

II. Solicitation of Comments

The Departments are requesting comments to contribute to the Departments' understanding of the current and emerging market for stop loss products, both generally and with respect to the following specific areas:

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)?

While it is very difficult to put a specific number on the individuals covered under stop loss the following generic numbers have been used through industry organizations. It is anticipated that somewhere in the range of 2/3rds of those with commercial healthcare are covered under a self funded arrangement. This population is made up from large and small employers. You can probably make a reasonable assumption that a very high percentage of those employers purchase stop loss. This number has probably increased over the past decade as rising costs of catastrophic claims has prompted Employers to purchase this cover and remove this element of risk from their plan.

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?

Individual Attachment Points vary in size from \$10,000 all the way up to \$500,000. Employers will look at options based upon their tolerance for risk. Small employers (<100) will typically purchase a lower threshold and remove themselves from the majority of the catastrophic liability. Much like all other forms of Insurance the lower the deductible the more expensive the cost. Employers will weigh the cost against risk and select a level that is comfortable for them. An employer with a strong balance sheet may decide to select a higher threshold as their tolerance for risk is greater and premium therefore cheaper.

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 Attachment points protect the employer against catastrophic claims on a covered individual and is purchased by a very high percentage of employers.

Aggregate Attachment Points protect an employer against a higher frequency of claim activity in a particular year and is typically purchased along with the Specific. Larger employees or those employers more comfortable with their risk may choose not to purchase the Aggregate which is considered a sleep cover and has a very minimal cost associated with it in comparison to the entire cost of the plan.

Lower Specific Attachment Points are obviously more expensive than higher Attachment points as you are closer to the risk. The trend has been for employers to increase this attachment point due to costs. Rising costs with catastrophic claims have impacted the cost of this coverage therefore driving employees to higher attachment points. Hospital pricing transparency will help to ease the increasing uncertainty with cost in this area. Aggregate Attachment Points are determined by the groups underlying claims experience and are typically set at 125% of expected claims. If the cost of delivering healthcare increases so will the attachment point at renewal.

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?

Many size and type of employers self insure their employee benefits and the market place offers many stop loss options to compliment them. Lower Specific Attachment points are available to smaller employers.

Stop Loss policies themselves are filed by the Insurance Company on a State by State basis and are subject to State regulations. Policies for a particular Insurance Company do not change from employer to employer. What does change are the terms of what the employer wants covered and at what level. Policies are not customized but what the plan covers can be.

Stop loss attachment points both Specific and Aggregate are determined by an employers tolerance for risk. Multiple options will be made available to the employer and the TPA/Broker/Consultant will assist in the decision making process. Employers purchase stop loss every year but may change the levels of what they purchase based on their current risk.

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?

This is impossible to provide as it is determined by the employer. One Employer may choose to pay 100 percent of the employee's costs while others may choose a lower

percent after you meet a deductible. This allows the employer to design a plan that works best for him and his employees.

Loss ratios for stop loss will vary company to company and like fully insured products will depend on how competitive they price their products and what measures they implement to control costs. Loss Ratio's for Stop Loss are impacted by the cost and frequency of catastrophic claims and can impact premium levels.

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 purchasing of stop loss typically involves the use of the employer's TPA/Broker/Consultant – A small percentage can either be added to the stop loss premium or a fee charged directly to cover the costs of shopping for this cover. This expense is typically much lower than a fully insured amount as the premium for stop loss can be approximately a tenth of the cost of the fully insured premium.

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?

Self funding and stop loss go hand in hand and cross all industries and sectors. It is just another option available for an employer to provide health benefits to their employees. Stop Loss typically looks to have a minimum 75 percent participation, not including those that may have coverage with spouses through another plan.

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

Insurance companies sell the product directly. Some Insurance Companies hire the services of MGU's (Managing General Underwriters) who have expertise in this field. MGU's will be granted authority from the Insurance Company to do this on their behalf.

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

Stop Loss premiums are not based on a group's size. They are based upon their own risk and the level of coverage they choose to purchase. Lower deductibles are obviously more expensive than higher deductibles. Much like other industries there is always a market for someone. Some carriers may not like the risk associated with smaller employers, however, there are many others that do. The stop loss market place

has coverage and competition for every size and type of employer choosing self funding.

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?

Without getting into specific's, stop loss entities evaluate the risk factors associated with a particular employer much like a Fully Insured carrier. The underlying plan does have an effect on attachment points and the premiums charged for those attachment points.

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?

The vast majority of Insurance Companies offering a stop loss product have a filed stop loss policy. This is done on a state by state basis with each state having its own set of rules and regulations, however the main policy language tends to remain the same.

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?

Group size is not the issue whether the employer wishes to offer self funding or not. Stop Loss is available to all small employers and through multiple markets (competition).

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

Very difficult to determine what the impact is on the fully insured market. Ultimately what needs to be pointed out is that the employer has options. A Fully Insured product might fit one employer and a Self Funded product another. Self funding limits fees and removes profit margins making the pricing more manageable. Size of the group does not come into play and the employer is free to shop the open market for the best viable option.