From:	Steve Gauldin
To:	E-OHPSCA-STOPLOSS.EBSA
Cc:	Steve Gauldin
Subject:	Request for Information Regarding Stop-Loss
Date:	Wednesday, May 16, 2012 7:12:14 PM

Thank you for giving the public an opportunity to respond to your request for information regarding stop-loss policies used to reinsure employer-sponsors of self-funded insured health plans. The comments below pertain to the questions posed in IRS Notice 2011-02.

1. 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)?

Stop loss insurance is very common with self-insured arrangements. It is a form of plan protection for larger unexpected losses. The plan is still responsible for the claims but having stop loss protects the plan and its members from those larger unexpected claims (i.e. premature baby) that could bankrupt the plan and the employer. Specific Excess Loss Coverage, insures the employer against a catastrophic loss incurred by one individual, over a certain dollar limit. For example: transplants, leukemia, premature birth
Aggregate Coverage insures the employer against unusually high overall claim levels for the entire covered group, due to high frequency or an unexpected number of large, catastrophic claims. Aggregate generally consists of ordinary claims –well care, colds, flu, prescription drugs, vision, etc. Only claims below the Specific deductible on covered individuals are eligible. The usage does vary, plan by plan, depending upon the level of risk exposure the plan is willing to take, the economy and their past claim experience. It is very much like purchasing car insurance and setting your deductible. How much risk are you willing to absorb if an accident happens, and how much are you willing to pay for that piece of mind. The choice in attachment points and deductibles for stop loss is a budget decision which varies business by business. The decision to insure or self-insure is also a budget decision. The trend with states increasing the amount of health insurance regulation, has caused insurance premiums to increase which puts pressure on businesses to explore other alternatives. We are seeing smaller employers interested in self-insuring but generally stop loss availability is more limited the smaller the employer. There is no formula based on lives or attachment points that determines if you can self-insure or not.

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?

Stop loss attachment points are budget driven. How much tolerance for risk is an employer willing to absorb and at what level. Some of the factor an employer must consider include: risk tolerance, the size of the group, the plan design offered, financial condition of the business, cost of coverage, past claim history, age of their population, etc.…Attachment points vary plan by plan and there are no common attachment points based on employer size. I thought you might find it helpful to see a table as an illustration of our experience on our block of business:

Number of Covered Employees	Minimum Attachment	Maximum Attachment
25- 100	$25,000	$ 35,000

101-150	$25,000	$50,000
151 – 250	$50,000	$100,000

We do not see attachment points below $25,000. I would like to point out that no matter what attachment point, the stop loss carrier can and will carve out specific risks, called lasers, which increases the employers liability.

3. 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?

Specific coverage (“employee level”) protects the plan against catastrophic risk. In other words that large unexpected claim. Aggregate coverage (“group-level”) protects against utilization risk. It protects against significant variation in claims experience. Employers have to determine their tolerance for risk and the financial position of their organization. The norm is that you purchase both types of protection coverage to protect the plan against both kinds of risk. As for aggregate attachment point, it is pretty common to have the policy set at 125% of claims but most have a maximum payout of $1,000,000.

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

I am assuming you are referencing the stop loss insurers and their integration into the plan. If so, the goal is to customize and personalize for what best fits the plan but approved through the states. The TPA’s track and monitor claims throughout the plan year and provide the insurers with notifications and claim information at the time a plan exceeds its attachment point. The plan must have paid the claim before the claim can be considered as eligible for reimbursement. The plan sponsor decides with their broker, what attachment point is suitable for their risk tolerance and budget. Yes, self-insured group plans purchase stop loss as an ongoing risk mitigation tool, similar to how the view E&O coverage.

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

On a self-funded plan, the plan sponsor (employer) pays 100% of the medical claims for eligible claims. The percentage that is covered through stop loss reimbursement will vary depending upon the claim experience, the amount of the large claim(s), terms of the stop loss policy, etc. If a plan is having a good claim experience year, they may pay stop loss premium for the entire year and never have a claim that meets the attachment point and require a reimbursement. The size or percent of medical costs a plan participant incurs is irrelevant to stop-loss. I am not a stop loss carrier so I cannot speak to the targeted loss ratio for their block of business but can tell you that stop loss is a tool for the highly-unpredictable world of ever increasing medical expenses. So the loss ratio can make wild swings from year to year.

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?

Administrative costs in self-funding are charged in many different ways (per head, flat rate, per draft, per hour, a la carte, etc.) so there will be statistical distortion from plan to plan and TPA to TPA. From the TPA’s administrative cost standpoint, there is no additional cost because it is considered a part of our service arrangement.

7. 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?

Stop loss is a risk mitigation tool. It is applicable and used by all types of self-funded plans, industries, and types of employers. Medical costs inflation is creating an ever growing need for virtually all types of employers/plans to minimize their exposure through stop loss.

8. What types of entities issue stop loss insurance? How many small entities issue stop loss insurance policies?

There are some insurance carriers who sell and specialize in selling stop-loss directly to the plan or employer. There are also Managing General Underwriters (MGU's) who offer stop loss protection though a reinsurer. There are also the health insurance carriers who do not specialize but offer it only through their Administrative Services Only (ASO) product. I am not sure of the number of entities that offer stop loss insurance policies but know that the vast majority are offered through specialized stop loss carriers or MGU's.

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

Stop loss is like other lines of insurance business. They want stable clients who have a good chance of succeeding. The rates set by a stop loss carrier are determined by the actuarial value of the risk, plan by plan.

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?

The rates set by a stop loss carrier are determined by the actuarial value of the risk, plan by plan. The stop loss industry is pretty uniform in its coverage an attachment points offered to any self-funded plan. The profile of the plan does not impact the attachment point but instead the actual premium paid by the plan.

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?

Stop loss entities can better answer this question. They are like other lines of insurance and licensed or authorized as such by each state in which they operate.

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?

The decision to offer insurance, whether insured or self-funded, is a financial decision by the employer. Can they afford to provide coverage and if so, do they want to have it insured or self-funded. Size doesn't really drive the decision. Obviously, if the employer could not obtain stop loss protection to mitigate their risk exposure, there would be employers that cannot afford to self-insure.

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

Stop loss with self-funding has allowed employers to personalize coverage and incent employee behavior to contain skyrocketing medical prices. Stop loss for self-funded plans is no different than the re-insurance all health insurance companies have bought for stability of their finances. The fully insured market is heavily state regulated which limits an employer's ability to design and offer benefits that fit the wants and needs of that particular workforce. By self-funding, the employer can remain competitive for talent in their region or industry.

Thank you for giving us the opportunity to provide input and if you should have any questions or would like to discuss further, please feel free to contact me.

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