

Observations on the employer stop-loss market

2023 survey

Rob Bachler, FSA, FCAS, MAAA
Hayley Rogers, FSA, MAAA
Jakob Finney, ASA, MAAA



Introduction

In March 2023, Milliman sent survey participation requests to a wide range of employer stop-loss market participants. Of those receiving a request, 31 provided survey responses.

Characteristics of the carriers that responded include:

- Different carrier types
 - Third-party or direct carriers (12)
 - Administrative services only (ASO) providers/health plans offering stop-loss products (12)
 - Managing general underwriters (MGUs) and insurance carriers that offer coverage through MGU channels (7)
- Eight (8) of the 10 largest carriers by 2022 premium¹ (8)
- Organizations for which stop-loss is a core business² (18), and those for which it is not a core business (13)

The survey asked questions about various topics, including:

- Portfolio characteristics, such as employer size and stop-loss purchased
- Underwriting measures, such as persistency and close ratios
- Pricing measures, including target loss ratios
- Historical results, both loss ratio and growth
- Product terms offered, such as no new laser
- Involvement in the captive and level-funded markets
- Impact of high-cost pharmacy and gene therapies

This survey is the 2023 version of Milliman's annual employer stop-loss market survey.

Background

Stop-loss coverage provides protection from higher-than-expected medical and pharmacy costs. It is purchased by employers that self-insure their employee and/or retiree health benefits. Based on the most recent data available from S&P Global Intelligence, the stop-loss market stands at well over \$30 billion in annual premium.

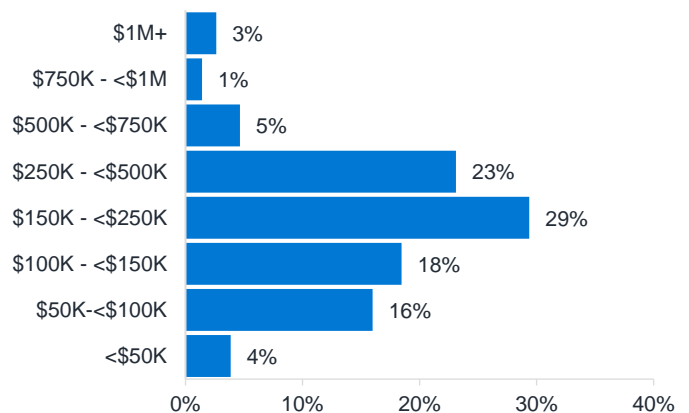
Employers generally purchase stop-loss coverage from one of two sources. If the employer contracts with a health insurer to administer its health benefits, the employer may be able to purchase stop-loss directly from that health insurer. If the employer doesn't purchase coverage from its administrator, it can purchase coverage from a stop-loss carrier, either directly or through a managing general underwriter (MGU). We believe health insurers represent at least half of reported stop-loss premium in the market.

Portfolio characteristics

DISTRIBUTION OF PREMIUM BY STOP-LOSS DEDUCTIBLE

Employers can purchase specific (or individual) stop-loss policies with deductibles from \$25,000 or lower to as high as \$1 million (occasionally even higher). The minimum allowed deductible varies by state. Figure 1 shows the share of premium attributable to various ranges of specific stop-loss deductibles.

FIGURE 1: DISTRIBUTION OF PREMIUM BY SPECIFIC DEDUCTIBLE



From this graph we see that premium is concentrated in deductibles between \$50,000 and \$500,000. A third of premium came from policies with individual deductibles in the \$50,000 to \$150,000 range.

¹ MyHealthGuide (June 20, 2023). Medical Stop-Loss Providers Ranked by 2022 Annual Premium.

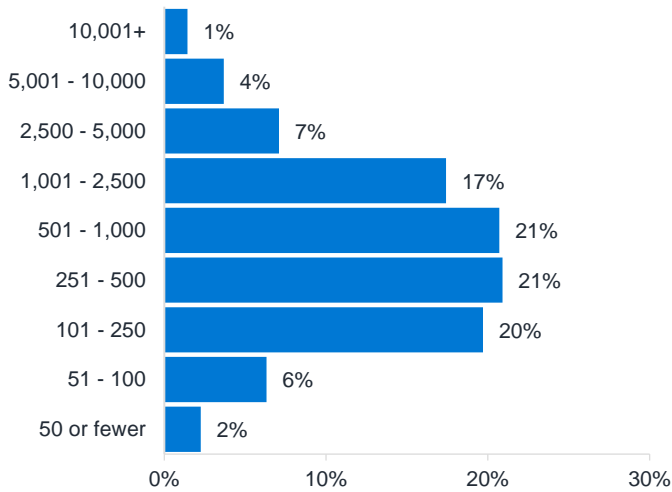
² Defined as 15% or more of a company's total annual premium.

Nearly 70% of specific stop-loss premium in 2022 in our survey can be attributed to policies with deductibles between \$100,000 and \$500,000.

DISTRIBUTION BY EMPLOYER GROUP SIZE

Self-funded employers purchasing stop-loss can vary in size from 50 employees (or less in some states) up to the tens of thousands. Figure 2 shows the share of premium attributable to various ranges of group size.

FIGURE 2: DISTRIBUTION OF PREMIUM BY EMPLOYER SIZE



The graph shows a relatively even split around groups of 500 employees, with a little less than half of stop-loss premium attributed to groups of 500 employees or fewer. The very largest groups (over 10,000 employees) and the very smallest (fewer than 50 employees) collectively account for approximately 3% of total premium.

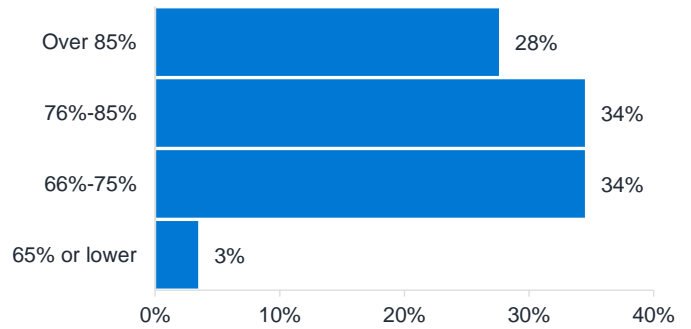
It is worth noting that Figures 1 and 2 would look different if they showed the distribution of lives rather than premium, as a higher percentage of covered lives would be attributable to larger groups. However, larger groups that purchase stop-loss tend to purchase policies with higher deductibles (if they purchase coverage at all), resulting in less premium per life.

Underwriting results

PERSISTENCY RATIO

Generally, the stop-loss industry defines persistency as the percentage of premium in year x that was renewed in year x + 1. Figure 3 summarizes each respondent's persistency during 2022. There was significant variation in responses, with three distinct ranges having very similar response rates.

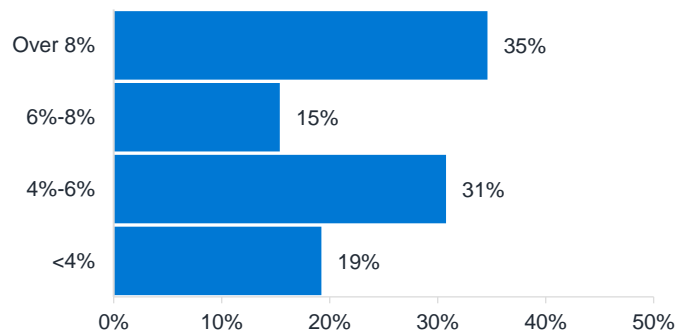
FIGURE 3: PERSISTENCY RATIO



CLOSE RATIO

Close ratio is defined as the percentage of stop-loss rate quotes on prospective new business that turn into issued policies. Figure 4 summarizes the distribution of respondents' close ratios during 2022.

FIGURE 4: CLOSE RATIO



As with Figure 3 we see quite a bit of variation in responses. Over one-third of respondents reported close ratios of 8% or more. It is worth noting that this group consisted mostly (though not entirely) of ASO carriers.

DECLINE RATIO

Decline ratio is typically defined as the percentage of requests for proposal (RFPs) on prospective business where the stop-loss underwriter declines to provide a quote. A higher decline ratio may indicate the carrier is more selective in its underwriting.

FIGURE 5: DECLINE RATIO, 2022

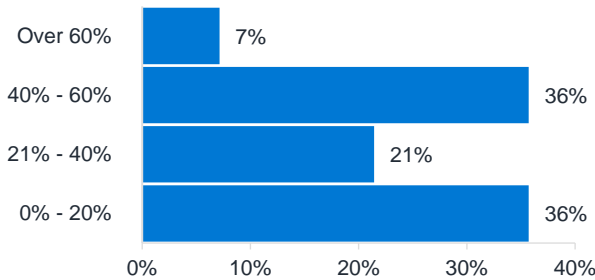
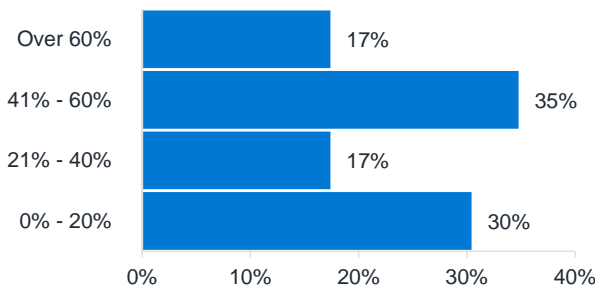


Figure 5 shows the distribution of decline ratios for 2022. Again we observed a significant variation in responses. Overall, this figure shows slightly lower decline ratios than we saw for 2021 (as shown in Figure 6).

FIGURE 6: DECLINE RATIO, 2021



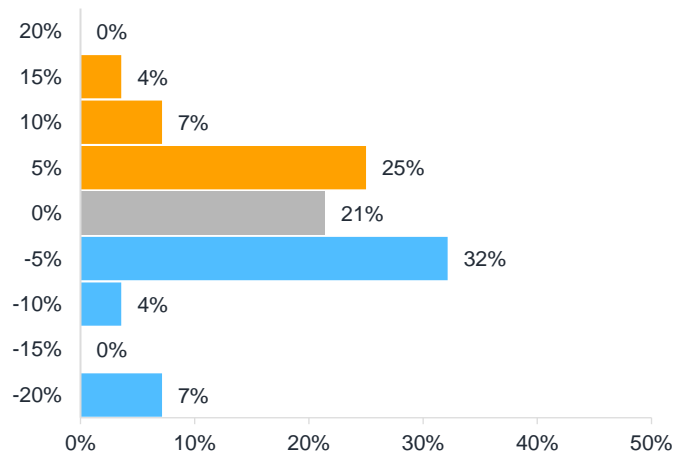
PROFITABILITY

The survey asked each respondent for its target, or desired, loss ratio for specific stop-loss coverage and the actual loss ratios for 2022 policies. Figure 7 summarizes the difference between target and actual loss ratios, shown as actual loss ratio minus expected loss ratio. Therefore, positive numbers (red bars) indicate an actual loss ratio above target, or results worse than expected. Negative numbers (blue bars) indicate a loss ratio below the target, or results better than expected.

This graph shows that, in 2022, carriers were evenly split between those that experienced loss ratios higher than target and those with loss ratios lower than target. Generally, results were also reasonably close to target, as we estimate nearly 80% of carriers reported loss ratios that were within approximately +/- 5% of target loss ratios.

It should be noted that respondents reported both their target loss ratios and actual loss ratios as ranges, meaning the differences reported here are only approximations. For example, a carrier whose target and actual loss ratios were reported to be in the same range (e.g., 75% to 80%) would be shown in Figure 7 as having a 0% difference but could have experienced a loss ratio that was as much as 5% higher or lower than its target.

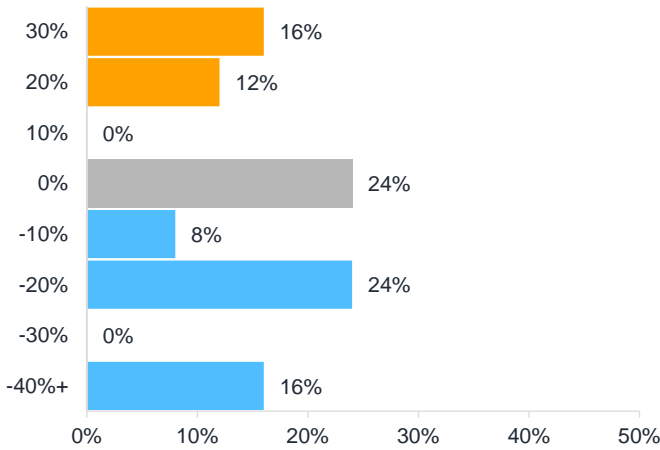
FIGURE 7: ACTUAL VS. TARGET LOSS RATIO – 2022 SPECIFIC STOP-LOSS



In 2022, nearly 80% of respondents experienced loss ratios on their specific stop-loss business that were within +/-5% of their target loss ratios.

Figure 8 shows deviations from target observed in respondents' aggregate stop-loss loss ratios for 2022. There is significantly more variation observed in loss ratios for aggregate stop-loss. However, given that the aggregate coverage typically represents a small share of total premium, this significant deviation does not have a dramatic impact on a carrier's overall loss ratio.

FIGURE 8: ACTUAL VS. TARGET LOSS RATIO – 2022 AGGREGATE STOP-LOSS



PORTFOLIO GROWTH

Figure 9 shows actual premium growth from 2022 to 2023 for business with January effective dates, as well as carrier expectations for premium growth over the full-year periods 2023 and 2024. Premium growth, as defined here, is total annual premium for new business sold and existing business renewed in the current period, relative to business sold and renewed in the prior period. For example, January 2023 growth is the total premium for new policies sold and existing policies renewed in January 2023, divided by the total premium for policies sold and renewed in January 2022.

As in prior years, Figure 9 shows significant variation in results for January 2023 growth. While nearly one-quarter of respondents reported actual growth less than 4%, one-third of respondents reported growth in excess of 16%. Expectations for 2023 and 2024 are slightly less variable, with roughly one-third of respondents expecting growth of 8% to 12% in each year.

FIGURE 9: ANNUAL PREMIUM GROWTH, 2022-2024

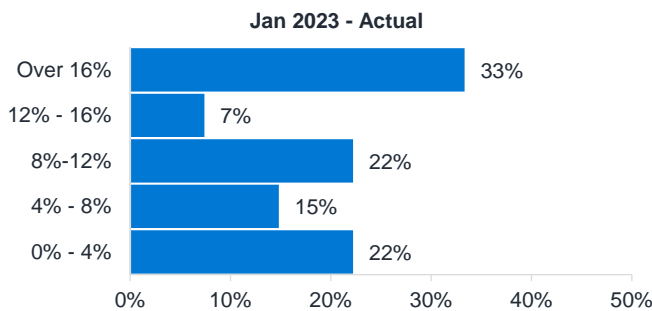
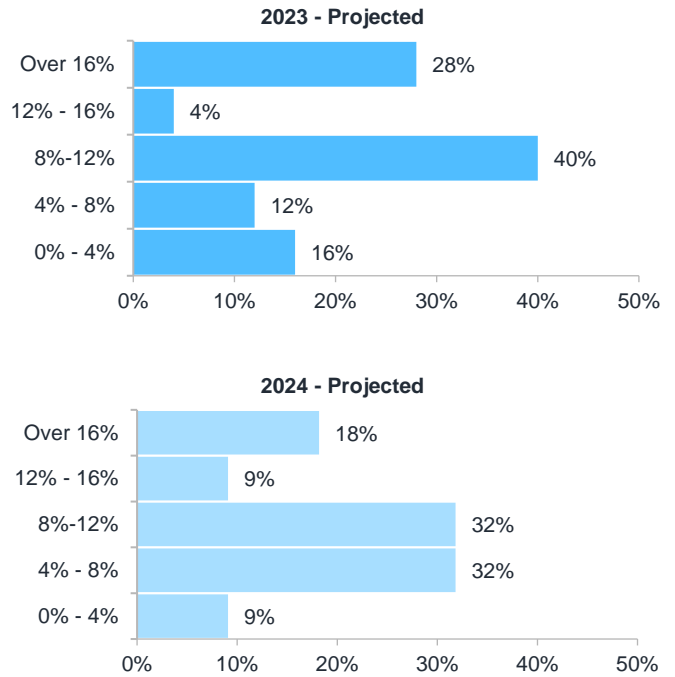


FIGURE 9: ANNUAL PREMIUM GROWTH, 2022-2024 (CONTINUED)



Limitations and data reliance

This white paper is intended to summarize the findings from Milliman's 2023 stop-loss survey. This information may not be appropriate, and should not be used, for other purposes.

In preparing this white paper we relied upon data collected from survey participants and Milliman estimated certain statistics, such as persistency, carrier premium, and loss ratios, based on the ranges submitted by participants. Survey data was collected, without audit, though we did review it for reasonability. Results will vary based on actual carrier performance.

To ensure confidentiality of carrier-specific responses, numeric responses generally required ranges rather than precise values. As a result, certain market-wide values cited in this report should be considered estimates rather than precise calculations.

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Survey inquiries

The carriers that participated in this survey will receive a detailed report including responses to all, or nearly all, survey questions. In the detailed report, many of the questions will be summarized separately for third-party and health plan carriers and, in some cases, by carriers for which stop-loss is (or is not) a “core” business. For more information or to participate in the next update to Milliman’s stop-loss survey, please contact Rob Bachler (+1 206 504 5946 or rob.bachler@milliman.com).



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CONTACT

Rob Bachler
rob.bachler@milliman.com

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