From:	Zidek, Brian
To:	E-OHPSCA-STOPLOSS.EBSA
Subject:	Response to request for information regarding stop loss
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Attachments:	response to request for information regarding stop loss insurance.pdf

Please see the attached response to the request for information regarding stop loss.

Brian Zidek

Response to Request for Information on Stop Loss

1. How common is the use of stop loss in connection with self-insured arrangements? Does the usage vary based on the size of the underlying arrangement or based on other factors? How many individuals, if known, are covered under stop loss insurance? What are the trends? Are past trends expected to be predictive of future trends? Is the ACA expected to affect these trends?

I believe that the vast majority of plans that self-insure their health benefits purchases stop loss insurance. Only the very largest employers with more than 5,000 employee lives would typically have the risk tolerance to go without any form of stop loss insurance. It is this tolerance for risk and willingness to have wild fluctuations in their benefit costs that would determine whether or not a group would purchase stop loss insurance. I would estimate that tens, if not hundreds, of millions of individuals are "covered" under stop loss insurance by virtue of the fact that their employers' plans purchase stop loss insurance. This gives individuals two deep pockets to protect from catastrophic claims – the health plan itself and a stop loss insurer who will protect the health 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? What are the lowest attachment points that are available? What are the trends?

I typically see stop loss polices with specific attachment points ranging from $35,000 to $500,000 and aggregate attachment points ranging from $200,000 to $20,000,000. Most stop loss insurers refuse to offer stop loss insurance to groups with less than 75 employees.

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?

Self-insured benefit plans typically purchase both specific and aggregate coverage. Depending on the particular risk tolerance of a group, it may choose to purchase either a specific only, or an aggregate only policy.

4. How do insurers work with small employers to integrate stop loss insurance protection with self-insured group health plans? What kind 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?

Stop loss insurance sits over top of a plan of benefits and covers only those claims that would be eligible for payment in the underlying plan of benefits. Because stop loss policies are filed with the state, there is typically little room to customize the policies for the benefit of a particular plan. Attachment points are developed using the past claims experience of a group. This past claims experience is trended forward to estimate the expected claims of a group for the following year. In my experience, self-insured health plans purchase stop loss insurance every year.

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?

The answer to the first part of this question depends on how claims are incurred by a group. A group with a specific attachment point of $50,000 might have zero, one, two or ten claims that exceed this attachment point in a given year. The severity of these claims might be $10,000, $100,000, $1,000,000 or even $5,000,000. Factors affect the frequency and severity of claims include the size of the group, the area of a country where treatment is rendered, the average age of the plan participants and even the industry of the group. Because of the catastrophic nature of this coverage, loss ratios can vary widely from year to year. Some years carriers might see loss ratios of 120% and other years they may have loss ratios of 80%.

6. What are the administrative costs to employers related to stop loss insurance purchased for the employers' self-insured group health plans? How do those costs compare to the administrative costs related to purchasing a health insurance policy from an issuer?

There is very little administrative cost to employers related to purchasing stop loss insurance. Administrators and/or brokers may be paid commission by stop loss carriers, but this commission is typically only 25% of the commission that a broker might expect to earn if the group he or she represents were to purchase a fully insured policy.

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 prevalent in all industries and sectors. Stop loss carriers often require at least 75% of active employees to participate, but this requirement is routinely waived.

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

Stop loss policies are filed and issued by admitted insurance carriers and their agents acting on their behalf. As in other lines of insurance, stop loss carriers often hire managing general underwriters (MGU's) to act on their behalf, though the admitted carriers are legally responsible for the actions or inactions of their MGU's. I would estimate that there are fewer than 100 carriers and their MGU's issuing stop loss insurance policies and all are subject to regulatory review on the state level. Very few, if any, of these entities would be considered "small".

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

It is unclear what is meant by the term "fee". Premiums are charged based upon a carrier's perception of the risk exposure presented by a particular group. As noted previously, I believe that most carriers refuse to consider the sale of stop loss insurance to groups less than 75 lives. This refusal to insure these smaller groups is accomplished by simply declining the opportunity to offer an insurance quote when it is presented to the carrier.

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?

Carriers use a variety of means to evaluate the risk presented by a particular group and the use of these means differs from carrier to carrier. As noted previously, some factors often considered include the geographic location of a group and the average age of the plan participants. These factors do not typically affect the specific attachment points available to a group as much as the size of a group would affect the specific attachment points available. As a rule of thumb, specific attachment points are typically set between 5% and 10% of a group's overall expected claims for a given year. This rule of thumb is less useful on very large groups.

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?

States regulate stop loss insurance through their regulation of carriers admitted to do business in their states, through their review and approval of each stop loss policy filed in a particular state, through their regulation of insurance producers in a given state and through their regulation of insurance company's claims practices. Regulations vary considerably from state to state with some states even going so far as to limit the issuance of stop loss insurance to very small group and requiring specific and aggregate attachment points to exceed certain thresholds. Recognizing that stop loss insurance contemplates insurance between two relatively sophisticated entities, state regulation of stop loss insurance is less significant than state regulation of fully insured policies sold to individual consumers.

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?

I believe that the availability of stop loss insurance fundamentally affects the ability of small employers to offer a self-insured plan of benefits to their employees. Small employers do not typically have the risk tolerance to self-insure without some protection from catastrophic claims.

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

The use of stop loss insurance by self-insured small employers is not fundamentally different from the use of stop loss insurance by self-insured large employers. Stop loss insurance facilitates an employer's efforts to offer a customized plan of benefits to meet the unique needs of its employees and allows it to do so in a consistent manner even if it has employees in several states. Self-insurance is an efficient means to provide health insurance to employees whether the employer is large or small, and stop loss insurance enables an employer to self-insure without taking more risk that it is comfortable taking.