2016 employer stop-loss market

A Milliman survey

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Introduction

With the growth of self-funding[1] and recent passage of the Self-Insurance Protection Act in the House,[2] employer stop-loss coverage is poised for growth. New entrants in employer stop-loss market mixed with renewed interest from traditional health plans are leading to new product offerings by carriers that are competing for business among employers. We sought to analyze the differences between health plan and third-party stop-loss carriers by conducting a survey where we asked about product, underwriting, sales/distribution, plan performance, and various other differences. In total, 24 carriers (Figure 1) encompassing approximately $8.6 billion in premium participated, with an even split of health plans and third-party carriers. This is the first edition of this survey, and future versions will look to track micro trends seen in the stop-loss space. High-level findings of the survey are shared here, with more detailed observations and summarized responses shared with survey participants on a de-identified basis.

Background

Stop-loss coverage is purchased by self-insured employers looking for coverage from catastrophic medical and pharmacy claims. Employers with fewer than 10,000 employees typically purchase stop loss as a means of volatility protection, while larger employers (for example, those spending more than $100 million on medical costs) are mostly immune to volatility. However, with the increased frequency in claims above $1 million[3] seen since the passage of the Patient Protection and Affordable Care Act (ACA), even larger employers are considering some level of stop-loss coverage. Currently, the stop-loss market is a roughly $14 billion to $17 billion industry, up from $8 billion to $10 billion pre-ACA, and is expected to increase based on the growth of self-insurance. The market size discussed here excludes level-funded[5] stop-loss premium, which is known to be reported as stop loss by some traditional health plan carriers in other surveys or industry newsletters.

Employers have the choice of purchasing stop-loss coverage from a third-party carrier or their health plan administrator, though some administrators do not write stop-loss coverage. Health plan carriers provide administrative services such as adjudicating claims, helping members seek care, and negotiating contracts with doctors and hospitals. We believe the market is split evenly, with each type of carrier writing approximately $7 billion to $8.5 billion.

Some carriers will assume the full liability of catastrophic claims while some will purchase reinsurance that provides protection from extremely catastrophic claims (typically with deductibles of $2 million or more) and capacity to write additional coverage. Recently, more reinsurers have entered the direct employer stop-loss market by leveraging their underwriting experience and purchasing managing general underwriters for distribution support.

Key observations

The survey was designed to cover five main categories: general carrier information, plan performance, underwriting and product development, sales/distribution, and issues specific to health plan administrators.

Some of the key observations from the survey are:

- Approximately 58% of stop-loss policies (60% for third-party and 57% for health plan carriers) are written for January 1 effective dates, with another 13% written for July 1 effective dates. Other months are evenly dispersed (Figure 2).
- Survey participants were asked to rank their top competitors or indicate the carriers they most often lose business to. Participants ranked Sun Life, Symetra, and Tokio Marine HCC Life as the most competitive carriers (Figure 3). All three are third-party carriers that write more than $500 million in annual premium.[4]

[1] 2016 Employer Health Benefits Survey http://www.kff.org/report-section/ehbs-2016-section-ten-plan-funding/

[2] Self-Insurance Protection Act https://www.congress.gov/bill/115th-congress/house-bill/1304/text?r=4

[3] http://www.sunlife.com/us/News+and+insights/Press+releases/2016/Top+Ten+Catastrophic+Claims+Conditions+report+explores+costliest+medical+conditions+and+emerging+trends?vgnLocale=en_CA

[4] Based on the June 5th 2017 edition of *MyHealthGuide news for the Self-Funded Community*

[5] Level-funded programs are a hybrid of fully insured and self-insured in that employers pay a fixed amount of premium each month for insurance coverage but have the opportunity to receive a refund based on positive claim experience. Carriers who offer level-funded products include stop-loss as part of the program though do not consider the stop-loss as part of their self-insured portfolio.

- Eighty-three percent of carriers indicated that stop loss was a focused growth area in 2017. Approximately 58% of respondents achieved over 6% premium growth from January 1, 2016, to January 1, 2017 (Figure 4). Results show that third-party carriers achieved higher growth than health plan carriers, with more than 30% of third-party carriers achieving over 16% annual premium growth.
- Consistent with recent historical growth, third-party carriers have a more aggressive outlook on growth for 1/1/2018 and 1/1/2019, with 50% of third-party carriers indicating that they expect to grow premium by more than 12% for 1/1/2018 and 1/1/2019. Health plans indicated more modest growth expectations for the next two years (Figure 5).
- Health plan and third-party carriers were equally aggressive in timing of their final quote releases, with 58% of both carriers needing at least nine months of current-year data before releasing a final specific stop-loss quote. Similarly, 50% of both carrier types indicated that their most aggressive quote would require eight months of current-year data for specific stop-loss quotes (Figure 6a and 6b).
- Loss ratios (net of commissions) increased from 75% in 2015 to 77% in 2016. Carriers indicated that the deterioration in loss ratios was driven by increased competition and higher severity of claims in excess of $1 million (Figure 7a and 7b).
- Third-party carriers are more willing to pay supplemental commissions to brokers for stop-loss placements than health plan carriers. Average supplemental commissions ranged from 3% to 5%, with some willing to pay more than 8% (Figure 8).
- Approximately 50% of health plans do not have any preferred relationships with brokers/consultants, while most of the third-party carriers have six to 10 preferred relationships. Preferred relationships typically involve a payment of supplemental compensation in exchange for business won on expanded quoting opportunity. Half of the third-party carriers derived more than 30% of their business from these preferred relationships (Figure 9a and 9b).
- Aggregating specific deductibles, no-new-laser contracts with rate caps, policy mirroring, and specific advance are the most popular features made available by both health plans and third-party carriers. Dividend and experience-rated refund programs are growing, with higher prevalence among third-party carriers. One carrier indicated the ability to cover pharmacy-only claims. With the increase in specialty drugs, this could be an area of growth that stop-loss carriers may consider, especially for larger plan sponsors that historically do not elect stop-loss coverage (Figure 10).
- Sixty percent of total premium is concentrated in deductibles of less than $150,000 per individual (60%). Seventy-five percent of total premium is derived by employers who have 1,000 or fewer subscribers (Figure 11a and 11b). As self-insurance grows, we expect the median deductibles and employer sizes to decrease as smaller, risk-averse employers enter the market.
- Health plans are achieving higher persistency than third-party carriers. Based on survey responses, we estimate that health plans achieved nearly 81% persistency while third-party carriers achieved 74% (Figure 12) in 2016. Third-party carriers were observed to offer more product differentiation and pay brokers/consultants a higher level of supplemental compensation, yet health plans are renewing employers at a higher rate.
- Fifty percent of health plan carriers indicated that they limit an employer's ability to carve out stop loss based on the employer's size. A majority of the health plans charge a $1 to $3 per employee per month (PEPM) fee when the employer elects stop-loss coverage with a third-party carrier. This fee is meant to cover expenses associated with additional reporting and coordination with the third-party carrier. Approximately 25% of health plans charge more than $4 PEPM. Some health plans choose to assess a flat fee for carving out stop-loss coverage (Figure 13). Many third-party carriers will reimburse employers for these fees to make the decision to move to a third-party carrier easier.

Conclusion

Health plan and third-party carriers have distinct differences in product features, plan performance, underwriting, and sales/distribution. While differences exist in how these two carriers approach the market, it is clear that carriers believe the market is ripe for growth. With stop loss largely placed by brokers and consultants, it is no surprise that carriers are establishing preferred relationships with key distributors. With the increased market growth and market competition, many brokers and consulting firms are asking carriers to enhance their products by shifting risk traditionally assumed by the employer back to the carrier. Product features such as rate caps and no-new-laser contracts can hinder profitability and expose carriers to multi-year agreements with under performing groups.

Although rate cap and no-new-laser contracts have been made available by most of the carriers in the stop-loss market, we believe that these provisions do not make up a significant portion of policies for carriers that provide such features. Further, the survey results show that health plans have better persistency than third-party carriers, though it is the third party carriers that are most willing to assume the additional risk of rate caps, no-new-laser policies, and dividend programs. Carriers making rate caps and no-new-laser policies available did perform better than those carriers who did not. As profitability comes under pressure, carriers may be less willing to offer these types of product features or may charge more for their inclusion.

Adding to the erosion of profitability is the emergence of several new entrants in the stop-loss marketplace that likely will need to compete on price in order to establish a credible block of business (considered to be roughly $100 million in premium). Berkshire Hathaway, Guardian Life, Liberty Mutual, and Unum are just some of companies that have recently entered the marketplace, adding to the 75+ carriers already competing for business. In absence of the increased competition, we would expect the stop-loss market to grow between 10% and 15% per year due to leveraged trend, the growth of self-insurance, exposure from specialty drugs, and continued increase in +$1 million claims. However, with the erosion in profitability (and subsequently in rate level and growth) seen in the survey results and the new market entrants, we suspect that growth may be mitigated over the next two to three years.

Assumptions and methodology

This white paper is intended to summarize the findings from Milliman's 2016 stop-loss survey. This information may not be appropriate for and should not be used for other purposes.

In preparing our white paper, we relied upon data collected from survey participants and 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 for reasonability. Results will vary based on actual carrier performance.

To limit confidentiality concerns, numeric responses generally required ranges rather than precise values. As a result, certain market-wide values cited in this report are estimated rather than calculated.

Survey inquiries

The 24 carriers who participated in this inaugural survey will receive a 30-page detailed report including responses summarized by third-party and health plan carriers as well as additional analysis with regards to profitability. We sought to measure profitability differences based on product features and other quoting characteristics. For more information or to participate in the 2017 Milliman Stop-loss Survey please contact Mehb Khoja at mehb.khoja@milliman.com or 312 499 5758.

Appendix

FIGURE 1: SURVEY PARTICIPANTS

THIRD-PARTY CARRIERS	HEALTH PLANS
AMALGAMATED LIFE INSURANCE COMPANY	AETNA
BCS INSURANCE CO.	ANTHEM (KENTUCKY)
BERKLEY LIFE AND HEALTH INSURANCE COMPANY	ANTHEM (GEORGIA)
BERKSHIRE HATHAWAY SPECIALTY INSURANCE	BCBS OF MICHIGAN
MUNICH RE STOP-LOSS, INC.	BCBS OF NORTH CAROLINA
NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA (AIG)	BCBS OF RHODE ISLAND
QBE	CIGNA
SUN LIFE FINANCIAL	FLORIDA BLUE
SYMETRA LIFE INSURANCE	HUMANA
UNIMERICA INSURANCE CO. (OPTUM)	LIFEWISE ASSURANCE COMPANY (PREMERA BLUE CROSS)
SWISS RE	MEDICAL MUTUAL OF OHIO
VOYA FINANCIAL	UNITED HEALTHCARE

FIGURE 2: PREMIUM DISTRIBUTION BY ANNIVERSARY MONTH

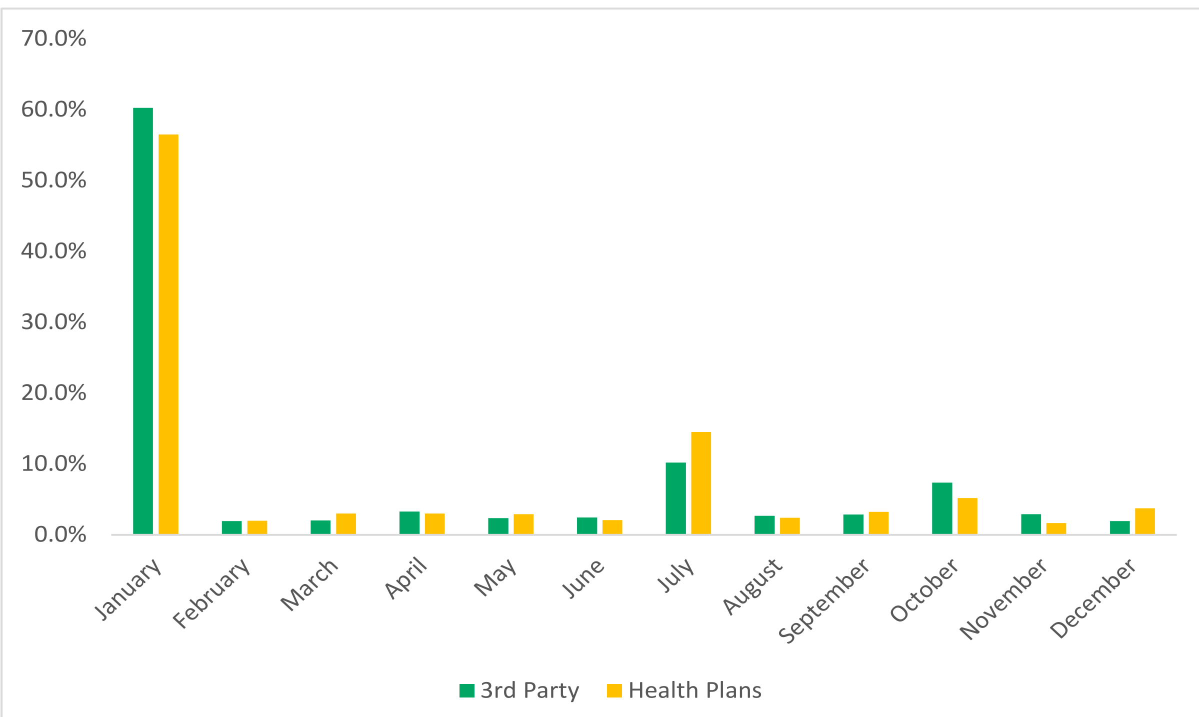

FIGURE 3: TOP COMPETITORS AND/OR CARRIERS TO WHOM BUSINESS IS MOST FREQUENTLY LOST

RANK	CARRIERS
1	SUN LIFE
2	SYMETRA
3	TOKIO MARINE HCC LIFE
4	VOYA
5	CIGNA
6	UHC
7	BLUES (LOCAL PLAN)
8	HM INSURANCE GROUP

FIGURE 4: PREMIUM GROWTH FROM 1/1/2016 TO 1/1/2017

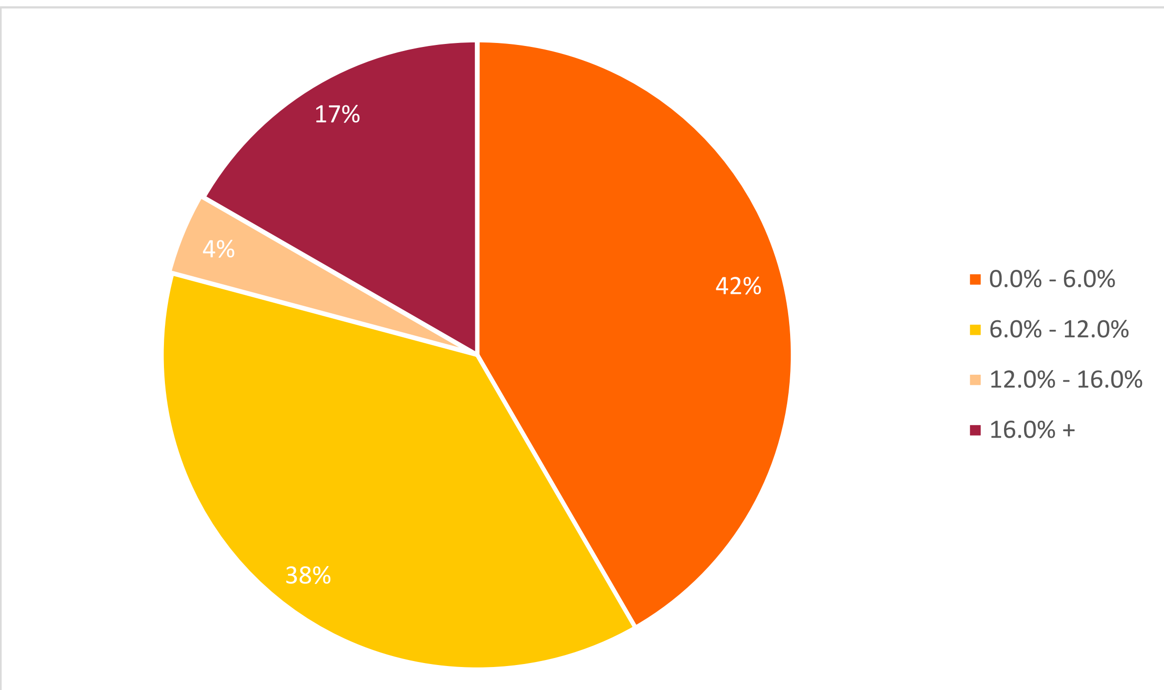

FIGURE 5: EXPECTED PREMIUM GROWTH FOR 1/1/2018

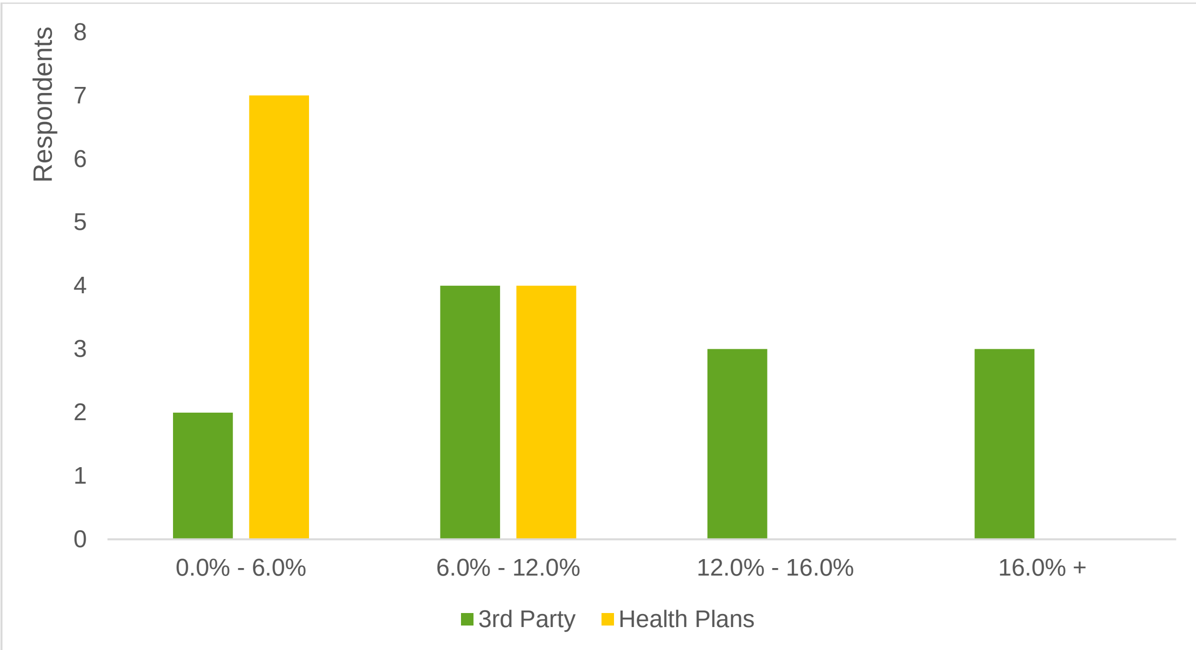

FIGURE 6A: MONTHS OF DATA REQUIRED FOR FINAL SPECIFIC QUOTE – ON AVERAGE

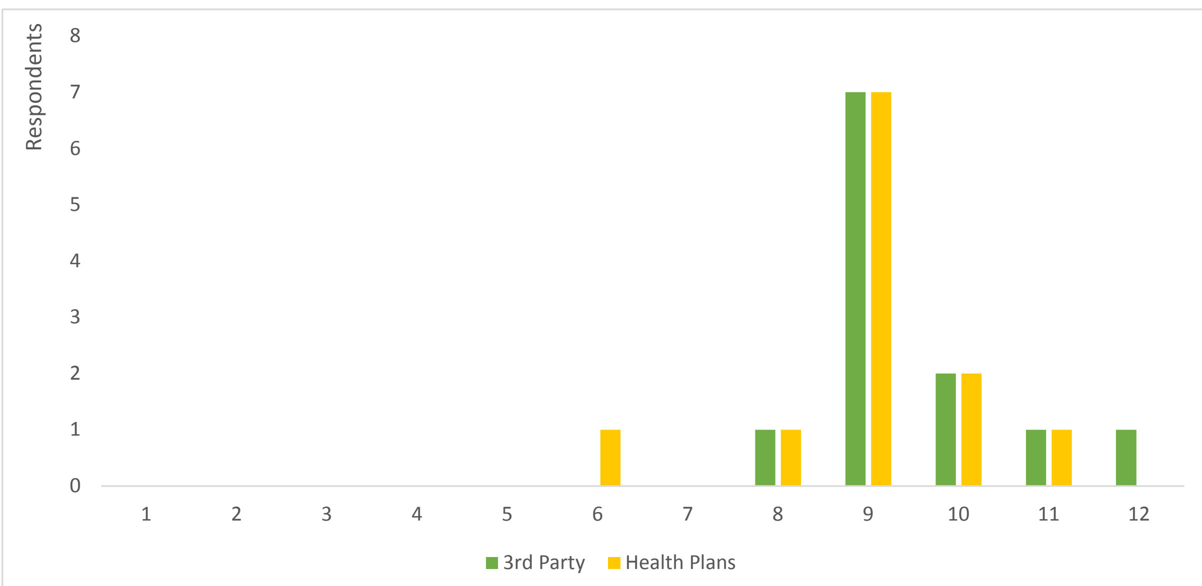

FIGURE 6B: MONTHS OF DATA REQUIRED FOR FINAL SPECIFIC QUOTE – MOST AGGRESSIVE

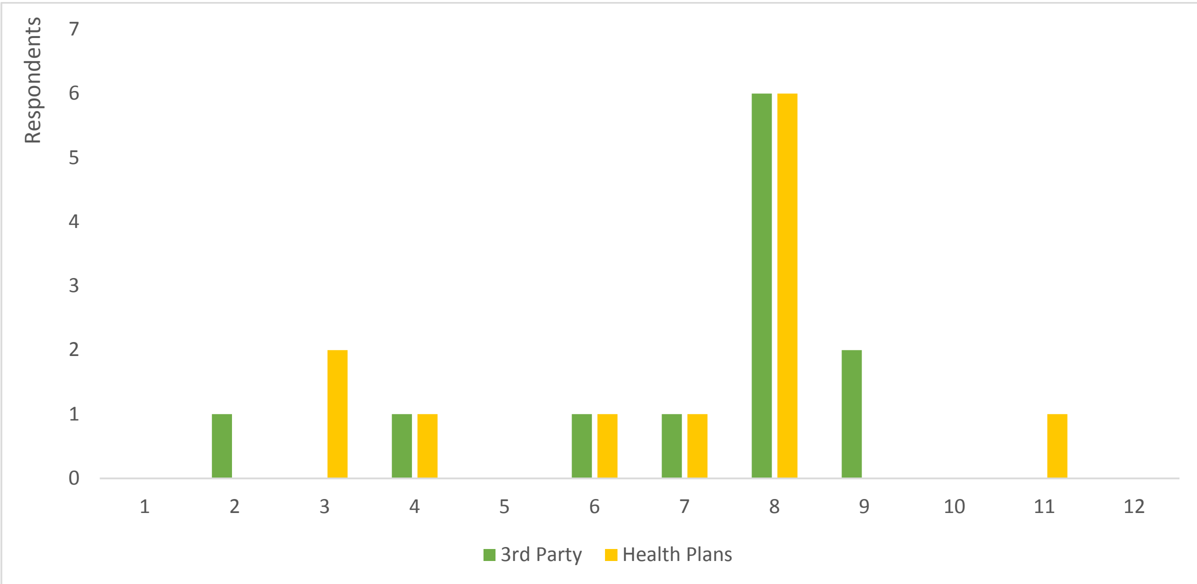

FIGURE 7A: 2016 ACHIEVED LOSS RATIO (NET OF COMMISSIONS)

LOSS RATIO	THIRD PARTY	HEALTH PLANS	TOTAL
50% - 55%	0%	9%	4%
55% - 60%	0%	9%	4%
60% - 65%	8%	0%	4%
65% - 70%	17%	45%	30%
70% - 75%	42%	27%	35%
75% - 80%	25%	0%	13%
80% - 85%	0%	9%	4%
85% - 90%	8%	0%	4%
90%+	0%	9%	4%
TOTAL	100%	100%	100%

FIGURE 7B: 2015 ACHIEVED LOSS RATIO (NET OF COMMISSIONS)

LOSS RATIO	THIRD PARTY	HEALTH PLANS	TOTAL
50% - 55%	0%	9%	5%
55% - 60%	0%	0%	0%
60% - 65%	0%	9%	5%
65% - 70%	18%	9%	14%
70% - 75%	27%	36%	32%
75% - 80%	27%	18%	23%
80% - 85%	18%	18%	18%
85% - 90%	0%	0%	0%
90%+	9%	0%	5%
TOTAL	100%	100%	100%

FIGURE 8: AVERAGE SUPPLEMENTAL COMPENSATION PAID TO BROKERS/CONSULTING FIRMS

COMMISSIONS %	THIRD PARTY	HEALTH PLANS	ALL
0% - 2%	17%	75%	46%
2% - 4%	58%	17%	38%
4% - 6%	17%	0%	8%
6% - 8%	0%	0%	0%
8% - 10%	8%	8%	8%
TOTAL	100%	100%	100%

FIGURE 9A: NUMBER OF PREFERRED BROKER/CONSULTANT RELATIONSHIPS

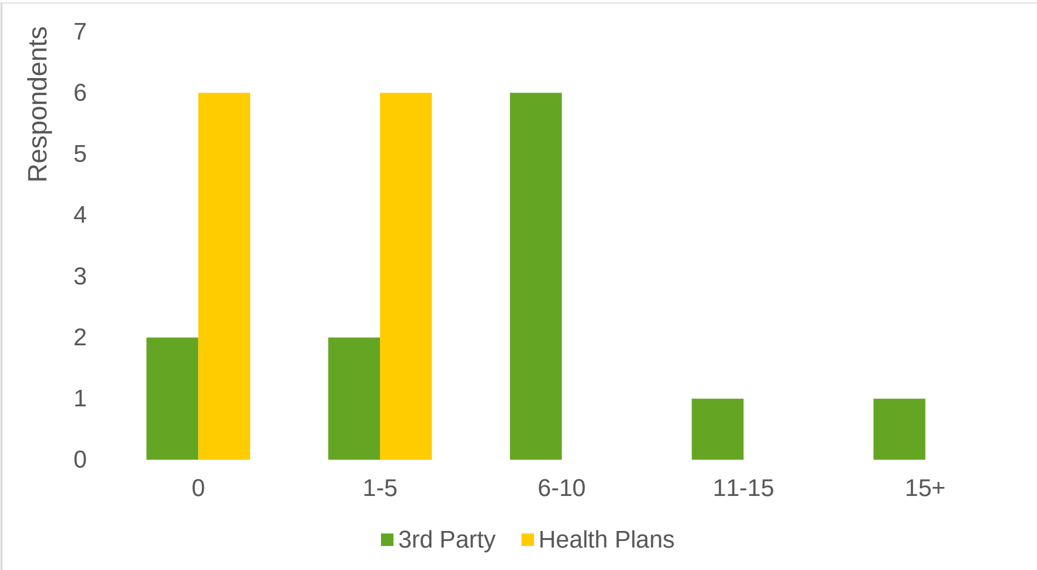

FIGURE 9B: PERCENT OF BUSINESS DERIVED FROM PREFERRED BROKER/CONSULTANT RELATIONSHIPS

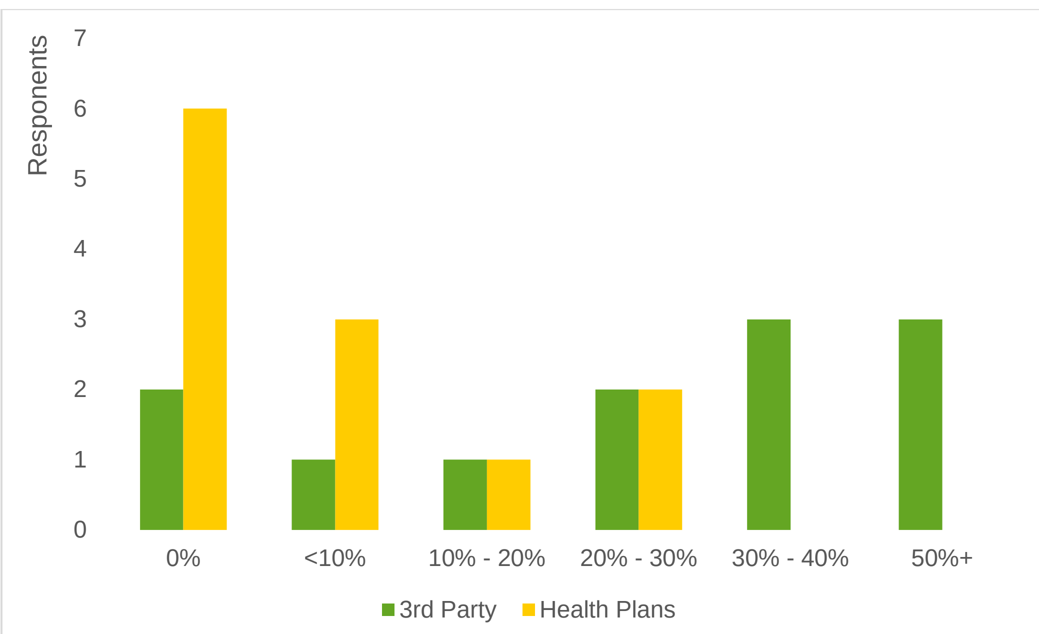

FIGURE 10: CARRIERS OFFERING VARIOUS PRODUCT FEATURES

PRODUCT FEATURES	ALL PLANS
AGGREGATING SPECIFIC DEDUCTIBLES	100%
POLICY MIRRORING	92%
NO-NEW-LASER CONTRACTS WITH RATE CAPS	92%
RATE CAPS	88%
AGGREGATE ADVANCE/ACCOMMODATION	83%
SPECIFIC ADVANCE	79%
DIVIDEND/EXPERIENCE REFUND PROGRAMS (SINGLE CASE)	67%
FAMILY DEDUCTIBLE	50%
DIVIDEND/EXPERIENCE REFUND PROGRAMS (POOLED BY PRODUCER/ASSOCIATION)	33%
PHARMACY-ONLY COVERAGE	4%

FIGURE 11A: DISTRIBUTION OF EMPLOYER SIZE (WEIGHTED BY TOTAL PREMIUM)

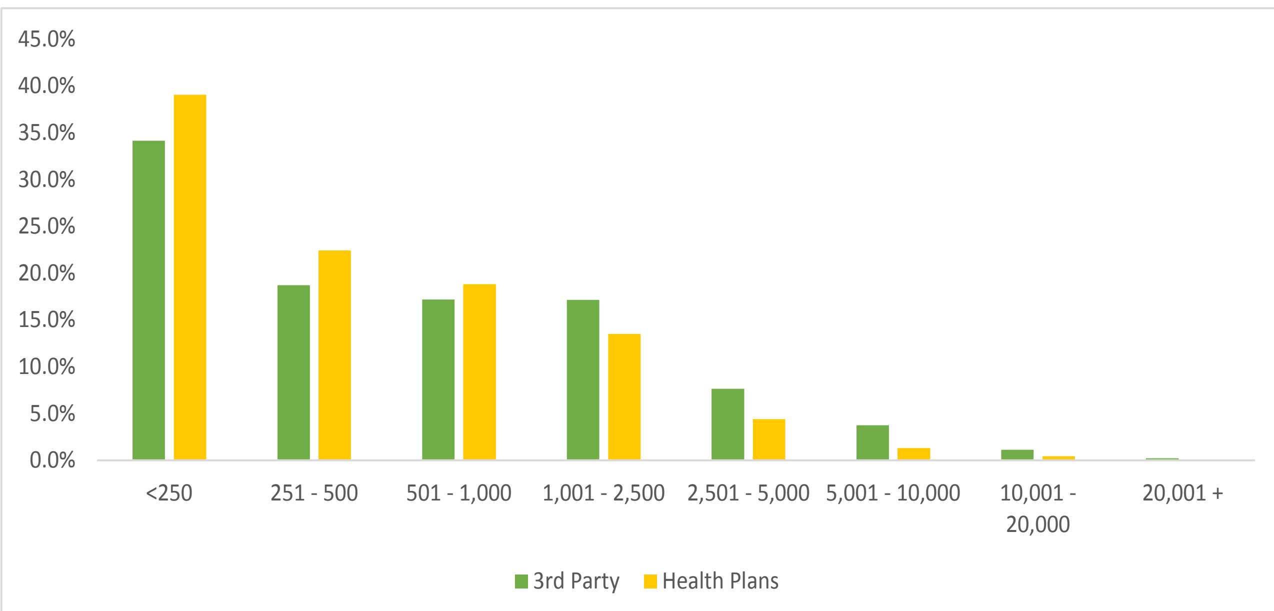

FIGURE 11B: DISTRIBUTION OF INDIVIDUAL DEDUCTIBLE (WEIGHTED BY TOTAL PREMIUM)

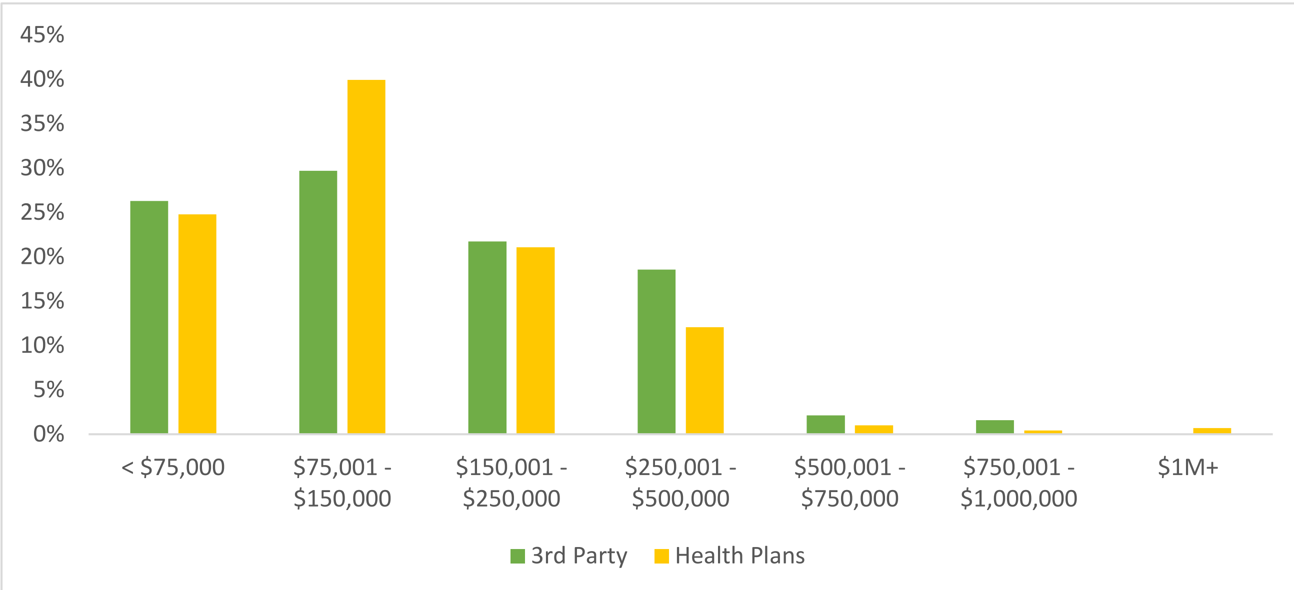

FIGURE 12: AVERAGE PERSISTENCY (2016 CASES)

AVERAGE PERSISTENCY	THIRD PARTY	HEALTH PLANS	ALL
60% - 65%	9%	0%	4%
65% - 70%	27%	0%	13%
70% - 75%	9%	8%	9%
75% - 80%	36%	17%	26%
80% - 85%	18%	75%	48%
TOTAL	100%	100%	100%

FIGURE 13: HEALTH PLAN FEES CHARGED FOR CARVING OUT STOP LOSS

CARVED OUT FEE

TYPE	ALL HEALTH PLANS
PEPM	
$1.00 - $1.99	25%
$2.00 - $2.99	25%
$3.00 - $3.99	0%
$4.00 - $4.99	17%
$5.00 +	8%
FIXED ANNUAL FEE	25%
TOTAL	100%

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