Employer Stop Loss Market Overview

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November 14th, 2017
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## Overview

<table>
<thead>
<tr>
<th></th>
<th>Basics of Stop Loss and Self-Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Claim Components</td>
</tr>
<tr>
<td>3</td>
<td>Milliman Stop Loss Survey / Market Dynamics</td>
</tr>
</tbody>
</table>
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)
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.
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)

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

Based on Mercer’s 2015 survey of employer sponsored plans

<table>
<thead>
<tr>
<th>Size</th>
<th>Insured</th>
<th>Self-Insured</th>
</tr>
</thead>
<tbody>
<tr>
<td>500-999</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>1,000 – 4,999</td>
<td>20%</td>
<td>80%</td>
</tr>
<tr>
<td>5,000 – 9,999</td>
<td>8%</td>
<td>92%</td>
</tr>
<tr>
<td>10,000 – 19,999</td>
<td>5%</td>
<td>95%</td>
</tr>
<tr>
<td>20,000 +</td>
<td>3%</td>
<td>97%</td>
</tr>
<tr>
<td>All Employers</td>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>Small Employers</td>
<td>85%</td>
<td>15%</td>
</tr>
</tbody>
</table>
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

Percentage of Workers Covered Under a Self-Insured Plan

Based on Kaiser Family Foundation 2015 Health Benefits Survey
# Need for Stop Loss Insurance

## Top Ten Conditions

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Malignant neoplasm (cancer)</td>
<td>$429.5M</td>
<td>18.5%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2</td>
<td>Leukemia/lymphoma/multiple myeloma (cancers)</td>
<td>$188.6M</td>
<td>8.1%</td>
<td>No material change</td>
</tr>
<tr>
<td>3</td>
<td>Chronic/end-stage renal disease (kidneys)</td>
<td>$56.6M</td>
<td>6.7%</td>
<td>1.0%</td>
</tr>
<tr>
<td>4</td>
<td>Congenital anomalies (conditions present at birth)</td>
<td>$96.3M</td>
<td>4.1%</td>
<td>0.1%</td>
</tr>
<tr>
<td>5</td>
<td>Disorders relating to short gestation and low birth weight (premature birth)</td>
<td>$75.2M</td>
<td>3.2%</td>
<td>No material change</td>
</tr>
<tr>
<td>6</td>
<td>Transplant</td>
<td>$62.2M</td>
<td>2.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>7</td>
<td>Congestive heart failure</td>
<td>$57.8M</td>
<td>2.5%</td>
<td>0.1%</td>
</tr>
<tr>
<td>8</td>
<td>Cerebrovascular disease (brain blood vessels)</td>
<td>$57.4M</td>
<td>2.5%</td>
<td>No material change</td>
</tr>
<tr>
<td>9</td>
<td>Pulmonary collapse/respiratory failure (lungs)</td>
<td>$55.0M</td>
<td>2.4%</td>
<td>No material change</td>
</tr>
<tr>
<td>10</td>
<td>Septicemia (infection)</td>
<td>$54.7M</td>
<td>2.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td></td>
<td>All other conditions</td>
<td>$1.09B</td>
<td>47%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

Based on Sun Life 2016 Stop Loss Study
### Who Sells Stop Loss?

<table>
<thead>
<tr>
<th>Health Plans</th>
<th>Third Party</th>
<th>MGUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• BCBS</td>
<td>• Sun Life</td>
<td>• Gerber</td>
</tr>
<tr>
<td>• Aetna</td>
<td>• HCC Life</td>
<td>• Everest</td>
</tr>
<tr>
<td>• Cigna</td>
<td>• Voya</td>
<td>• Zurich</td>
</tr>
<tr>
<td>• UHC</td>
<td>• Symetra</td>
<td>• Companion</td>
</tr>
</tbody>
</table>

- 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
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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

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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. Not to be duplicated in whole or in part. Copyright ©2017 TruvenHealth Analytics Inc. All Rights Reserved.
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

Completion (%) over Months after Effective date
Overview

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

- January: 60.0%
- February: 3rd Party Health Plans
- March, April, May, June: 0.0%
- July: 3rd Party Health Plans
- August: 10.0%
- September, October, November, December: 0.0%
Expected Premium Growth
For 1/1/2018
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.
The average supplemental compensation paid to brokers is 3.3% for third party carriers and 1.3% for health plans.

### Average Supplemental Compensation Paid to Broker

<table>
<thead>
<tr>
<th>Commissions %</th>
<th>3rd Party</th>
<th>Health Plans</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-2%</td>
<td>17%</td>
<td>75%</td>
<td>46%</td>
</tr>
<tr>
<td>2-4%</td>
<td>58%</td>
<td>17%</td>
<td>38%</td>
</tr>
<tr>
<td>4-6%</td>
<td>17%</td>
<td>0%</td>
<td>8%</td>
</tr>
<tr>
<td>6-8%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>8-10%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
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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