Employer Stop Loss Market Overview

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Overview

1	**Basics of Stop Loss and Self-Insurance**
2	Claim Components
3	Milliman Stop Loss Survey / Market Dynamics

What is your experience with the employer stop loss?

a. Extensive Experience

b. Recently got into this area

c. Not very familiar, trying to learn more

d. Others

Stop Loss Insurance

Background

- Covers the self-funded plan sponsor from catastrophic medical/pharmacy claims
- Between carrier and self-funded employer; does not cover the individual member
- Plan is regulated by ERISA; stop loss regulated by the State and requires a policy to be filed with regulators
- Distributed through health plans, TPAs, brokers, and direct carriers

Employer stop loss is NOT provider / HMO reinsurance

Coverage Basics

- Primarily purchased by employers with over 75 employees

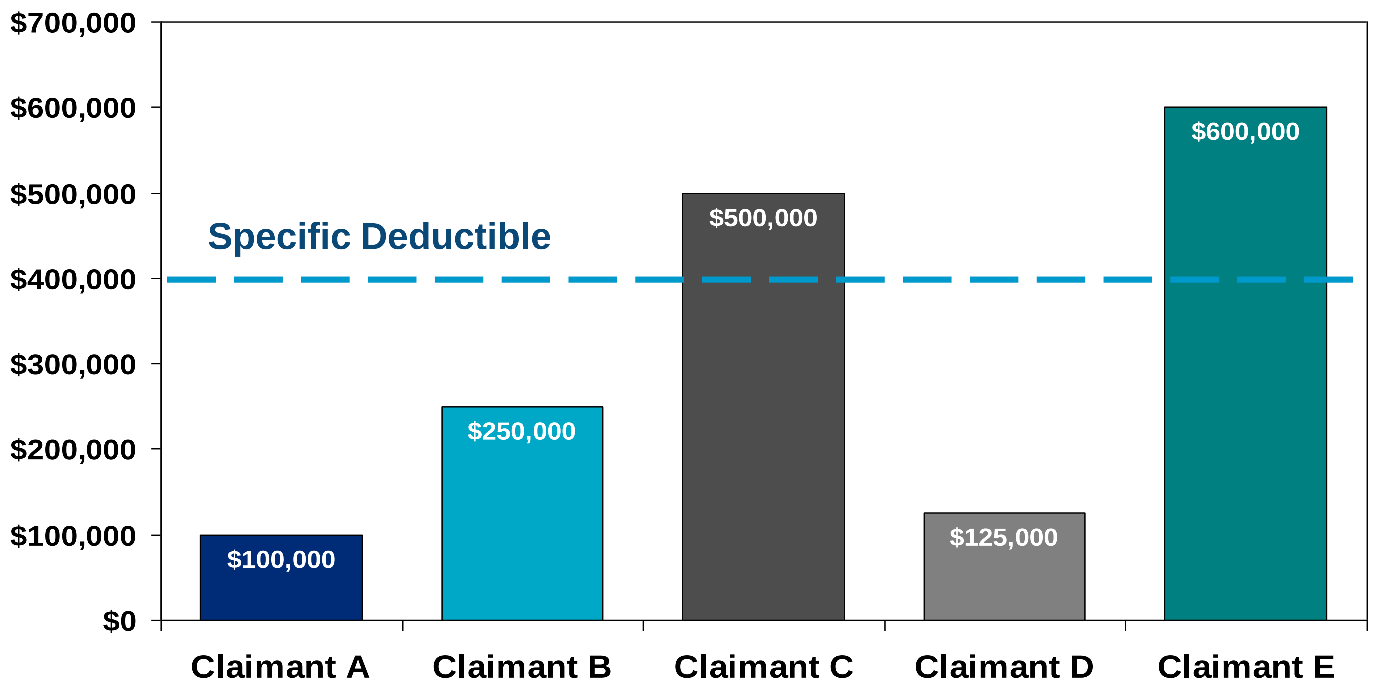
Specific (individual, self-insured retention)

- Protects the employer from individual claimants exceeding a threshold

Aggregate

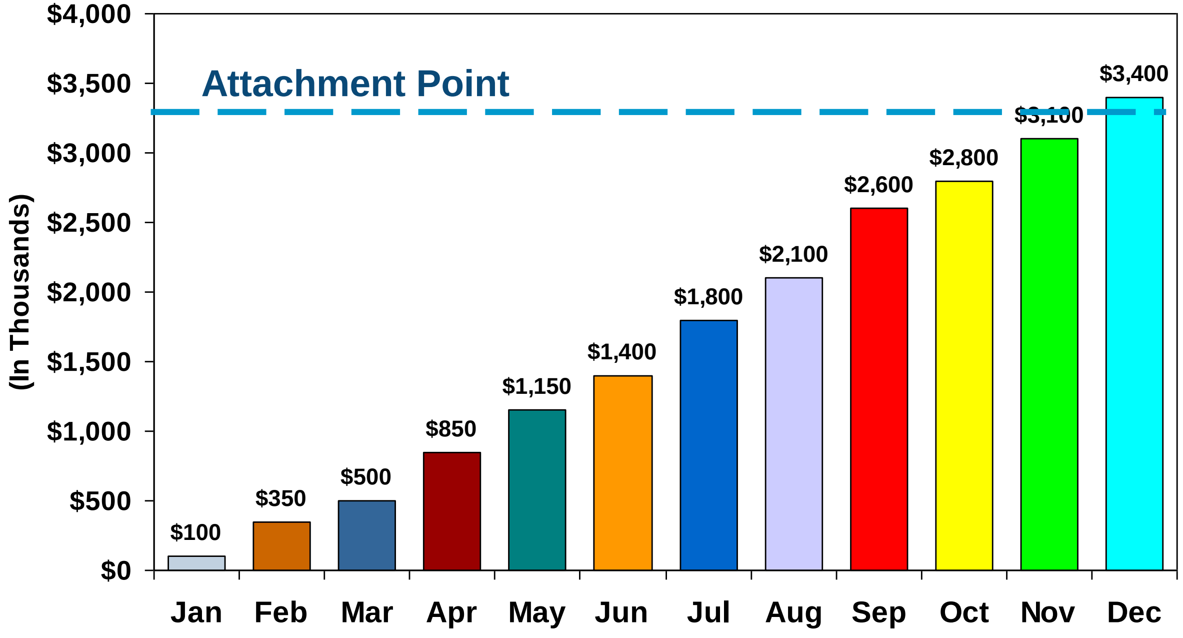
- Protects the employer from claims in total exceeding a corridor (typically 125% of expected)
- Specific protects the aggregate (claim cannot be reimbursed twice)

Individual Stop Loss



- Employer elects coverage at a specific level (e.g. $400,000). Once a claim for any covered member reaches that limit, all eligible claims paid over that level during the policy period would be reimbursed under the stop-loss policy.

Aggregate Stop Loss

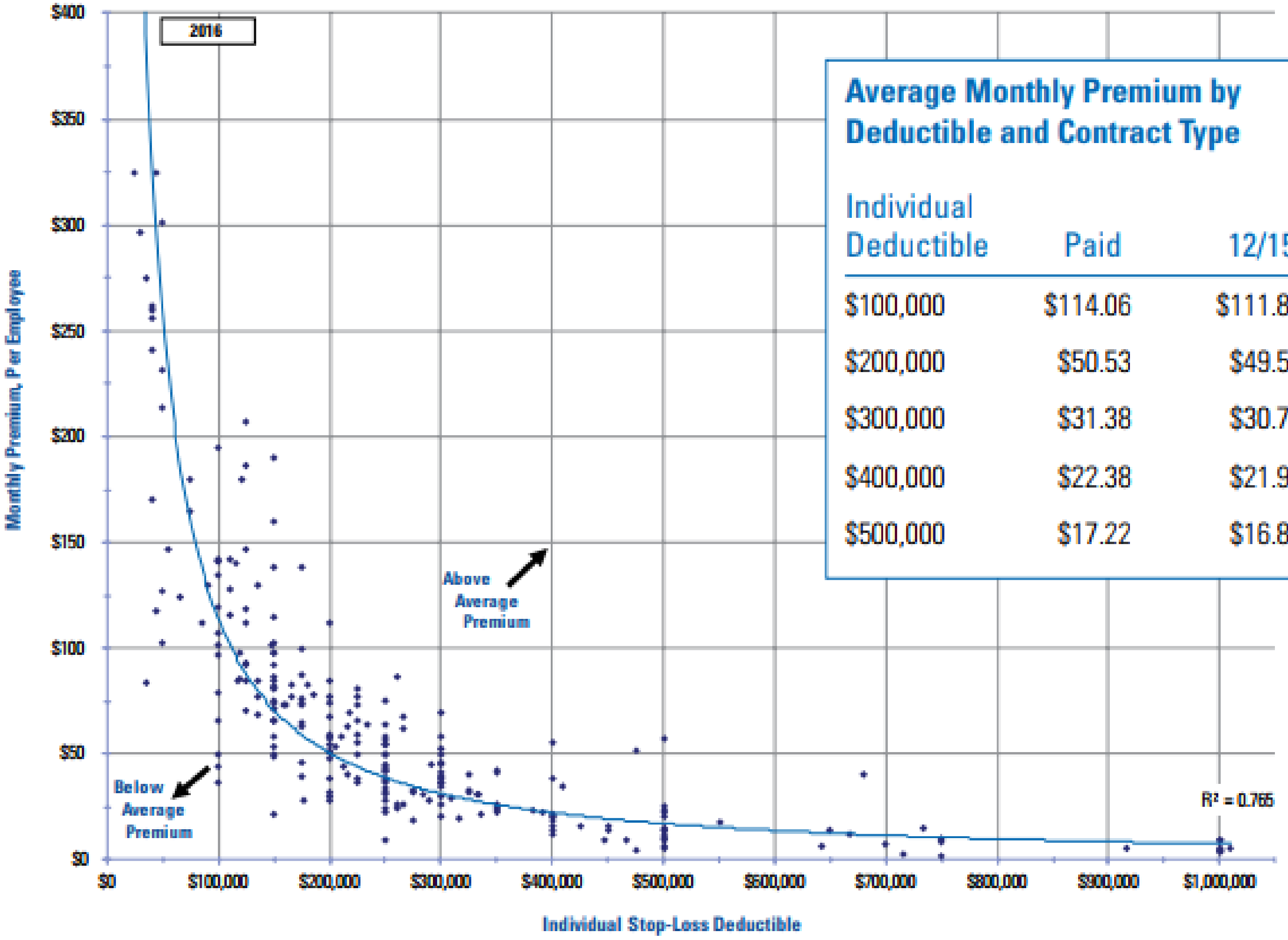


- The employer and carrier agree on an expected PEPM claims cost for the policy period. If the annual PEPM claims cost exceeds that projection by more than the aggregate coverage corridor (e.g. 125%) then the stop-loss carrier would reimburse the employer for all claims over that threshold

- Claims reimbursable **under ISL coverage are excluded from coverage** and the PEPM calculation for ASL coverage

Individual Deductible

2016 Monthly Premiums, Individual Stop Loss, by Deductible
(Adjusted to a "Paid" Contract)



Average Monthly Premium by Deductible and Contract Type

Individual Deductible	Paid	12/15	15/12	12/12
$100,000	$114.06	$111.82	$109.67	$90.52
$200,000	$50.53	$49.54	$48.59	$40.10
$300,000	$31.38	$30.76	$30.17	$24.90
$400,000	$22.38	$21.94	$21.52	$17.76
$500,000	$17.22	$16.88	$16.56	$13.67

Based on 2016 Aegis Stop Loss Survey

What is the percentage of employers that are self-insured?

a. 0-10%

b. 10-20%

c. 20-30%

d. 30%+

Percentage of Employers Insuring / Self-Insuring

Size	Insured	Self-Insured
500-999	40%	60%
1,000 – 4,999	20%	80%
5,000 – 9,999	8%	92%
10,000 – 19,999	5%	95%
20,000 +	3%	97%
All Employers	83%	17%
Small Employers	85%	15%

Based on Mercer’s 2015 survey of employer sponsored plans

What is the percentage of workforce that is covered by a self-insured plan?

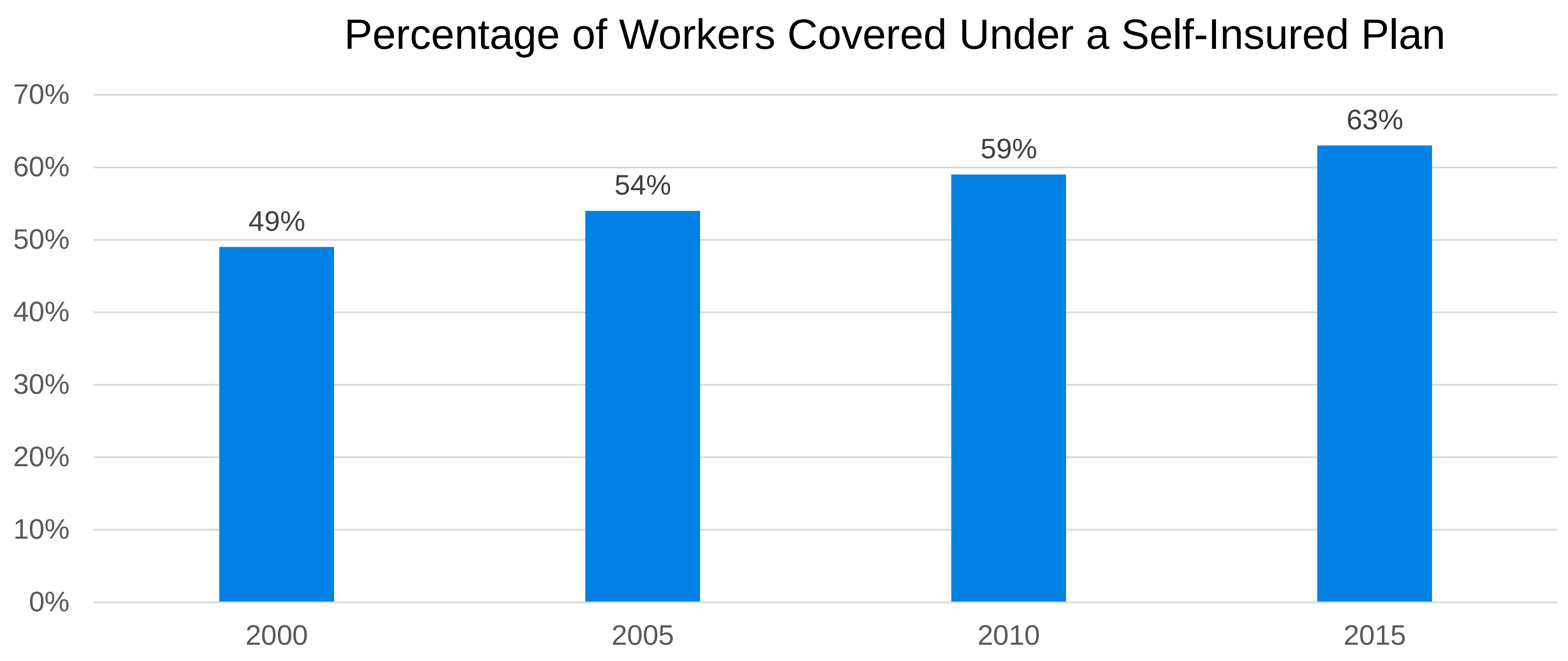
a. 0-20%

b. 20-40%

c. 40-60%

d. 60%+

Growth of Self-Insurance



Based on Kaiser Family Foundation 2015 Health Benefits Survey

Need for Stop Loss Insurance

Top Ten Conditions

Total payments

33% Top 3 conditions

53% of all catastrophic claims were top 10 conditions

Rank	Medical condition	Value of stop-loss claims reimbursements 2012–2015	Percentage of total stop-loss claims reimbursements 2012–2015	Increase/ decrease compared to 2011–2014
1	**Malignant neoplasm** (cancer)	$429.5M	18.5%	↑ 0.9%
2	**Leukemia/lymphoma/ multiple myeloma** (cancers)	$188.6M	8.1%	No material change
3	**Chronic/end-stage renal disease** (kidneys)	$156.6M	6.7%	↓ 1.0%
4	**Congenital anomalies** (conditions present at birth)	$96.3M	4.1%	↓ 0.1%
5	**Disorders relating to short gestation and low birth weight** (premature birth)	$75.2M	3.2%	No material change
6	**Transplant**	$62.2M	2.7%	↑ 0.7%
7	**Congestive heart failure**	$57.8M	2.5%	↓ 0.1%
8	**Cerebrovascular disease** (brain blood vessels)	$57.4M	2.5%	No material change
9	**Pulmonary collapse/ respiratory failure** (lungs)	$55.0M	2.4%	No material change
10	**Septicemia** (infection)	$54.7M	2.4%	↑ 0.2%
✓	**All other conditions**	$1.09B	47%	↓ 0.5%

Based on Sun Life 2016 Stop Loss Study

Who Sells Stop Loss?

Health Plans	Third Party	MGUs
• BCBS	• Sun Life	• Gerber
• Aetna	• HCC Life	• Everest
• Cigna	• Voya	• Zurich
• UHC	• Symetra	• Companion

- Market is split 50/50 between health plans and third party/MGU
- Mostly specialty life and property/casualty insurers
- 60-75 carriers (inclusive of all Blues plan)

What do Employers Care About?

- Price / fair renewals
- Carrier's ability to pay claims
- Product features
  - Plan mirroring
  - Rate-caps
  - Lasers / no-new laser contracts
  - Profit-share / dividend programs
  - Specific advance

What percentage of allowed costs (first dollar) are attributable to inpatient charges?

a) 0-25%

b) 25%-50%

c) 50%-75%

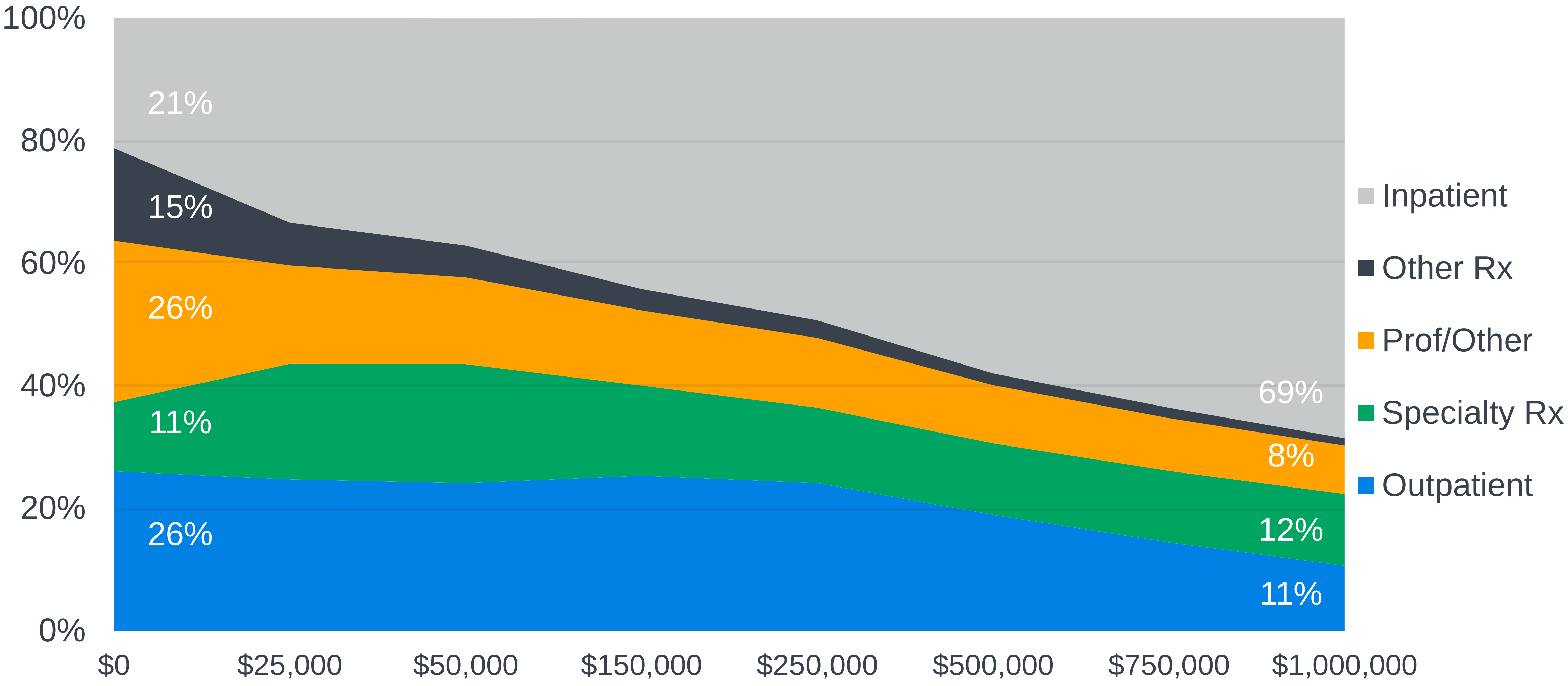
d) 75%-100%

For claimants whose annual costs exceed $250,000, what percentage of allowed costs are attributable to inpatient charges?

a) 20%-40%
b) 40%-60%
c) 60%-80%
d) 80%-100%

Distribution of Stop Loss Cost by Type of Service

Limited to Members in Excess of Given Deductibles



Source: Truven MarketScan Research Database 2011-2015 Commercial data.

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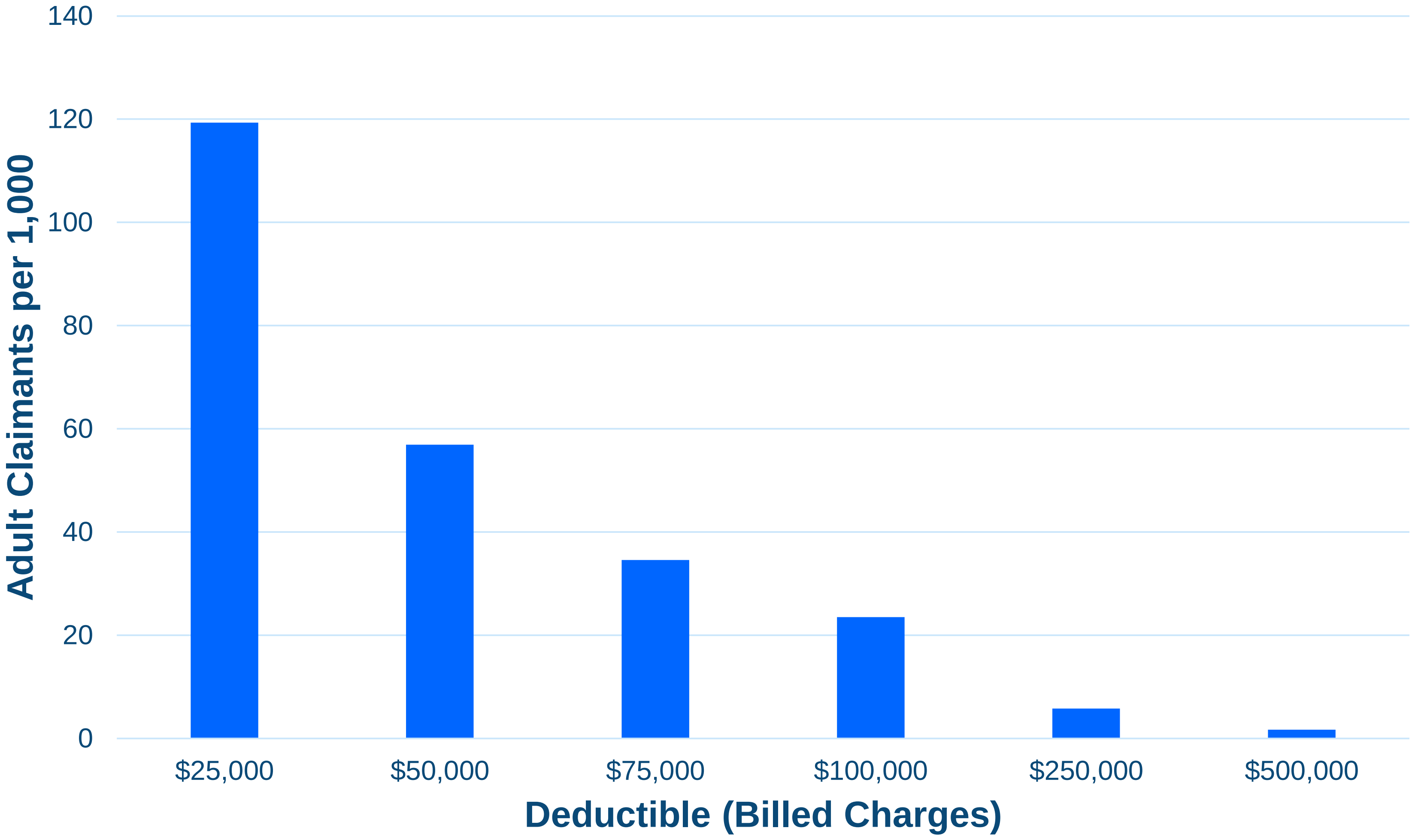
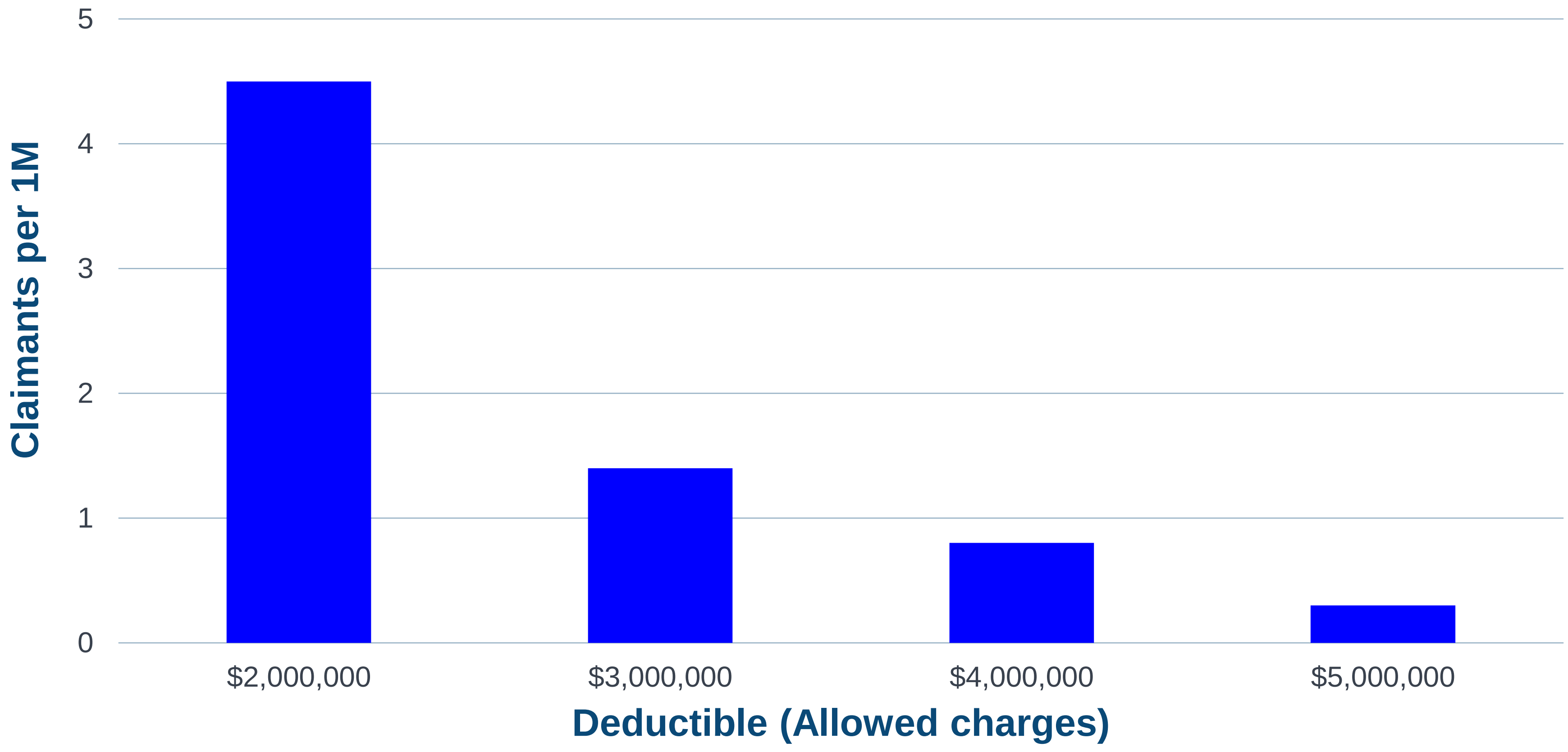
Stop Loss Claim Frequency



Source: 2018 Milliman Stop Loss Manual (DRAFT)

Stop Loss Claim Frequency



Source: Truven MarketScan Research Database 2011-2015 Commercial data.

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What proportion of specific stop loss claims are typically paid by the end of the ninth month of a policy year?

a) 0-20%

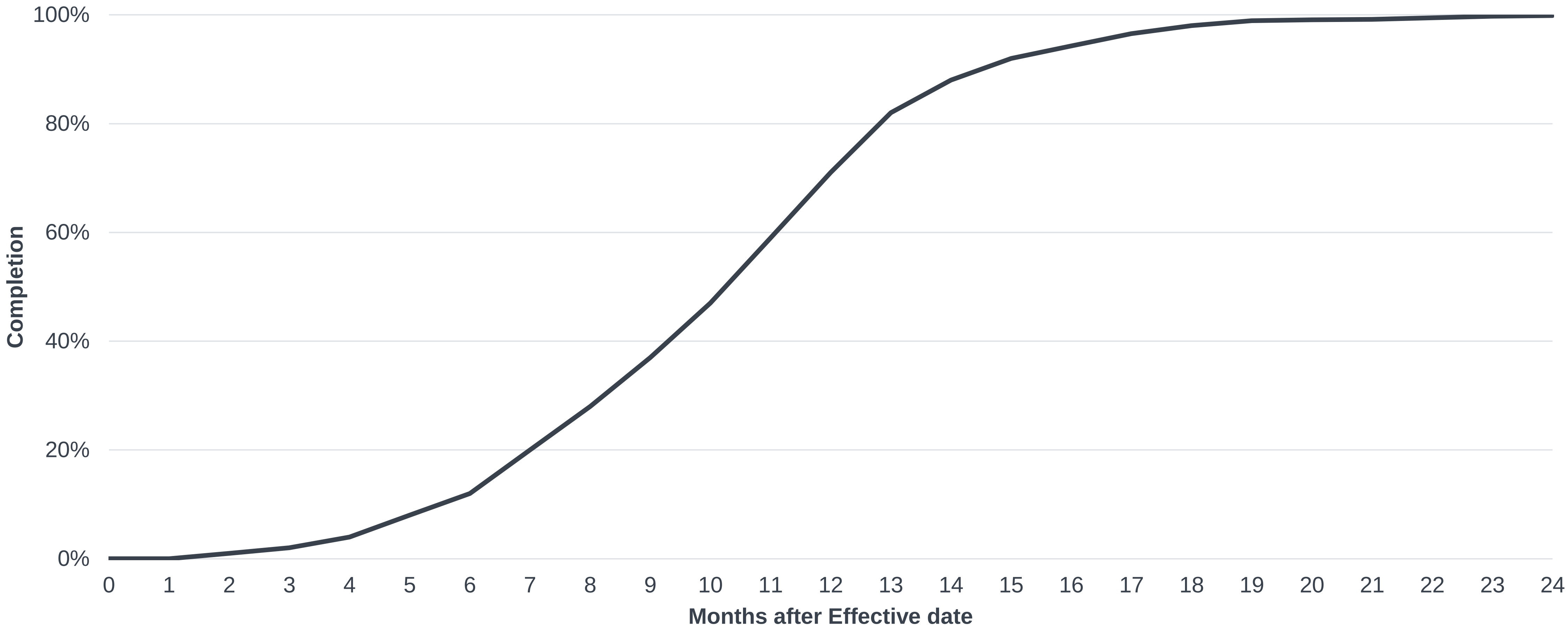
b) 20%-40%

c) 40%-60%

d) 60%-75%

Stop Loss Completion Patterns

Specific Stop Loss



Overview

Why We Conducted the Survey

- Market size is approximately $15B and expected to grow
- Growth from increased prevalence of self-funding, leveraged trend, and high cost claims expanding insurance needs
  - Attracting new entrants: Guardian Life, Berkshire Hathaway, Liberty Mutual, Unum
  - Mergers/Acquisition activity: Sumitomo/Symetra, Tokio Marine/HCC Life, Swiss/IHC, Tokio Marine HCC Life/AIG
- Profitability ranges from 8%-12%
  - Fully insured: 2-4%
  - ASO: 8-10% (on a smaller base)
  - Life/disability: 3-4%
- Loss ratios from 70%-80% (net of commissions)

Survey Participation

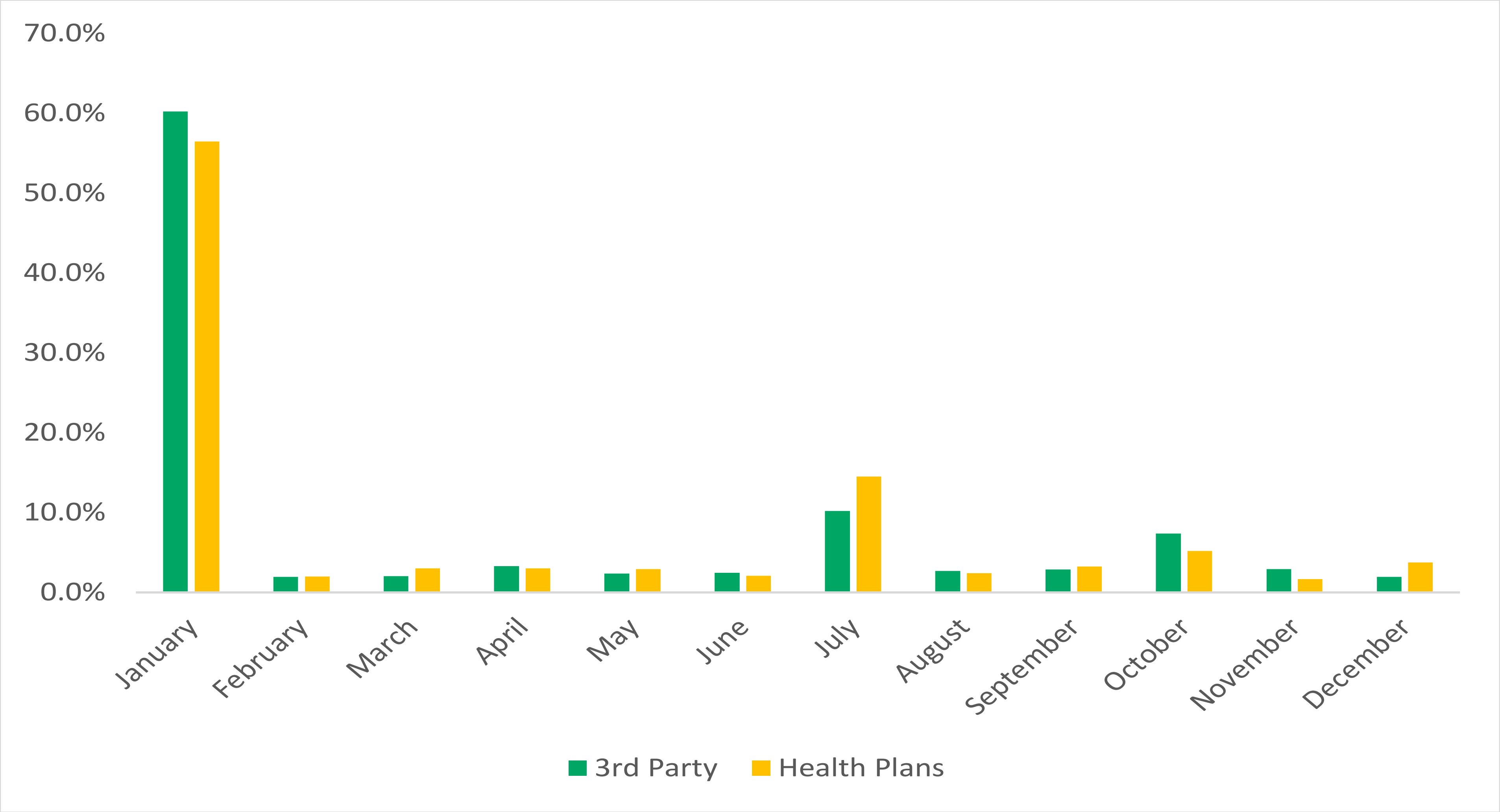
- Inaugural survey of stop loss carriers (health plans and third party)
- Measured performance, product differentiation, distribution, and other underwriting
- 24 carriers responding, $8.6B in premium (12 health plans and 12 third party carriers)
- Skewed towards large carriers (15 above $150M)
- Focus for 2017
  - Continued participation
  - Include more regional health plans
  - Invite MGU markets to participate

Key Findings

- Health plans have renewed interest in stop loss
  - Premiums increase with leveraged trend
- Loss ratios increased from 2015 to 2016
  - Many carriers reporting higher prevalence of catastrophic claims
  - Emergence of specialty Rx
  - New competition driving renewal and new business pricing
- Brokers driving product differentiation – not the carrier
  - Experience-based refunds / dividends
  - Rate caps; multi-yr
- Brokers compensation similar to or exceeds carrier profit
  - 10% -12% carrier profitability
  - 4%-8% base commissions; 2%-4% supplemental comp

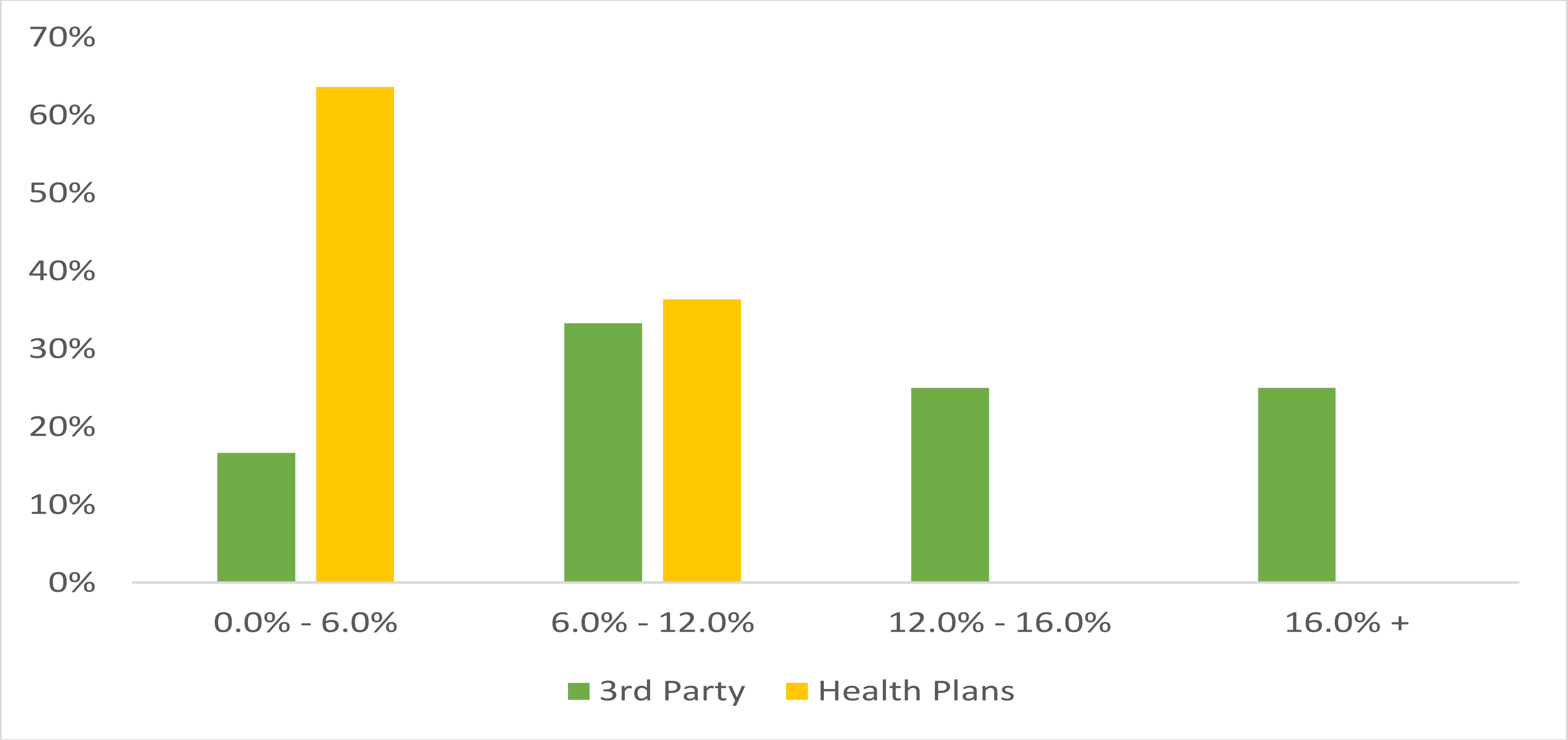
Distribution of Anniversary Month

Premium Distribution by Month



Expected Premium Growth

For 1/1/2018



2016 Achieved Loss Ratio

Net of Commissions

2016 Achieved Loss Ratio			
Loss Ratio	**Third Party**	**Health Plans**	**Total**
50% - 55%	0%	9%	4%
55% - 60%	0%	9%	4%
60% - 65%	8%	0%	4%
65% - 70%	17%	45%	30%
70% - 75%	42%	27%	35%
75% - 80%	25%	0%	13%
80% - 85%	0%	9%	4%
85% - 90%	8%	0%	4%
90%+	0%	9%	4%
Total	100%	100%	100%

Loss ratios (net of commissions) increased from 75% in 2015 to 77% in 2016. Carriers indicated the deterioration in loss ratios was driven by increased competition and higher severity of claims in excess of $1 million.

Average Supplemental Compensation Paid

Average Supplemental Compensation Paid to Broker			
Commissions %	**3rd Party**	**Health Plans**	**All**
0-2%	17%	75%	46%
2-4%	58%	17%	38%
4-6%	17%	0%	8%
6-8%	0%	0%	0%
8-10%	8%	8%	8%
Total	100%	100%	100%

The average supplemental compensation paid to brokers is 3.3% for third party carriers and 1.3% for health plans.

Carriers Offering with Various Product Features

Features	3rd Party	Health Plans	All
Policy mirroring	92%	92%	92%
Family deductible	67%	33%	50%
Rate caps	100%	75%	88%
Dividend/experience refund programs (single case)	92%	42%	67%
Dividend/experience refund programs (pooled by producer/association)	58%	8%	33%
No-new laser contracts with rate caps	100%	83%	92%
Specific advance	100%	58%	79%
Aggregate advance/accommodation	83%	83%	83%
Aggregating specific deductibles	100%	100%	100%
Pharmacy-only coverage	8%	0%	4%

The results shown here are meant to reflect “availability” of product features and not “prevalence”. For example, most carriers are making rate caps and no-new-laser contracts available though we do not believe these provisions make up a significant portion of the policies issued by most carriers that provide such features.

Questions?

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