

Stop-Loss Coverage— Understanding Your Options

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OF EMPLOYEE BENEFIT PLANS 

Agenda—Buckle Up!

- What is stop-loss insurance?
- Reviewing and understanding contract terms
- Selecting the appropriate coverage levels
- How to utilize stop-loss effectively
- Adverse selection considerations
- Pharmacy considerations

What Is Stop-Loss Insurance?

What Is Stop-Loss Insurance?

- Setting the stage for stop-loss involves two underlying core concepts:
 - Insurable Risks
 - Large Claim Risk Management Strategies

What Is Insurable Risk?

- Insurable risk generally involves 2 unique qualities:
 1. Event with a **low likelihood**
 2. Event of a **high/disruptive cost**
- Common examples:
 - Homeowner: House fire
 - Auto: Car accident/theft
 - Medical: Organ transplant, premature baby

Common Approaches to Large Claim Risk Management

The four approaches to managing large claim risk:

1. Retain the Risk

- Have enough funding reserves to cover the cost of large claims



Common Approaches to Large Claim Risk Management

2. Avoid the Risk

- Example 1: Pre-ACA, many group health plans applied annual and lifetime participant benefit maximums.
- Example 2: Post-ACA, plans can still apply blanket exclusions for certain high-cost treatments and conditions, e.g., Gene therapy

Check with your fund counsel!

Common Approaches to Large Claim Risk Management

3. Manage the Risk

- Employ programs that can reduce the likelihood of a high-cost claim:
 - Case management
 - Claim and eligibility audits
 - Expert second opinions
 - Wellness, etc.

Common Approaches to Large Claim Risk Management

4. Transfer the Risk

- Example: Purchase insurance to transfer the risk of a claim to a third-party insurance carrier, e.g., stop-loss!
- Stop-loss coverage comes in various shapes and sizes, and plans can tailor the degree of risk shift based upon the other three risk management factors.

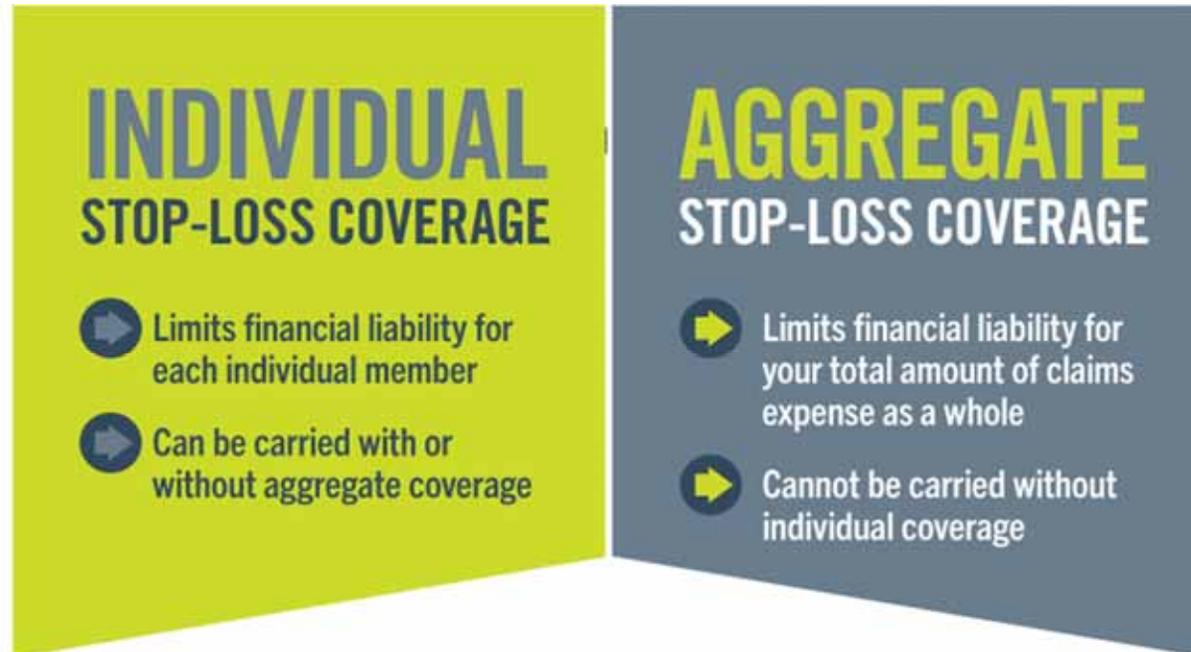
So What Is Stop-Loss Insurance?

- Stop-loss policies complement a group health plan that is otherwise self-funded
- Utilizes the **risk transfer** approach, shifting a group health plan's large claim risk to a third-party insurance carrier
- Claims *in excess* of contracted limits are refundable to the group health plan



So What Is Stop-Loss Insurance?

Common stop-loss coverage:



Source: Wellmark

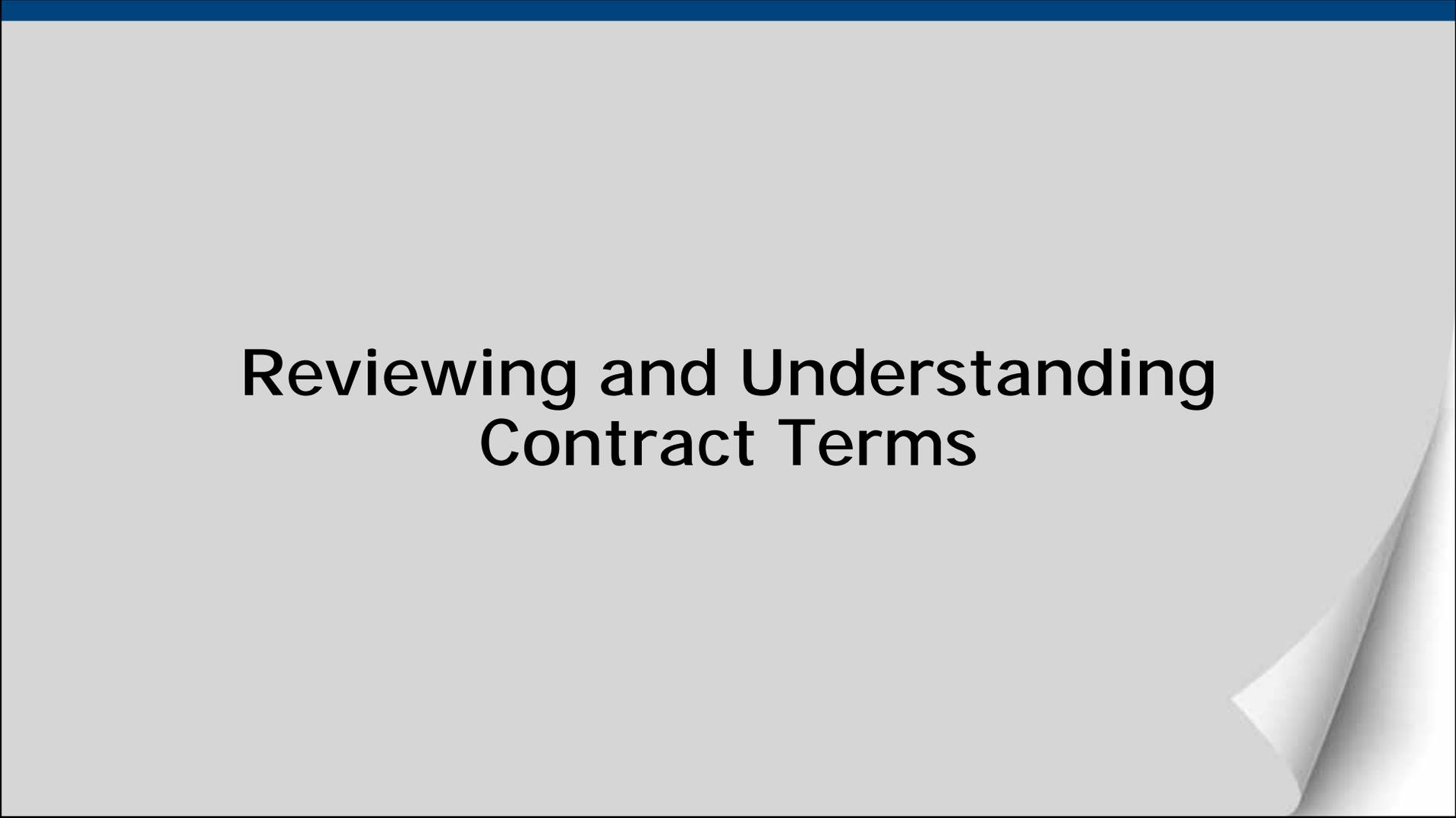
What Makes Up a Stop-Loss Premium?

Typical Stop Loss Insurance Carrier Target Cost Ratio

65 - 75% Expected Claims Liability	25-35%: Overhead Load
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- Insurer's target claims payout
 - **Actual** loss ratio for one plan may range from 0-1,000%
- Underwriting
 - Operating
 - Commissions
 - Taxes
 - Profit

Source: American Academy of Actuaries

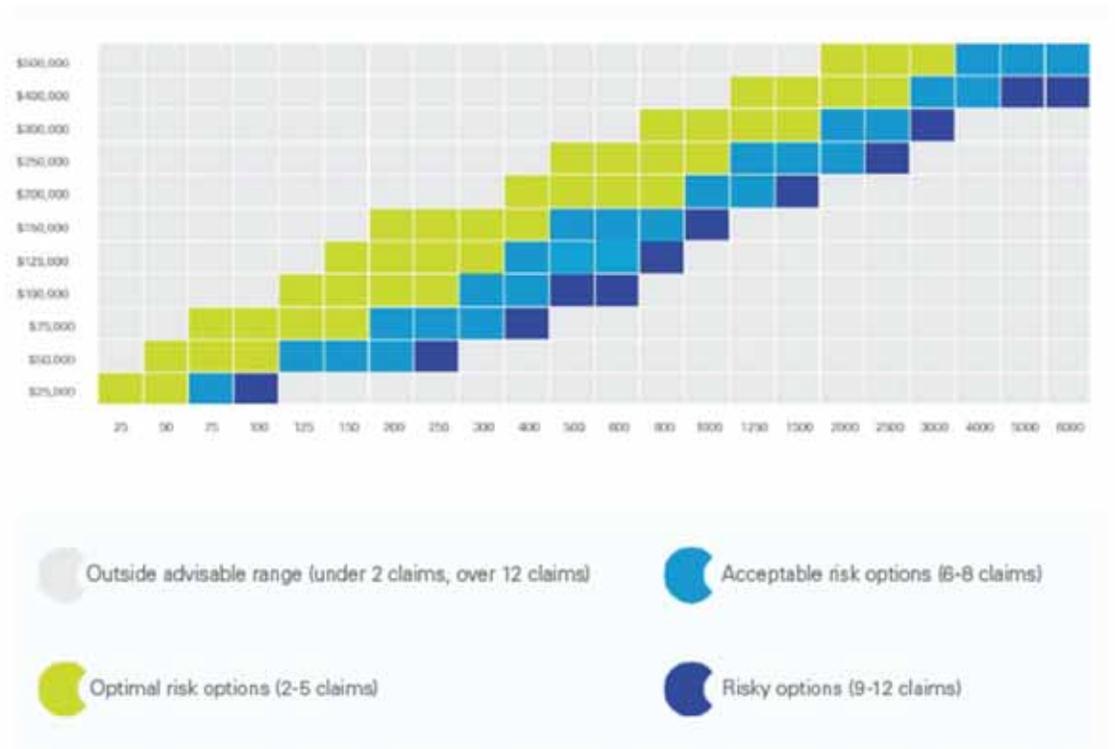


Reviewing and Understanding Contract Terms

What Are Key Terms of a Stop-Loss Policy?

Attachment Point

- A predetermined claim threshold for the stop-loss contract period. Claims exceeding attachment point are reimbursed to the Plan.



What Are Key Terms of a Stop-Loss Policy?

Contract Terms—Sample 1/1/2025 policies:

"Run In" or "Paid" Contract -- MOST COMMON!

24/12	Incurred	1/24	2	3	4	5	6	7	8	9	10	11	12	1/25	2	3	4	5	6	7	8	9	10	11	12	1/26	2	3
	Paid	1/24	2	3	4	5	6	7	8	9	10	11	12	1/25	2	3	4	5	6	7	8	9	10	11	12	1/26	2	3

"Current" Contract

12/12	Incurred	1/24	2	3	4	5	6	7	8	9	10	11	12	1/25	2	3	4	5	6	7	8	9	10	11	12	1/26	2	3
	Paid	1/24	2	3	4	5	6	7	8	9	10	11	12	1/25	2	3	4	5	6	7	8	9	10	11	12	1/26	2	3

"Run Out" Contract

12/15	Incurred	1/24	2	3	4	5	6	7	8	9	10	11	12	1/25	2	3	4	5	6	7	8	9	10	11	12	1/26	2	3
	Paid	1/24	2	3	4	5	6	7	8	9	10	11	12	1/25	2	3	4	5	6	7	8	9	10	11	12	1/26	2	3

What Are Key Terms of a Stop-Loss Policy?

- **Lasers/Exclusions**

- Example: Joe Participant is diagnosed with a rare blood disorder, treatment will cost \$1 million per year
 - Joe's Plan utilizes a stop-loss policy from ABC Insurance with a \$600k specific attachment point up for renewal:
 - ABC Insurance may apply a higher, specific attachment point (a "laser") of \$1 million that applies only to Joe
 - ABC Insurance may exclude Joe from coverage entirely
 - ABC Insurance may increase total premium costs by \$400k

What Are Key Terms of a Stop-Loss Policy?

- **Premiums**
 - Single, +1, family, or composite/household
- **Commissions**
 - Agent compensation should be clearly disclosed

Selecting the Appropriate Coverage Levels

What Level of Stop-Loss Coverage Is Appropriate?

- Your consultant/broker's favorite answer:
It depends!



Depends Upon What?

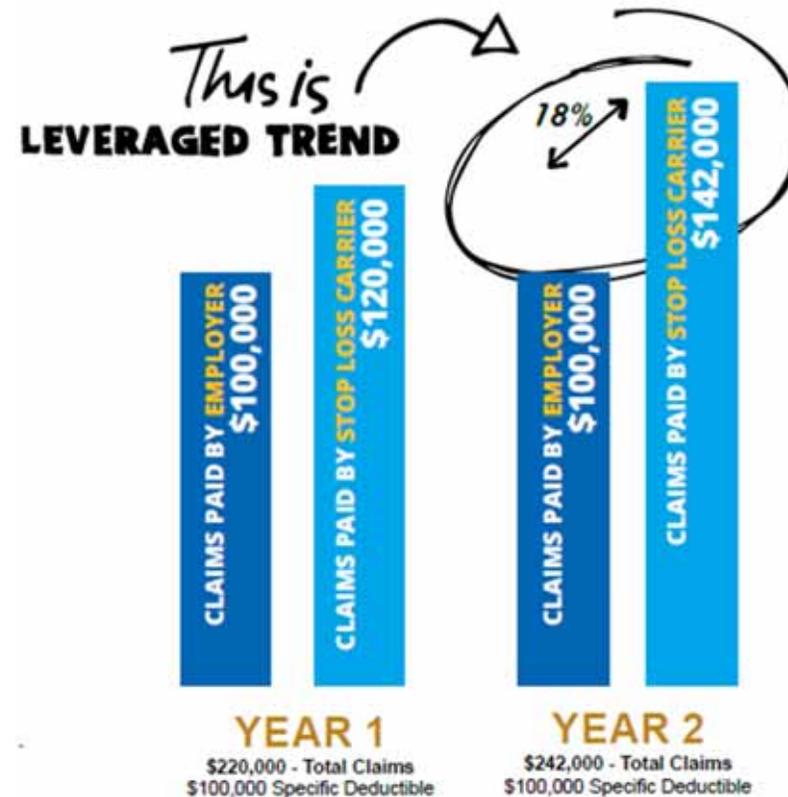
5 factors driving stop-loss coverage decisions:

1. Covered population size
2. Plan funding levels
3. Identified/known large claim risks
4. Trustee risk tolerance
5. Trustee responsiveness

How to Utilize Stop-Loss Effectively

Managing Medical Trend

10% expected trend can lead to 18% stop-loss trend



How to Utilize Stop-Loss Effectively

- **Other considerations:**
 - Policy terms and attachment points should be revisited annually
 - Frequency of market checks and carrier changes
 - Coalitions
 - Pros/cons of bundling with medical network carrier
 - Self-funded Large Claim Reserve options

Adverse Selection Considerations

Adverse Selection Considerations

- The more large risks are expected or incurred, the more expensive the coverage will be.
- Changes in plan design or population size/ demographics can impact stop-loss coverage, possibly mid-contract.

Adverse Selection Considerations

- Vegas wasn't built by the "house" losing, likewise insurance carriers expect to profit over time



Pharmacy Considerations

Pharmacy Considerations

- Post-ACA, medical treatments are being developed without an expected benefit maximum, examples:
 - **Lenmeldy**—\$4.25M, treats metachromatic leukodystrophy (MLD)
 - **Hemgenix**—\$3.5M, treats hemophilia blood clotting disorder
 - **Elvevidys**—\$3.2M, treats muscular dystrophy
- 1. Review your stop-loss policy**
 - Make sure pharmacy claims are included
 - 2. Monitor large claims across medical and Rx**

Pharmacy Considerations

1. Review your stop-loss policy

- Make sure pharmacy claims are included!

2. Monitor large claims

- Aggregate participant spend across both medical and prescription drugs

Key Takeaways

- Stop-loss is meant to assist plans in managing their large claim risks and moderate cashflow **variance**.
- It is not a one size fits all approach.
- It is important to engage in cost containment strategies to mitigate the need for stop-loss policy.
- It is crucial to include medical and prescription claims under the policy and monitor high-cost claimants regularly.
- It is crucial to notify the stop-loss carrier of any plan changes regarding those we are eligible for benefits and any benefit modifications.

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