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)?

   MedCost Benefits Services, LLC is a regional Third Party Administrator with 84 self-funded plan sponsor clients, which represents over 165,000 members. All but one of our clients purchased individual (specific) stop-loss insurance to limit exposure to catastrophic claims. So, the use of stop-loss insurance in connection with self-funded arrangements is very common. The average individual specific deductible for our block is approximately $90,000. That is, the employer will be reimbursed by the stop-loss carrier when a plan member's claims exceed $90,000 during the policy period. Within our block, the smallest individual specific deductible is $30,000 and the largest is $400,000.

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?

   In the context of stop-loss insurance, the "attachment point" differs from the "individual specific deductible". An attachment point is also referred to as "aggregate stop-loss insurance", which covers all covered expenses that are not reimbursed by the specific stop-loss policy. The attachment point is derived from a group's overall expected claims. The risk / exposure to the group is the margin that is added to the expected claims number, typically 20% or 25%. Larger employers will often not purchase aggregate stop-loss insurance. In our block of 84 clients, 60 have purchased aggregate.

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?

   As discussed in responses to questions 1 and 2, both specific and aggregate are very common. Virtually all self-funded plans purchase specific stop-loss insurance. Many larger employers will forgo aggregate stop-loss insurance.

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?

   We must first clarify that the stop-loss insurance policy is not issued to a group health plan. Rather, the policy is issued to (owned by) the employer (plan sponsor). The employer remains financially responsible for all eligible expenses of the group health plan and will be reimbursed by the stop-loss carrier when stop-loss thresholds are exceeded.

   For the self-funded employer, stop-loss insurance (like all other insurance they purchase) is to cover unexpected losses, in this case, a catastrophic health care claim. Stop-loss policies are customized to meet the needs of different employers based on the employer's "appetite for risk". The employer will decide what specific stop-loss deductible best fits their overall budget. And as discussed in our response to question 1, all but one of our clients have purchased and will continue to purchase stop-loss insurance, with the lowest specific deductible being $30,000 in our client base.

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 question is irrelevant since the employer (plan sponsor) is financially obligated to pay 100% of the health plan's expenses. Stop-loss insurance is a reimbursement contract that does not pay benefits to plan members. As discussed in our response to question 4, the stop-loss policy is owned by the employer. Stop-loss insurance is irrelevant to a plan's members.

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?

   There is $0.00 administrative costs to the employer for the purchase of stop-loss insurance. This question is irrelevant since if there were an administrative cost, it would be paid by the employer and not the health plan (referring to the question's reference to purchase a health insurance policy from an issuer.)

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 insurance is purchased by all sizes of employers of all industries and sectors. Most stop-loss insurance underwriters will require a minimum of 75% employee participation to offset the risk of adverse selection.

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

   Stop-loss insurance is typically issued by insurance companies that specialize in stop-loss insurance. There are also smaller entities that underwrite on behalf of an insurance company, known as Managed General Underwriters. The key here is that stop-loss insurance is subject to state insurance laws. Also keep in mind, if a stop-loss insurance company or MGU fails, the employer is still responsible for paying 100% of eligible health plan expenses. Stop-loss is simply a tool used by the employer (plan sponsor).

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

   A stop-loss carrier typically requires a "minimum" amount of premium to issue a policy to an employer. So, a smaller group may have higher rates to generate that minimum threshold. The rates will also be impacted the specific stop-loss deductible purchased by the employer. The higher the deductible, the lower the rates.

   All that said, and in consideration of the "minimum loss ratio" regulations recently implemented, stop-loss insurance is a very small slice of the health plan pie. For our client base, stop-loss premium represents 10-15% of the total Plan expense (administration 3-5%, the rest claims).

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 insurance is underwritten to cover unknown risk. So, during the proposal process, the employer submits a disclosure statement, which details the known risk. Premiums are established by setting a base premium driven by the specific deductible and group's demographics (age/sex) and industry. Known risk is then factored in on top of that base premium.

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?

    This question will be best answered by a stop-loss insurance company.

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?

    An employer decides to be self-funded because they are financially capable of funding the group health plan. Stop-loss insurance is purchased by the employer to cover the "big stuff" on a reimbursement basis. As indicated in our response to question 1, availability of a low specific deductible is not relevant. Our smallest employer with 40 employee lives has a $35,000 individual specific deductible.

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

At a time when health care costs are escalating, stop-loss insurance has stabilized the self-funded market for all employer sizes, just as a health insurance company will purchase reinsurance to stabilize their finances. So, stop-loss insurance for the self-funded employer being like reinsurance for the big insurance company is not unique to the growth of self-funding. Rather, the ability to customize benefits, subject to ERISA, without the higher administrative cost of the insurance company attracts the smaller employer to self-funding.

** 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.