Taking a New Look at Stop-Loss Coverage

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The Next 75 Minutes

- Stop-loss basics
- Dynamics of the marketplace
- Managing risk and outcomes through cost containment strategies
- What role do/can coalitions play
- Group purchasing
- Best practices and recent innovations
- Key takeaways
- Questions
Stop-Loss Basics
What Is Stop-Loss?

An insurance policy purchased by a self funded benefit plan* which:

- Protects the plan against potentially catastrophic high risk/high dollar claims.
- Reimburses the plan, not the members.
- Bases claim payments primarily on the plan’s summary plan description (SPD)/plan document and by the stop-loss contract provisions and/or exclusions.**
- The stop-loss insurance plan is regulated by state insurance departments.

*The self-funded benefit plan is established and regulated under Employee Retirement Income Security Act of 1974 (ERISA), which is a federal law that sets the minimum standards for the plan.
** The SPD needs to state it is the plan document or the plan document must also be submitted.
Stop-Loss Basics
Two Types of Coverage

**Specific Stop-Loss Coverage**
- A policy with a set deductible for EACH plan participant.
- The set deductible must be paid by the plan.
- Reimbursement is made when paid claims exceed the specific deductible amount.

**Aggregate Stop-Loss Coverage**
- A policy with a deductible (attachment point) that is based on amounts paid on behalf of ALL plan participants.
- Reimbursement is made if total claims paid exceed the aggregate attachment point.

Note: Claims reimbursable under the specific stop-loss coverage are excluded from determining aggregate claims in a year.
Stop-Loss Basics
When Is a Claim “Payable”?

Traditional methodology for determining when a claim is payable under a stop-loss contract.

2 Step Process:

- Is it payable?
  - Claim is payable under the terms of the SPD/plan document.

- Is it covered?
  - Claim is not excluded under the terms of the stop-loss contract.
Dynamics of the Marketplace

Is Stop-Loss a Cost to Fund or Opportunity to Save?
**Lifetime Coverage Maximums:**
- **2010:** Unlimited

**Annual coverage Maximums:**
- **2010-2013:** Phase out period
- **2014:** Unlimited

**Impact on Health Plans:**
Requires additional cost for large claims and claims for dependents up to age 26
Determining Stop-Loss Needs and Rates

- Reserves
- Demographics (Age, Gender, Location)
- Multiple years large claim experience
- Specific deductible and contract basis
- Month of quote (Trending)
- Ongoing known risks
- HMO/ PPO Network
- Benefits Covered (Medical, Rx)
# Stop-Loss Underwriting Deductible Trends

<table>
<thead>
<tr>
<th>Group Size Number of members in plan (excluding dependents)</th>
<th>Average Specific Deductible</th>
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<tbody>
<tr>
<td>200</td>
<td>$100,000</td>
</tr>
<tr>
<td>400</td>
<td>$150,000</td>
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<td>600</td>
<td>$175,000</td>
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<td>$250,000</td>
</tr>
<tr>
<td>1,200</td>
<td>$300,000</td>
</tr>
<tr>
<td>2,500</td>
<td>$400,000</td>
</tr>
<tr>
<td>4,000-10,000 *</td>
<td>$500,000-$1,000,000</td>
</tr>
</tbody>
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*First time stop loss buyers tend to purchase coverage with higher deductibles.*
Stop-Loss Underwriting Disclosure Process

• What is the purpose for the disclosure process?
  – To identify current known claim risks that are expected to be ongoing future risks
  – Only unknown risks are priced into the stop-loss rating tables.
  – Known claim risks can help underwriters to present options such as an additional premium charge for the group, an aggregating specific deductible on the group, or a higher deductible (laser) for the individual(s).
Examples of Rising Costs

- Hepatitis C drugs $30,000 month (6 months) $180,000
- Hemophiliac $180,000 every two weeks (at a 50% discount)
- Implants 100% mark up
- Neonates with significant issues—$2,000,000
- Dependents to age 26
Value of Stop-Loss Insurance
Rising Cost of Health Care

Claims above $500K and $1M are increasing
- Over past 8 years large claims have increased by:
  - 4 times for claims over $500,000
  - 5 times for claims over $1 million

The size of a large claim is growing larger
- A million dollar claim now has an average size in $1.6M range
Cost Containment Strategies and Their Successes

Managing Risk and Outcomes Through Cost Containment Strategies
Value of Stop-Loss Containing Costs—With Cost Containment Strategies

- Independent Medical Review
- Large Claim Cost Containment
- Discount negotiations
- Specialty Services

- Cancer treatments
- Transplant network options
- High cost drugs, such as: specialty drugs, injectibles, infusions
Success Stories

1. **Bill Error:** Our review resulting in an additional $78K savings

2. **PPO Discount:** We negotiated an additional discount from PPO resulting in $250K savings

3. **Specialty Drugs:** Facilitated negotiations saving $633 annually

4. **Nonparticipating SurgiCenter:** Reduced billings by 86.5%, saving $649k
Success Story—Pharmacy Benefit Manager

5. Third party administrator paid $1,240,712 to the plan’s pharmacy benefit manager (PBM) for a specialty drug treatment and then submitted a claim to the stop-loss carrier for reimbursement.

- Stop-loss carrier found a billing/payment error from the PBM, where the decimal point was not in the right place. The stop-loss carrier advised the TPA, who in turn disputed the claim with the PBM.
- PBM agreed with the stop-loss carrier’s findings.
- Final amount paid by the fund: $12,500, a 99% reduction!
- TPA recovered $1,228,212 from the PBM.
- Better plan loss experience with no stop-loss claim.
What Role Do/Can Coalitions Play

Coalitions seek to provide forums for their affiliates, regardless of size or geographic location, to enhance their ability to secure quality healthcare at a discount, and still maintain their individual autonomy.

• The National Labor Alliance of Health Care Coalitions, Inc. (NLA) is a non-profit national organization of labor management health and welfare coalitions representing purchasers of health services, working together to increase value in services and benefits for participating member coalitions.

• The NLA represents over 8 million members, plus their families, comprised from:
  − 19 regional coalitions
  − 2 internationals coalitions, and
  − 1 Canadian coalition

• To this end, the NLA Advantage Stop-Loss Program was created, and is administered by Knight International and HCC Life.
What Role Do/Can Coalitions Play

NLA Advantage—Unique Features

- Early lock-in option (up to six months prior to the effective date)
- Discount to manual rates—given upfront
- Traditional commissions removed—NLA and consultant fees are always reflected as a separate line item
- Each fund is underwritten on its own merits
- Access to transplant network and proactive claim units which interface with cost containment programs on an early intervention basis
- Potential for premium holidays to reward positive results when contracts mature (in second year), results are established and, if positive, fund receives proportionate share of profit allocation.
What Role Do/Can Coalitions Play

NLA Results

• Since inception in 2012 with just five funds, the NLA has grown to 34 funds comprised of Healthcare Workers, SEIU, Teamsters, IUOE, IBEW, Laborers’ and the Building Trades.

• Multiple funds have benefited from utilizing the specialty claims units which have negotiated savings above and beyond their network arrangements.

• For 2014, the NLA granted over $770,000 in reimbursements to 24 funds. This was in addition to the discount to manual.

• Consistent renewals with over 90% retention.
Group Purchasing

*Some international unions utilize group purchasing to effect savings.*
Group Purchasing Power

Group Stop-Loss Programs

Endorsed by the following international unions:

[Logos of endorsed unions]
## Stop-Loss Programs

### Program Highlights

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Endorsed</strong></td>
<td>International union endorses program. Includes marketing, conference presentations and sales support as needed</td>
</tr>
<tr>
<td><strong>Group Rates</strong></td>
<td>Rates based on plan characteristics, demographics and past experience</td>
</tr>
<tr>
<td><strong>Opportunities for Dividends</strong></td>
<td>Premium volume and favorable claims experience</td>
</tr>
<tr>
<td><strong>Optional Renewal Guarantee</strong></td>
<td>No new lasers on 9% rate increase at preferred price</td>
</tr>
<tr>
<td><strong>Market Friendly</strong></td>
<td>Use any broker</td>
</tr>
<tr>
<td><strong>Defined Terms</strong></td>
<td>Generally two years, then renew</td>
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Best Practices and Recent Innovations

On the Fund Level

- Review reports: Trigger diagnosis, pre-cert, Rx, utilization review and all case management notes to identify possible opportunities to utilize stop-loss carrier’s specialty claim units.
- Review and question large claims prior to issuing payment to provider/facility.
- Comply with stop-loss carriers 50% notification and disclosure procedures.
- Review and understand carrier stop-loss manual
Best Practice and Recent Innovations

On the Stop-Loss Contract Level

• **Aggregate Specific**—An additional deductible that can be satisfied by one or multiple claimants added to the stop-loss contract in consideration for reduced premium.
  - Allows policyholder to lower guaranteed premium costs by shifting those dollars to potential claims cost.

• **Laser**—Individual or claimant specific deductible
  - Deductible set for an individual due to his or her potential for high claims for the upcoming year vs. loading the premium for that liability.
  - Example: Fund has a specific deductible of $150,000. Claimant is receiving dialysis at a cost of $30,000 month. Stop-loss carrier can load the premium to cover the anticipated cost or the Fund can choose to accept a Laser of $350,000.
  - A no-laser contract guarantee means the insurer cannot set a specific deductible on covered individual at renewal.
• **Individual Contract Basis**
  - Limit known run-in liability by using a 12/12, 12/15 contract basis.
  - **Example:** Fund has a claimant with a large amount of pending or anticipated claims and there is concern over when that claim will be paid. The new stop-loss carrier may use a 12/12, 13/12, 14/12 to limit the amount of run-in coverage.

• **Tiered Deductibles and Funding**
  - Enables the fund to receive partial reimbursement for known claimants by layering deductibles or splitting reimbursements.
  - **Example:** Fund has a claimant on a transplant list who is receiving high dollar care. The fund has a $200,000 deductible but agree with the stop-loss carrier to “laser” individual at $450,000 with the carrier reimbursing claims between $450,000 and $1,000,000 and the fund and stop-loss carrier splitting claims from $1,000,000 to $1,500,000 before the stop-loss carrier fully reimburses claims.

• **Second year rate caps**

• **Rx only**
Session #H05

Taking a New Look at Stop-Loss Coverage

• Medical stop-loss is a critical tool to comply with unlimited maximums and increasing frequency of high cost procedures.
• Flexible, customized underwriting approaches are needed to allow a match between the fund’s risk tolerance and an array of underwriting techniques designed to share risk.
• Coalition and group purchasing can help spread the risk and mitigate the cost.
• It will take all of us working together to manage and control costs.
2017 Educational Programs
Health and Welfare

63rd Annual Employee Benefits Conference
October 22-25, 2017
Las Vegas, Nevada
www.ifebp.org/usannual

Certificate Series
February 27-March 4, 2017
Lake Buena Vista (Orlando), Florida
www.ifebp.org/certificateseries

July 24-29, 2017
Denver, Colorado

Health Care Management Conference
May 1-3, 2017
New Orleans, Louisiana
www.ifebp.org/healthcare

Certificate of Achievement in Public Plan Policy (CAPPP®)
Part I and Part II, June 13-16, 2017
San Jose, California
Part II Only, October 21-22, 2017
Las Vegas, Nevada
www.ifebp.org/cappp

Related Reading
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Self-Funding Health Benefit Plans
Item #7563
www.ifebp.org/SelfFunding