Catastrophic Medical Claimants in the Post-ACA Environment

Evolving Risk Management and Stop Loss Strategies

DFW ISCEBS Continuing Education Day
May 1, 2014

Aegis Risk LLC
aegisrisk.com
Three Key Takeaways Today
Awareness, Acknowledgment and Application

Awareness of the rising frequency of truly catastrophic medical claimants
- Greater than $750,000 if not $1 million
- Common diagnoses – and those forthcoming
- Not a matter of if – but when

Acknowledgment of the unique coverage requirements and carriers
- It’s your claim data – manage your ASO/TPA
- Claims disclosure – a VIP (process)
- Stop loss writers – compared

Application of evolving risk management strategies
- Laser-free stop loss coverage
- Captives and when best to consider them
- Hybrid self-funding solutions
But First – A Quick Primer
The Role of Medical Stop Loss

A risk management tool for self-funded medical plans

- Allocates the cost of infrequent and sudden catastrophic claimants over each period

- In exchange for fixed monthly stop loss premium, it moderates the fluctuations in expense due to the volatility of claims

- Avoids budget deficits and related ‘catch-ups’

- Provides further protection from health care reform’s removal of individual lifetime maximums on the underlying health plan

…in summary, it’s a budgeting tool which protects self-funded plans from financial calamity
A Quick Primer
Two Types of Stop Loss: Specific and Aggregate

Specific (or Individual)
Guards against the volatility of individual high-cost claimants

- The common form of stop loss
- Reimburses claims beyond a specified deductible – as low as $50,000 to as high as $1+ million.
- The contract stipulates the covered claims basis on dates of incurral and/or payment (e.g. 12/15, paid)
- Reimburses expense for an individual contract year (i.e. it’s not ongoing)
- Premiums vary widely by deductible

Aggregate
Protects against over-utilization of the entire health plan

- More common with smaller (<1,000) employees, risk-adverse employers
- Reimburses if overall plan expense exceeds a threshold (e.g. 125%)
  - Based on an expected claims rate per covered employee
- Per covered claims basis
- Premiums less, as claims uncommon
- Typically, it augments specific
  - No double indemnity
A Quick Primer
How Much Does Stop Loss Cost? It Varies – Widely

2013 Aegis Risk Medical Stop Loss Premium Survey
Individual Stop Loss Premium, per employee per month, adjusted to a Paid contract

Average Monthly Premium by Deductible & Contract Type

<table>
<thead>
<tr>
<th>Individual Deductible</th>
<th>Paid</th>
<th>12/15</th>
<th>15/12</th>
<th>12/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100,000</td>
<td>$97.43</td>
<td>$95.52</td>
<td>$93.68</td>
<td>$77.33</td>
</tr>
<tr>
<td>$200,000</td>
<td>$39.80</td>
<td>$39.02</td>
<td>$38.27</td>
<td>$31.59</td>
</tr>
<tr>
<td>$300,000</td>
<td>$23.57</td>
<td>$23.11</td>
<td>$22.66</td>
<td>$18.71</td>
</tr>
<tr>
<td>$400,000</td>
<td>$16.26</td>
<td>$15.94</td>
<td>$15.63</td>
<td>$12.90</td>
</tr>
<tr>
<td>$500,000</td>
<td>$12.19</td>
<td>$11.95</td>
<td>$11.72</td>
<td>$9.67</td>
</tr>
</tbody>
</table>

The 2014 Survey is opening soon! Results in August.
A Quick Primer
What Size Deductible? Like Premium, It Varies

This shows market position – organizational risk-tolerance is the most important variable.
A Quick Primer
ACA Fuels More Interest in Self Funding and Stop Loss

**BUSINESS INSURANCE.**

*Employers' interest in self-funding group health benefits grows*

Posted On: Apr. 15, 2013 3:08 PM CST

Long a preferred strategy for larger employers (>1,000 ees), it’s appealing to a broader range of smaller employers traditionally fully-insured

- Traditional cash flow advantages
- Uncertainty on how Exchange participants will impact the rating pool

**BUSINESS INSURANCE.**

Health reform mandate pushes employers to rethink medical stop-loss coverage

Posted On: Mar. 02, 2014 6:00 AM CST

**Jumbos (>10,000 ees) are further curious about stop loss**

- No annual or lifetime plan limit creates an uncapped liability – often not permissible anywhere in an organization
- And claims are getting BIG.....
Awareness
High Claimants Are Getting…Well…Higher

While overall trend has moderated, catastrophic trend has not
- Rising frequency of multiple newborns (often w. fertility treatment)
- Use of latest – and pricier – technologies in ICU care management
- More chronic conditions, including non-traditional ones such as cancer
- Active pipeline of high cost, low frequency Specialty therapies

ACA phase-out of health plan annual or lifetime limits
- There is no longer a ‘stop’ on any health plan (e.g. a $1M annual limit)
- Hospitals seem to be wise to leverage that on their ‘star’ patients

Trend never stops: $750K and $1M claimants 2x as likely in 2012 vs. 2008

<table>
<thead>
<tr>
<th>Policy Year</th>
<th>$500K</th>
<th>$750K</th>
<th>$1 M</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>16.5</td>
<td>5.0</td>
<td>2.1</td>
</tr>
<tr>
<td>2012</td>
<td>27.0</td>
<td>9.8</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Claims Incidence per 100,000 employees (source: HM Insurance):
## Awareness

### Catastrophic Claimant Examples

<table>
<thead>
<tr>
<th>Total Claim</th>
<th>ICD Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,240,957</td>
<td>Congenital Anomalies</td>
</tr>
<tr>
<td>$2,630,896</td>
<td>Diseases of the Circulatory System</td>
</tr>
<tr>
<td>$2,204,177</td>
<td>Endocrine, Nutritional and Metabolic Diseases and Immunity Disorders</td>
</tr>
<tr>
<td>$2,000,000</td>
<td>Certain Conditions Originating in the Perinatal Period</td>
</tr>
<tr>
<td>$1,896,866</td>
<td>Diseases of the Circulatory System</td>
</tr>
<tr>
<td>$1,880,000</td>
<td>Diseases of the Respiratory System</td>
</tr>
<tr>
<td>$1,780,330</td>
<td>Certain Conditions Originating in the Perinatal Period</td>
</tr>
<tr>
<td>$1,768,059</td>
<td>Congenital Anomalies</td>
</tr>
<tr>
<td>$1,746,102</td>
<td>Diseases of the Musculoskeletal System and Connective Tissue</td>
</tr>
<tr>
<td>$1,712,235</td>
<td>Diseases of the Blood and Blood-Forming Organs</td>
</tr>
<tr>
<td>$1,706,287</td>
<td>Congenital Anomalies</td>
</tr>
<tr>
<td>$1,695,282</td>
<td>Certain Conditions Originating in the Perinatal Period</td>
</tr>
<tr>
<td>$1,649,090</td>
<td>Diseases of the Genitourinary System</td>
</tr>
<tr>
<td>$1,556,251</td>
<td>Diseases of the Circulatory System</td>
</tr>
</tbody>
</table>

Highest Paid Claimant, In Excess
2013 Aegis Risk Medical Stop Loss Premium Survey

When surveyed on the last two policy years:

- 55% incurred a policy year claimant in excess of at least $500,000
- 31% of at least $750,000
- 14% in excess of $1 million
Awareness
Don’t Be This Guy – The CEO of AOL

Ridicule aside, the general media and ensuing outrage seemed incredulous of such expense: “How can a baby cost a million?” Beware a similar mindset in your own organization(s)
Awareness
Specialty Pharmacy – A New Risk Dynamic?

Specialty expense expected to multiply as more therapies hit market

- Most will be moderate cost for routine conditions, but highly specialized therapies for rare or specific type of diagnoses are envisioned (‘orphans’)
- Life-saving treatments – but at a significant and ongoing cost as formerly fatal diagnoses become ‘chronic’ conditions (e.g. cancer)

Creates an “accumulation” risk of future years’ liabilities

- e.g. A 17 yr. old Factor VIII at $850K/yr and four years of future coverage
  - Approximate $3M of unreserved liability – in the active plan. Beware the CFO!
- Existing stop loss underwriting often ‘lasers’ or excludes such claimants after the initial year – or fully recoups it with premium increase
- Hybrid stop loss with a disability-like reserve rate component? Stay tuned.
Acknowledgment
It’s Your Health Plan Data – Manage Your TPA/ASO

Typical stop loss reporting requirements include:
- Monthly notifications (claimants at 50% of deductible)
- Claim detail upon reaching deductible (eligibility and claim detail)
- A YTD listing of high claimants at renewal “Disclosure”
  - With diagnosis, prognosis and case management comments

Some ASOs are taking an aggressive position (“position” of one national ASO)
- Case management and prognosis notes are “proprietary..work product”
- “not available for review or release to clients and/or their vendors.”
- “By providing..the stop loss carrier could..hold (us) liable for..decisions”

This disconnect does not support placement and renewal of stop loss
- Naïve to believe stop loss should be written “blind” and also at ‘low’ rate
  - What an underwriter **doesn’t know** often raises the rate even higher
- Identify any disconnect between ASO/TPA and stop loss – be assertive!
Unlike the rest of us, stop loss underwriters can see the future

- Many stop loss claims are identifiable months beforehand
  - A kidney dialysis patient ($) this year becoming a liver transplant next year ($$)
  - An ongoing Factor VIII/Hemophilia patient ($$$)
- These claimants are already known and reported
  - Existing stop loss reports; managed care reports on high cost claimants
- Stop loss carriers require their Disclosure before signing off on a quote
  - Plan sponsors must disclose all known high claimants (e.g. paid in excess of $100,000 for a $250,000 specific)
  - Often requested thru the 2nd or 3rd to last month of the current policy year
- Ignore at your own peril
  - If not disclosed, and should’ve been, there may be no coverage on claim
- Upon review of disclosed claims, an underwriter ‘firms’ the quote/renewal
  - Until then, any proposal was likely illustrative
  - A firm proposal may be short-lived – until the next month’s claim reports arrive
  - An underwriter may also ‘laser’ a troublesome claimant..see the next page
## Acknowledgment

### Stop Loss Writers in Comparison

<table>
<thead>
<tr>
<th>Provider Type</th>
<th>Approx. Market</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Carriers (e.g. Aetna, CIGNA)</td>
<td>50%+</td>
<td>- Faster claim reimbursements</td>
<td>- Not always price competitive</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- One-stop/consolidated renewals, including disclosure</td>
<td>- May not cover other administrators</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- A change in ASO requires change in stop loss</td>
</tr>
<tr>
<td>Direct Writers (e.g. SunLife, ING, HCC)</td>
<td>30%+</td>
<td>- Increased focus on stop loss, including product variation</td>
<td>- Requires administrator and contract coordination (and possible reporting fees)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Potentially lower cost than a national carrier</td>
<td>- Longer reimbursement due to monthly reporting and ensuing claim filing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Flexibility over multiple payors</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- ‘Sentinel’ effect on claims payor</td>
<td></td>
</tr>
<tr>
<td>Managing General Underwriters (MGUs)</td>
<td>Less than 20%</td>
<td>- May have access to multiple carriers (e.g. ‘paper’)</td>
<td>Same as Direct Writers, plus:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Traditionally the most price competitive (if for lower expense)</td>
<td>- Subject to MGU/Carrier relationship changes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- ‘Sentinel’ effect on claims payor</td>
<td>- Potential conflict if MGU and its owners bear claims risk</td>
</tr>
</tbody>
</table>
Application
Lasering – Isn’t This Supposed to be *Insurance*?

**A cool term with not-so-cool effects**

- A focused reduction or elimination of coverage for a specified claimant
  - A higher deductible (e.g. at $500,000 when the policy is at $250,000)
  - A full removal (or effective removal) of a claimant from the policy
  - Reduced coverage in claims basis, typically run-in (e.g. 12/12 laser on a 15/12)
  - A ‘firm’ proposal should clearly identify any laser, as should the final policy

- During a bid, confirm each carrier’s “laser-free” philosophy – it varies
  - No new lasers at renewal: always offers a no-laser renewal but may rate it accordingly higher – forcing a renewal option with a laser at a lower rate
  - No-laser renewal rider: an ongoing premium load with renewal rate cap; e.g. a 7% to 9% rate load and rate cap not to exceed 45% to 55%. Otherwise subject.
  - Be sure to separate green apples from red apples in your review – and show it

- If presented with a laser at renewal, seek options both with and without
  - Review and make the best choice; lasers may work favorably if claim ‘ending’
Captives. Have you heard? They’re *groovy*, man.

- A lot of talk; some growth; still a lot of uncertainty
- Large organizations may have an existing property/casualty captive and seek ‘outside’ risks to maintain tax status – but beware, stop loss is volatile
- Pool with others and gain a ‘cell’ within an existing captive ‘condo’, providing a lower captive deductible (e.g. $50K) before higher stop loss (e.g. $250K) level
  - May permit a lower deductible, and lower rate, for fully-insured conversions
  - But, your low claims may be offset by the high claims of others in the condo
  - Beware administrative expenses – it can quickly diminish required capital
- Still check against the stop loss market. Reinsurance pricing remains ‘soft’

**Go to a catastrophic deductible**

- Insure at $500,000; $750,000; $1 million or as high as $2 million
- A sensible approach for larger organizations who’ve been ‘naked’
- Low premium; may satisfy a CFO’s wish to cap ‘unlimited liabilities’
The ACA is fueling interest in self-funding amongst ‘smaller’ employers

- Seeking to avoid fully-insured rating impacts and further regulations
- Stop loss carriers are saying that’s great – but getting a quote without claims history is still a struggle
- The integrated health plans are responding – if to keep their customers who are presently fully-insured

‘Level Funding’ (a SM of CIGNA) is the evolving term

\[
\text{Projected claims} + \text{TPA / ASO fees} + \text{Stop loss, spec. & agg.} = \text{Monthly funded payment}
\]

- Includes all cost components and sets a fixed, monthly payment
- End-of-year accounting for surplus; deficit not requiring payment
  - Beware use of “surplus” – may not be at plan sponsor’s full discretion
- However, it sets up claims reporting and ability to progress to self-funding
With All That Said…
..your Questions, Confusions and Concerns?

For those that exist – please ask!

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Be sure to pick up a copy. Further leave contact/business card for notification on the 2014 Survey.
All respondents receive an immediate copy upon Survey release. Performed in conjunction with the International Society of Certified Employee Benefits Specialists.
Appendix: Stop Loss Coverage
Key Provisions and Processes

<table>
<thead>
<tr>
<th>Provision/Process</th>
<th>Description</th>
<th>Recommended Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actively at Work</td>
<td>Coverage only for employees actively at work at onset of coverage – unless waived.</td>
<td>Seek waiver during final Disclosure and acceptance of risk – prior to effective date.</td>
</tr>
<tr>
<td>Experimental</td>
<td>Medical claims deemed experimental and not eligible for coverage.</td>
<td>Ensure agreement or deference to the underlying medical plan SPD.</td>
</tr>
<tr>
<td>Aggregating Specific Deductible</td>
<td>A separate plan-wide deductible requiring fulfillment before any individual deductibles.</td>
<td>Lowers premium, but an increase in the plan deductible is simpler &amp; obtains same.</td>
</tr>
<tr>
<td>Reporting Requirements</td>
<td>Stipulated claim reports, often monthly, required by the stop loss carrier.</td>
<td>Ensure TPA/ASO provides both ‘50%’ and claim detail reports. Ideally with no fees.</td>
</tr>
<tr>
<td>Change in TPA/ASO</td>
<td>Notification of a change in TPA to stop loss carrier.</td>
<td>Observe. The presence of an approved TPA is an underwriting element.</td>
</tr>
<tr>
<td>Coverage exclusions</td>
<td>Uncovered expenses (e.g. occupational related, above R&amp;C, from criminal acts).</td>
<td>Ensure agreement or deference to the underlying medical plan SPD.</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>Coverage of pharmacy expenses.</td>
<td>If elected, ensure reporting if not integrated with medical – many forget!</td>
</tr>
<tr>
<td>Lasers</td>
<td>Exclusion or placement of a higher deductible on select individuals.</td>
<td>Avoid, but balance their presence with potential reduction in premium.</td>
</tr>
<tr>
<td>Disclosure</td>
<td>Final process to a ‘firm’ proposal, where underwriter reviews known high claims.</td>
<td>A key process! Better claims data often means lower premium and no lasers.</td>
</tr>
</tbody>
</table>
Appendix: Contract Types
What’s with all those numbers?

Usually refers to Incurred / Paid months:

- **12/12**: incurred and paid within the 12-month contract period. Good initial coverage. Renew with a paid.

- **15/12**: ...covers claims incurred the prior 3 months (i.e. run-in). First year coverage. A longer run-in is advised, such as an 18/12. Renew with paid.

- **12/15**: like a 12/12, but further covers claims paid in the following 3 months (i.e. run-out). Often renews with a 12/15.

- **12/24**: Longer run-out, with payment over 12 months. A 12/18 covers six months.

- **Paid**: Covers claims paid during the policy year, regardless of date incurred. The most comprehensive contract, typically on renewal/ongoing coverage. Not common at initial placement.

...on renewal!!!