credits of these funded amounts exceed the aggregate or group stop loss the reinsurance carrier will also step in to reimburse the self-funded plan for amounts in excess of the aggregate stop loss. Both coverages (specific and aggregate) provide a sound cash-flow protection vehicle for the employer.

Loss ratios will vary widely from employer to employer and from year to year. The loss ratio for specific stop loss can be zero with no one exceeding the individual stop loss level in a given plan year, to well over 100% if the group experiences several large claims in one year. The same applies to aggregate stop loss, but it is more predictable for stop loss carriers to set the group attachment points since they can use past claims experience to set the group aggregate based on past claims to run what is typically a 70% loss ratio.

Question 6:

Administrative costs will typically consist of administrative fees charged by the TPA (7% to 10%), Pre-certification and large claim management fees combined with PPO Network rental fees (3% to 5%). The balance of the fixed costs an employer will see every month will be premium for the individual stop loss and the aggregate stop loss premiums. The higher the individual stop loss level the lower the premium the stop loss carrier will charge the self-funded plan.

Question 7:

Stop loss insurance has no restrictions relating to industries or sectors. Minimum employee participation requirements typically relate to the percentage of eligible employees enrolled under the employer self-funded health plan. Factors such as age of the group and the number of employees who are enrolled elsewhere under a spousal plan may impact the ability of the employer to secure competitive stop loss quotes. This same restriction would apply to fully insured plans as well.

Question 8:

Stop loss insurance is typically offered through two sources. Managing General Underwriters (MGU's) are organizations that will underwrite stop loss contracts for either just one carrier or several carriers. These MGU's are paid a fee by the carrier to do their underwriting and handle claims that may exceed the indivudal stop loss as well as the group or aggregate stop loss levels established in the reinsurance contract. This concept allows the carrier to avoid having to staff up for the handling of a speciaty product such as stop loss reinsurance. The second source is referred to as "direct writers". These carriers do not hire MGU's but rather elect to underwrite and handle claims on their own.

Question 9:

Smaller groups are not charged higher fees due to their size. Their premiums are higher due to the

fact they typically will purchase a lower individual stop loss level ($20,000 versus a $50,000 indivudal stop loss limit). Certain groups may be excluded due to size, risk potential, or a particular industy. These are the same reasons a fully insured carrier would either decline to quote a group or quote with a premium so high the employer could not afford to purchase the plan.

Question 10:

Stop loss carriers will consider demographics of the group (age, gender and dates of birth), industry, and zip code location in order to relate the cost of healthcare based on location of the employees who work for the employer. The actual coverage or plan of benefits is whatever the employer elects as the benefit plan for their employees. The plan profile will have a very slight impact on the premiums charged for the indiviudal stop loss coverage. The reason is that the carrier is underwriting the risk to stop claims at $30,000 for example therefore the employee deductible under the health plan of $1,000 will have little impact on where the premium is set for the individual stop loss since the carrier is underwriting to stop claims at $30,000. The plan design will have a greater impact on where the carrier sets the group or aggregate attachment point. Changes in plan design can move the group attachment point up or down based on which plan the employer elects to provide to his employees. Favorable claims experience will also result in a reduction for the group or aggregate attachment point if the employer shows consistent and effective management of their plan.

Question 11:

I will be unable to address this issue as it would be more appropriate for a stop loss insurance carrier to do so.

Question 12:

The cost of fully insured plans are excalating at an alarming rate. A small employer with a healthy balance sheet and healthy employees gives the employer an opportunity to reduce fixed or premium costs under his health plan in exchange for funding the small amount of claims that will come as a result of accepting a self-funded plan for his employees. The plan document that governs every self-funded plan can be written to allow even the small employer the opportunity to design a benefit plan that fits the needs of his employees and his needs as an employer. Many fully insured carriers have forced the small employer into a situation where they are left with minimum ability to “design” a plan of benefits that allows them to compete effectively with large employers in their area who offer an array of health plans for their employees thus preventing the small employer from being able to hire qualified employees. Under a high premium fully insured plan the employer simply pays a high monthly premium for 12 months and then waits for the increase at renewal. The only way to reduce the impact of that increase is to restrict benefits (higher deductibles, more out of pocket expense to the employee), or switch to a different fully insured carrer which may be difficult due to the tighter underwriting requirements of fully insured carriers who for smalll employers will require a health application on all covered indivuals. Self-funded plans have no requirement for underwriting of individuals to be covered. Since the smaller self-funded client has the ability to reduce premium costs in a trade for funding the claim liability, they can “win” with a good claims year. The money not spent on claims can/should go into a claim reserve account held by the employer with a local financial institution. The employer holds the reserve for future claims instead of sending it off every month to the insurance company who not only holds it, earns interest on the investment of the employer money in excess of claims, and then does not return the excess to the employer. MLR resolves some of this based on the carrier’s book of business, but does not resolve it based on a single employer who has a very low loss ratio. Self-funding give all employers (small and large) the opportunity to “win” with good management of their plan, keeping their employees healthy through wellness incentives. These advantages go away for employers in the fully insured environment since there is no return of premium for the employer who has favorable experience.

Question 13:

There if very little impact on the fully insured market by small employers who elect to self-fund their

health plans other than the fact the existence of self-funding has and will continue to cut into the market share of fully insured carriers. So much so that many of them are purchasing TPA's as a means of entering the self-funded marketplace. The cost of healthcare (not premiums, but rather the cost charged by hospitals and physicians) continues to excalate and push more exposure to the fully insured market since they are unable to maintain premium levels that will cover the cost of services being provided through healthcare providers. Their entry into the self-funded marketplace is a clear indication that the concept can and does work for all size employers who elect to control their costs and properly manage their health plans.

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