From:	Mac Meadows
To:	E-OHPSCA-STOPLOSS.EBSA
Subject:	Entrust, Inc."s Comments On Request For Information Regarding Stop Loss Insurance
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Attachments:	Entrust, Inc."s Comments on Request For Information Regarding Stop Loss Insurance.pdf

Attached please find Entrust, Inc.'s Comments On Request For Information Regarding Stop Loss Insurance. Thank you for your assistance in this matter.

Sincerely,

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Comments On Request For Information Regarding Stop Loss Insurance

Date:	July 2, 2012
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Prepared for:	U.S. Department of the Treasury Internal Revenue Service U.S. Department of Labor Employee Benefit Security Administration U.S. Department of Health & Human Services Centers for Medicare & Medicaid Services

Entrust, Inc.'s Comments On Request For Information Regarding Stop Loss Insurance

1. How common is the use of stop loss insurance in connection with self-insured arrangements?

Stop loss insurance is very common for employers who use a self-insured group health Plan for their eligible employees and dependents. Self-insured Plans are subject to the fiduciary requirements of ERISA, which requires Plan fiduciaries to exercise prudent judgment regarding the Plan and its solvency in order to best protect Plan assets. Accordingly, either the employer Plan sponsor or the Plan itself will purchase stop loss insurance in order to protect the Plan from unknown liabilities, which include excessive losses from very large claims or fluctuations in claims depending upon the type of stop loss insurance purchased. In short, stop loss insurance assists in ensuring the continued viability of the group health Plan.

Does the usage vary (and, if so, how) based on the size of the underlying arrangement or based on other factors?

Generally, smaller employers are more likely to purchase stop loss insurance than larger employers. However, the size of the group is only one of several factors that must be considered when choosing to purchase stop loss insurance. Other factors include, but are not limited to, the employer Plan sponsor's financial situation, the cost of the stop loss insurance, the amount of risk retention that the employer Plan sponsor wants to take, the prior claims history for the Plan participants, the benefit designs for the specific Plans that will be covered under the stop loss insurance, and the demographics of the Plan participants.

How many individuals, if known, are covered under stop loss insurance (either nationally or on a state-specific basis)?

Stop loss insurance does not cover any "individuals." Stop loss protects and indemnifies the employer Plan sponsor and/or the Plan that purchases the stop loss insurance. Only health insurance covers individuals directly, but stop loss never pays a claim for any individual plan participant. Thus, there are not any "covered individuals" underneath stop loss insurance as there is not any direct relationship between the two. The above aside, it is estimated that self-insured plans covering 45-50 million plan participants purchase some form of stop loss insurance.

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)?

Employers' decisions whether or not to provide benefits are related to several factors, such as the economy, local business climate, and industry. As business changes, employers' decisions to insure, self-insure, or not insure will change as well. Coverage trends tend to flow in cycles. It is too early to tell whether or not the Affordable Care Act will affect these trends as the Affordable Care Act is yet to be fully implemented.

2. What are common attachment points for stop loss insurance policies, and what factors are used to determine these attachment points?

A "common attachment point" does not exist industry-wide as this number varies significantly based upon the factors described in further detail below. Employers determine the amount of retention that they wish to retain based on fulfilling the promise made to Plan participants without putting either the Plan or the employers' business in jeopardy. Prudence would dictate that the maximum attachment point should not exceed 5-7% of total Plan claims. Common factors used to determine attachment points include, but are not limited to the number of Plan participants, the employer Plan sponsor's financial situation, retention tolerance, the cost of the stop loss insurance, the prior claims history for the Plan participants, benefit plan designs, and the demographics of the Plan participants.

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?

Aggregate stop loss coverage attachment points are rarely, if ever, established less than 110% of expected claims costs. The reason for this is economics. The closer an aggregate attachment point gets to expected claims costs, there is a significant impact in premium rising to the point that it is cost prohibitive to purchase. The same actually applies to the relationship between the specific attachment point and the premium for said coverage in that the lower the attachment point, the higher the premium. Each employer, whether large or small, considering self-insuring makes a determination based upon the factors set forth above. It would be economically unfeasible to purchase lower attachment points. At the same time, the risk would be intolerable for small employers to purchase large attachment points. Balance is achieved through a competitive marketplace for said coverage, whether large or small. It is extremely difficult to find specific stop loss attachment points less than $15,000-$20,000. As healthcare costs continue to increase, economics will dictate that attachment points for both specific and aggregate stop loss insurance will trend upwards as well.

3. Are employee-level ("specific") attachment points more common, or are group-level ("aggregate") attachment points more common?

Although both specific and aggregate stop loss attachment points are common for most self-insured Plans, as employer groups increase in size or accumulate creditable claims experience, they become more inclined to purchase specific stop loss protection only. The employer Plan sponsor takes into account all of the factors set forth above, pricing the various options, and decides whether or not it needs specific stop loss coverage and/or aggregate stop loss coverage. Specific stop loss coverage protects against individual large dollar claims, while aggregate stop loss coverage protects against fluctuations in total claims below the specific attachment point.

What are the trends?

Employer Plan Sponsors continue to use the factors listed above to determine the need for specific and/or aggregate stop loss coverage. As medical claims continue to spiral upward, the interest in purchasing specific stop loss coverage or specific/aggregate stop loss coverage will increase proportionately as employers seek to fulfill their promise to employees and further protect Plan assets.

What are the common attachment points for employee-level and group-level policies?

There are not any employee level or group level policies as there are only stop loss policies purchased either by an employer or the Plan.

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

Self-insured employers design their Plans to best meet their business needs and the benefit needs of their Plan participants. A Plan Document/Summary Plan Description sets forth the benefits of the Plan. Agents, brokers, consultants, or third party administrators identify filed and approved stop loss policies that best integrate the provisions of the benefit Plan. Employers recognize that any deviation or discrepancy between the health Plan provisions and what is covered under the stop loss policy remains the complete responsibility of the Employer without the benefit of stop loss coverage.

What kinds of options are generally made available? Are policies customized to meet the needs of different employers?

Policies can only be customized as limited by the filing requirements of each State's department of insurance. Each State has the right to approve or deny stop loss policies and their provisions, and some States allow greater variations than others. Stop loss coverage available to employers is limited to the State in which the policy is purchased.

How are the attachment points for a stop loss policy determined for an employer?

Attachment points are determined by an employer in consultation with experienced brokers, agents, consultants, and third party administrators. These parties then go to the marketplace to find competitive costs for the attachment points that most closely match the needs and desires of the employer or the Plan. Stop loss carriers do not determine attachment points for employers. However, stop loss carriers do determine the amount of risk that the stop loss carrier is willing to absorb on a profitable basis.

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

Typically, self-insured Plans will continue to purchase some level of stop loss insurance every year, unless they grow significantly in size and feel that they have enough financial reserves and spread of risk to drop stop loss insurance.

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?

One hundred percent of all claims are paid for the employer, not the stop loss coverage. In a self-insured Plan, stop loss insurance does not pay claims. Instead, the stop loss carrier reimburses the employer or the Plan for claims that it has paid. Stop loss insurance is not health insurance.

How much do the relative percentages vary for different attachment points?

Regardless of the attachment point, either the employer or the Plan pays the claim and files for reimbursement with the stop loss carrier should claims exceed the attachment point.

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

Loss ratios vary from year to year from stop loss insurance company to stop loss insurance company. Some self-insured Plans within a stop loss carrier's portfolio will generate underwriting profits, and some self-insured Plans will generate loss. The stop loss carrier simply attempts to underwrite to avoid losing money on their block of business and to generate a reasonable return on investment based on the risk assumed under the policy.

6. What are the administrative costs to employers related to stop loss insurance purchased for the employers' self-insured group health plans?

The stop loss premium includes the administrative expenses of the carrier, including general and administrative overhead, premium taxes paid to the state where the policy is written, and less frequently, commissions to a writing agent or broker. Embedded administrative costs are typically less than 15% of total premiums; the higher the premium, the lower the administrative costs as a percentage of premium.

How do these costs compare to the administrative costs related to purchasing a health insurance policy from an issuer?

Administrative costs for purchasing a health insurance policy from an insurer are 15-20% of the total insurance premium paid to the insurer. Administrative costs to a self-insured Plan are typically 15% or less of the premium for stop loss coverage only. Stop loss coverage is typically less than 30% of the total costs of the self-insured plan. Therefore, there is significant administrative cost savings to a Plan that is self-insured compared to what is embedded in a fully-insured plan. The self-insured employer weighs the reduced administrative costs against the increased risk of self-funding.

7. Is stop loss insurance more prevalent in certain industries or sectors?

No, stop-loss insurance is not more prevalent in certain industries.

Are there any minimum employee participation requirements for a small employer to be offered stop loss insurance?

In order to provide a stop loss insurance quote, stop loss insurers typically require that 75-80% of an employer's eligible employees enroll in the Plan. Any risk-taker is always concerned with maximizing the spread of risk within the population, whether insured or self-insured.

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

Stop loss insurance is issued by carriers that are admitted and approved by State insurance departments as insurance companies. In addition to being admitted carriers within a State, the policies must be filed and approved. If an insurance carrier is too small to meet the State's requirements, it cannot sell policies. States monitor the financial stability of all admitted carriers.

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

Stop loss insurers charge risk-related premium, not fees. Typically, to eliminate groups less than 25-50 employees from purchasing stop loss coverage, most stop loss issuers have minimum annual premiums that make it cost prohibitive to self insure with stop loss insurance.

10. How do stop loss insurers evaluate the plans seeking coverage and how is this evaluation reflected in the coverage or premiums offered?

A stop loss insurance underwriter considers several factors in evaluating a Plan, including but not limited to claims experience, Plan participant demographics, location, networks, and Plan design. Of all these factors, the most important one in evaluating the Plan is the prior claims experience. In those States that require the disclosure of prior claims experience to prospective insurers, the premiums are more competitive. If claims experience is not available, carriers may quote a "manual" rate (carrier's rate table based on macro-actuarial studies). Manual rates are most frequently considered non-competitive in the marketplace and therefore not purchased. If all States passed laws dictating transparency of claims experience, thereby enabling the Plan fiduciary to fulfill its obligations under ERISA, it would level the playing field and ultimately benefit employers and Plan participants in shopping either fully insured or self-insured alternatives. Without documented experience information, employers are held hostage to the insurance companies.

Does the profile of the plan have an effect on the attachment points available?

If by profile, it is meant Plan design, the answer is yes. Different Plan designs result in different behavior and utilization, which ultimately impacts the claims activity within a Plan. If a Plan design generates consumer involvement which better controls claims costs, then, since attachment points are claims related, the lower the claims costs, the lower the attachment point. Conversely, should the Plan design promote unnecessary and expensive claims utilization because it is paid for by the Plan, then total costs as well as attachment points increase.

11. How do States regulate stop loss insurance? In States that are regulating this insurance, what are the licensing processes and standards?

The McCarran-Ferguson Act delegated the responsibility of regulating the business of insurance to each State. Therefore, it is completely up to the States to determine the regulation of stop loss insurance as well as other business done in the State.

A stop loss insurer seeking to offer a product in a State must apply for and receive a Certificate of Authority from the State's department of insurance. After receiving same and prior to the sale of a stop loss policy to an employer Plan sponsor or Plan in a specific State, the stop loss insurance policy must be filed in that State and approved by the insurance department of that State. In addition, States generally require that agents or brokers who are selling stop loss products meet State licensure and continuing education requirements.

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?

States have proposed laws, regulations, and best practices in all areas of insurance as they see fit to meet the needs of their constituents. Although some States have laws in place regarding minimum specific attachment points and aggregate corridors, each State is different, and there is not uniform regulation among the States. Legislation in each State should reflect the needs of its own residents and its own economic conditions.

What are the issues States face in regulating stop loss insurance?

The majority of employees in the United States participate in self-insured Plans, many of which have stop loss insurance. Thus, States need to consider the economic consequences of stop loss insurance regulation, its impact on the States' business environment, and coverage for employees before setting minimum standards for stop loss insurance as this regulation affects numerous residents of the States. If the options available to employers to finance employee benefits are reduced or restricted, then the burden will fall either on employees, the State, or the federal treasury.

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?

Self-insuring is simply another option available to employers that allows them to say yes to providing benefits to their employees and dependents. Some smaller, medium, and possibly large employers might decide not to offer meaningful insurance arrangement to employees and their dependents if the self-funding option was eliminated. Limiting selection and competition can only diminish the overall market for group health Plans, whether fully insured or self-insured.

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

Employers with option of combining their self-insured Plans with stop loss insurance is a net benefit to the overall health benefit industry as increasing the options available to employers increases competition among all types of health Plans. Insurance carriers that have to compete with employers turning to self-funding are driven to keep their rates competitive or risk losing business. If this competition is removed for smaller employers, it will be to the detriment of both employers and their employees in all industries.