



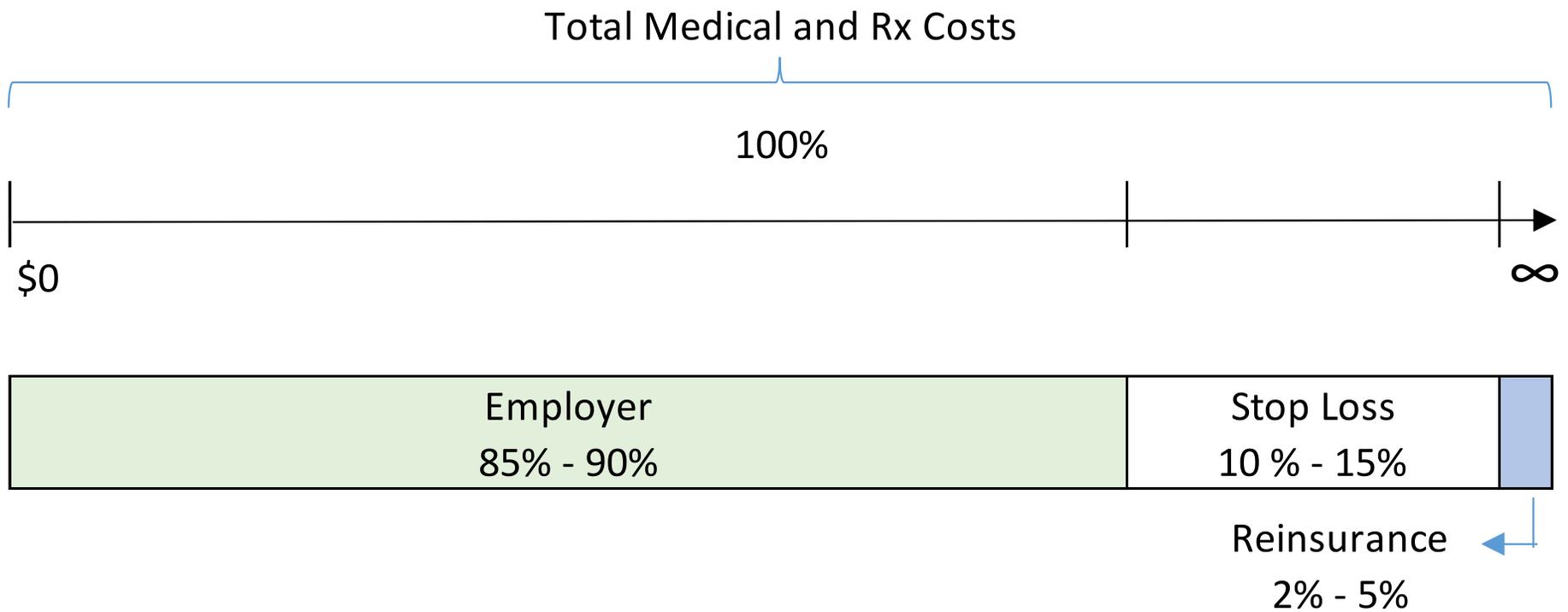
# Implications of High Cost Pharmacy to the Reinsurance Industry

November 11, 2019

# Agenda

- ▶ Reinsurance basics and market developments
- ▶ Gene therapy overview
- ▶ Actuarial pricing for risk products
- ▶ PBM and manufacturer contracting considerations
- ▶ Recent reinsurance loss ratios
- ▶ Reinsurance underwriting considerations

# Stop loss and reinsurance - Terminology



# Market developments (employer stop loss market)

## Affordable Care Act

- Individual mandate
- Dependent coverage to age 26
- Unlimited lifetime / annual maximums

## Market Growth

- Approximately \$21B (\$10B pre-ACA)
- Growth of self-insurance
- Large employer coverage

## Reinsurer Exits / Entries

- Transamerica
- Munich Re
- Scor Global
- Guardian Life
- Berkshire Hathaway
- Liberty Mutual
- Unum
- Anthem (as a third party carrier)

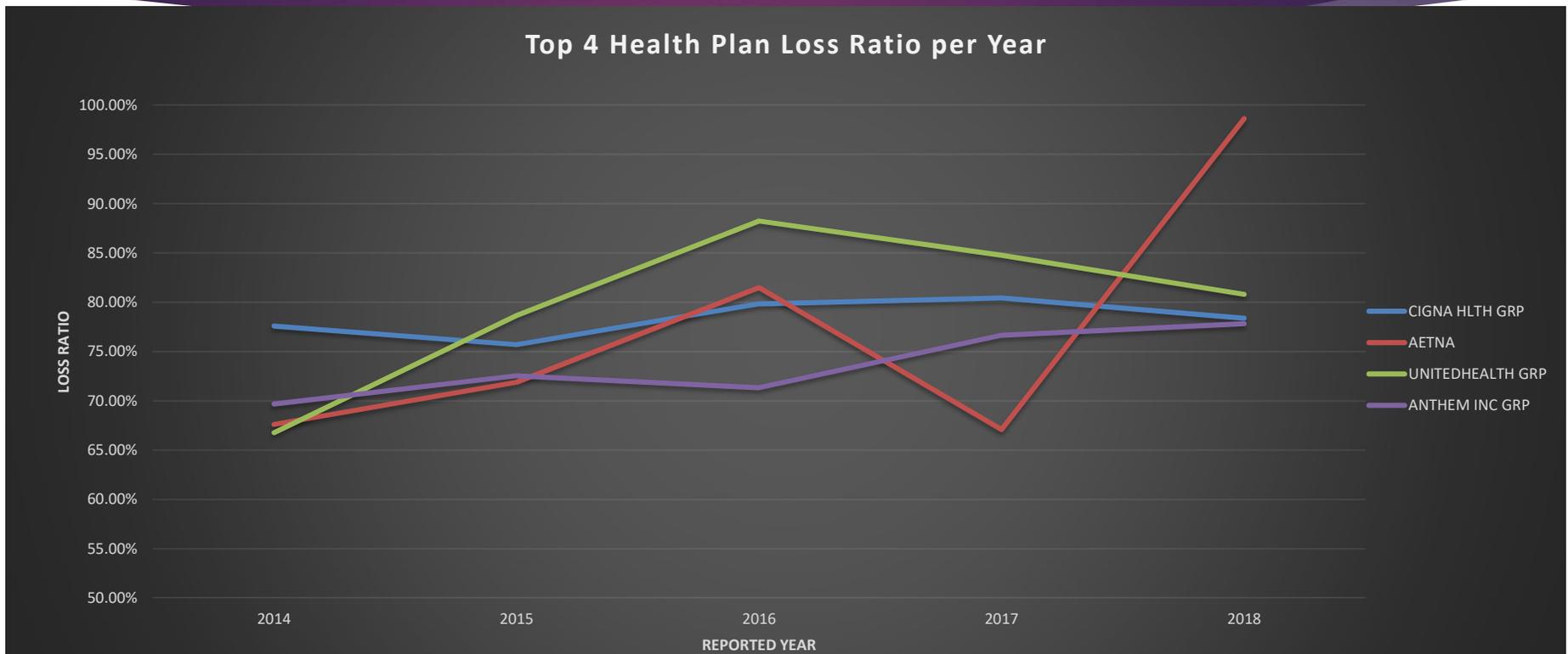
## Gene Therapy/ Specialty Drugs

- One-time treatment vs ongoing
- HAE / Hemophilia
- Gene therapy treatment cost range 6x – 10x one year treatment costs

# Industry Loss ratios

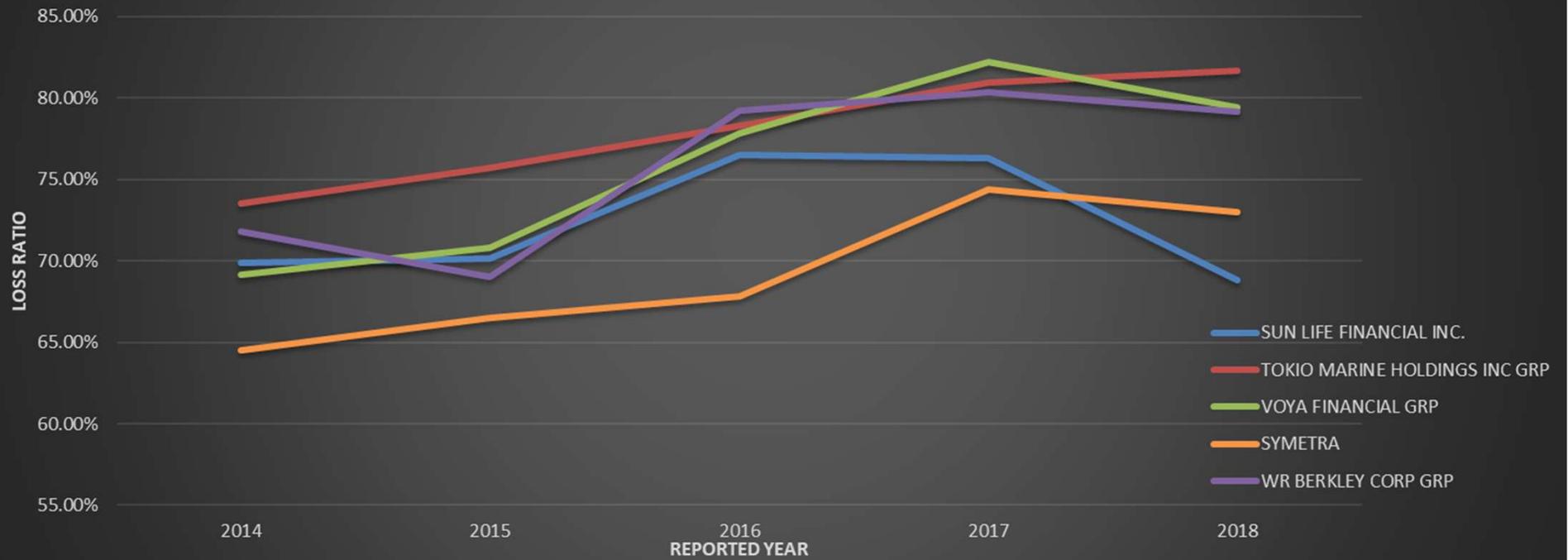
Group/Company Name	2016	2017	2018	2016	2017	2018
CIGNA HLTH GRP	2,515,840,248	2,832,187,963	3,311,558,000	79.83%	80.44%	78.39%
AETNA	863,357,037	823,945,110	1,615,122,000	81.47%	67.06%	98.63%
UNITEDHEALTH GRP	1,346,154,400	1,419,482,489	1,555,316,000	88.24%	84.79%	80.79%
SUN LIFE FINANCIAL INC.	1,152,090,789	1,205,524,026	1,452,870,000	76.48%	76.33%	68.79%
ANTHEM INC GRP	1,050,275,659	1,071,563,201	1,245,359,000	71.33%	76.66%	77.81%
TOKIO MARINE HOLDINGS INC GRP	1,010,274,532	1,135,756,296	1,302,685,000	78.30%	80.92%	81.68%
VOYA FINANCIAL GRP	856,806,474	972,109,656	933,523,000	77.84%	82.23%	79.41%
HCSC GRP	618,932,883	639,330,332	809,508,000	84.52%	79.48%	75.58%
HIGHMARK GRP	734,445,897	865,390,527	751,768,000	74.17%	81.49%	67.07%
SYMETRA	565,000,000	652,000,000	702,116,000	67.80%	74.40%	73.02%
BCBS OF SC GRP	407,768,940	394,030,371	486,632,000	81.75%	76.55%	73.94%
WR BERKLEY CORP GRP	274,311,395	298,606,163	369,193,000	79.23%	80.33%	79.18%
GERBER LIFE INSURANCE COMPANY	--	--	368,586,000	--	--	72.34%
SWISS RE GRP	67,939,647	263,016,775	366,447,000	89.69%	59.74%	76.78%
BCBS OF MI GRP	311,723,510	326,103,796	345,455,000	75.02%	68.44%	71.01%
AMERICAN NATL FIN GRP	41,858,293	37,373,589	318,846,000	55.23%	64.24%	58.76%
QBE	--	--	288,959,000	--	--	71.81%
HUMANA GRP	104,811,826	134,529,599	268,800,000	79.11%	83.63%	97.69%
FAIRFAX FIN GRP	161,575,303	191,116,200	238,344,000	75.87%	67.23%	76.59%
BCBS OF MN GRP	200,630,220	211,400,014	210,728,000	81.50%	81.69%	88.86%
WELLMARK INC GRP	163,048,937	179,375,920	200,754,000	87.27%	83.02%	100.16%
<b>INDUSTRY TOTAL</b>	<b>14,936,302,872</b>	<b>16,365,506,420</b>	<b>21,060,637,000</b>	<b>78.6%</b>	<b>78.6%</b>	<b>79.1%</b>

# Loss ratios - Health plan carriers



# Loss ratios - Third party carriers

Top 5 Third Party Loss Ratio per Year



# Underwriting considerations

- ▶ **First dollar data vs high cost data**
- ▶ Drug pipeline
- ▶ Excluding claimants “Lasering”
  - ▶ A laser is the practice of assigning a higher deductible (or excluding the individual from Reinsurance or Stop Loss Insurance completely) for an individual with a known condition that is likely to exceed the deductible.
  - ▶ Stop loss carriers laser individuals who are likely to incur a large claim due to an ongoing condition or treatment that is known to occur in the near future (i.e. transplants)
  - ▶ Self-insured plans need to budget for these costs separately (above and beyond stop loss premium)
  - ▶ Underwriting consists of a “look back” period of one year to identify “ongoing claimants”
- ▶ No new laser policies
  - ▶ Guarantees that the carrier will not laser any individual after the initial underwriting year
  - ▶ Without a rate cap or rate guarantee, the no-new laser feature has little value

# Underwriting considerations

- ▶ Rate caps (rate guarantees)
  - ▶ Cap the increase in the renewal year
  - ▶ Premium is generally loaded in the initial year but those dollars should be reserved for the renewal year
  - ▶ Typical rate caps range from 30% - 60%, with loads varying from 0% to 15% for the additional protection
- ▶ Rate caps provide great protection for the employer but create significant volatility for the carrier
- ▶ Rate caps are not expected to be widely used in the near future due to the erosion of profitability, the additional volatility created, and pressure on reserves

# Conditions with additional underwriting scrutiny

- ▶ Hemophilia
- ▶ Hereditary angioedema
- ▶ Spinal muscular atrophy
- ▶ Leukemia
- ▶ Hodgkin Lymphoma
- ▶ Multiple Myeloma
- ▶ Cystic Fibrosis
- ▶ Duchenne Muscular Dystrophy
- ▶ Urea Disorders
- ▶ Crohn's Disease
- ▶ Advanced Cancers
  - ▶ Breast
  - ▶ Colon
  - ▶ Lung
  - ▶ Bone

# Questions ?

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