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Stop-Loss State of the Market Report

June 2022

As the cost of healthcare in the United States is constantly increasing, health insurance premiums are tracking along on a similar upward trajectory.

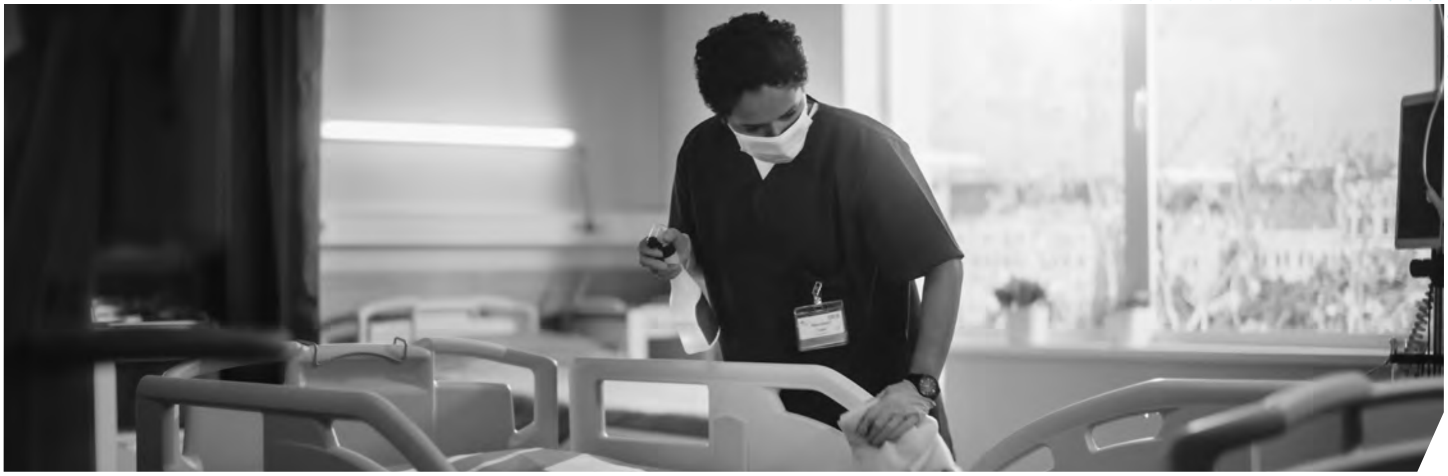
In recent years, these rising insurance costs have prompted more employers to transition out of fully insured pools into self-funded arrangements where they have more flexibility in plan design. While employers can exert more control over their healthcare spending, that control comes with risks, which is why stop-loss insurance is an integral part of most self-funded plans.

As more organizations transition to self-funding, brokers and consultants are increasingly tasked with helping clients make critical, risky and complex decisions on behalf of their employees. Stealth brings unrivaled knowledge and expertise to the growing and complex stop-loss industry, and this report is designed to provide market insights and benchmarking data to assist brokers in helping their clients appropriately balance risk and provide protection.

Stealth uses a variety of resources to analyze the state of the stop-loss market to provide our partners with meaningful and actionable insights regarding emerging market trends.

Highlights from this year's report include:

- Overall Healthcare and Employer Stop-Loss Trends
- Effects of COVID-19
- Insights on High-Cost Claims Conditions
- A Market Outlook and Suggested Cost-Saving Considerations
- Benchmarking Data Derived from Stealth's Book of Business



Healthcare Trends, Self-funding and Employer Stop-Loss Insurance

For the past two years, COVID-19 and its ongoing impact on healthcare have kept experts on their toes attempting to predict the ramifications for the insurance market.

In 2020, the Milliman Medical Index (MMI) reported a decrease in year-over-year healthcare costs for the first time in history—largely attributed to the postponement of care during the height of the pandemic—and correctly predicted that it would be an anomaly to the ongoing trend of increases. Healthcare costs for 2021 rebounded at +13.2%, and the 2022 MMI predicts costs will grow by approximately 4.6% from 2021 to 2022.

These healthcare cost trends directly influence the stop-loss market, and while the current stop-loss market (measured in annualized premium) stands at approximately $26 billion[1] with premium growth of 8.8% from 2019 to 2020, claims expenses also increased in nearly lock-step (8.3%) for the same period.[2]

The COVID-19 Effect

While the stop-loss costs resulting from the Covid virus itself are not insignificant (single-year reimbursements for 2021 topped $61 million), they have been lower than initially anticipated with the average cost of treatment decreasing by $50,000 from 2020 to 2021—presumably because treatment became more efficient as providers learned more about the virus.[3]

The pandemic's impact on other stop-loss claims, however, continues to be considerable. The most notable impact (widely voiced by both providers and payers) is that the disruption in cancer screenings and routine care has led to worsening health outcomes which necessitate more expensive treatments. Notably, delays have resulted in later-stage cancer diagnoses and worsening of chronic conditions, including heart disease.

Cancers and cardiovascular disease have ranked at the top of Sun Life's Top 20 High-Cost Claims Conditions for years and that trend is likely to continue as the frequency and severity of these conditions increase due, in part, to the delayed screenings and deferred care.

In general, the postponement of patient care during the pandemic has led many experts to anticipate a future surge of claims when care returns to pre-pandemic levels. In our previous State of the Market Report (June 2021), we predicted that carriers would offer conservative renewals for 2022 as they prepared for larger claims (and higher incidence) following more than a year of postponed care.

What we saw instead was a continued reprieve in overall claims activity with carriers experiencing relatively low to moderate loss ratios versus pre-pandemic periods. Of the 31 carriers and managing general underwriters (MGUs) that participated in Milliman's 2021 survey, 80% of respondents experienced loss ratios that were within +/-5% of target and 70% reported a persistency rate of 71.5 % or higher.

As a result, carriers have been willing to deploy more capital in the market, offering aggressively competitive rates to good risks.

While it may seem like the hard market we've been anticipating for years has yet to materialize in the form of larger premium increases, make no mistake, its presence is being felt through underwriting actions with increased lasering and exclusions for high-cost procedures and specialty drugs.

High-Cost Claim Conditions and Specialty Drugs

For the past 10 years, Sun Life has published an annual research report that has become the definitive source of data regarding high-cost stop-loss claim trends. More recently, Tokio Marine HCC (TM-HCC) has also published an annual report detailing the firm's claims experience and market outlook. Stealth examined both reports with the following key takeaways:

- Since 2008, multi-million-dollar claims have risen 49% with an increase of 19% between 2020-2021.[3] The number of $3 million claims has tripled since 2016.[2]
- For the most part, the top 10 conditions with the highest number of claims (by frequency) have been consistent across both reports, with cancers and malignant neoplasm at the top, followed closely by cardiovascular disease.
- In its most recent report, TM-HCC points out "respiratory diseases" entered the top 10 for the first time, likely driven by the COVID-19 pandemic.[2]
- Not surprisingly, the conditions with the highest number of million-dollar-plus claims noted by Sun Life also appear among the top 10 high-cost claim conditions for both carriers.

Conditions with the highest number of million-dollar+ claims by year

Rank	2018	2019	2020	2021
1	Malignant Neoplasm	Newborn	Leukemia	Leukemia
2	Leukemia	Leukemia	Newborn	Malignant Neoplasm
3	Newborn	Cardiovascular Transplant***	Malignant Neoplasm	Newborn
4	Cardiovascular	Hemophilia/Malignant Neoplasm***	Cardiovascular	COVID-19
5	Congenital Anomaly	Congenital Anomaly	Respiratory	Congenital Anomaly

Majority condition for each claimant was used.
*** Conditions for million-dollar+ claims that tied.
Source: Sun Life book of business data, first dollar claims, 2018-2021

Impact of Specialty Drugs, Cell and Gene Therapies

Cancer treatments make up more than 30% of all stop-loss reimbursements ($1.5 billion over the past four years)[1], and also constitute more than half of the costs related to injectable drugs, a trend that is unlikely to change as we continue to see new developments and specialty therapies for these diseases.

Additionally, developments in gene and cell therapies (CAR T-cell, Zolgensma and Roctavian, for example) have the potential to provide life-changing remedies, but also present a significant financial risk to self-funded plan sponsors. The effectiveness of these treatments over time (e.g., durability) remains unclear while the cost can easily breach seven figures with no guarantee of success.

Drug/Treatment	Condition	Cost
Car T-Cell Therapy	Cancer**	~$.7M
Zolgensma	Spinal Muscular Atrophy (SMA)	~$2M
Roctavian	Hemophilia	~$3M*

*Roctavian hasn't been released so it is an estimate from public sources
**Car T-Cell Therapy covers a number of conditions, such as blood cancers, and cost varies pretty significantly for the entire treatment event.
Sources: Real-world CAR-T treatment costs can range from $700,000 to $1 million (primetherapeutics.com)
DWL Roctavian to treat hemophilia A (primetherapeutics.com)
Sun Life 2022 Edition High-Cost Claims and Injectable Drug Trend Analysis
CAR T-cell Therapy and Its Side Effects (cancer.org)

Plan documents often don't expressly address these therapies and with such high costs, it's little wonder we are seeing certain types of treatments challenged or excluded from coverage.

While the pipeline for introduction of costly new drugs and therapies is robust, FDA review and approval of many of them has slowed considerably as the agency focused on the COVID-19 pandemic.

Many industry watchers expect the review process to pick up again over the next two years. Roctavian, a gene therapy that treats Hemophilia A, is one of the drugs in the pipeline that is being tracked closely. The cost of this treatment has not been finalized (or publicly released) but is estimated at $2.5 to $3 million. FDA approval may come later in 2022 or 2023.

Top 10 High Cost Injectable Drugs

2021 Rank	Injectable drug	Total cost	Average cost
1	Keytruda	$34.7M	$148.3K
2	Opdivo	$21.0M	$132.1K
3	Neulasta	$16.8M	$37.1K
4	Soliris	$14.2M	$526.0K
5	Perjeta	$13.9M	$81.2K
6	Tepezza	$9.3M	$373.9K
7	Herceptin	$9.0M	$80.0K
8	Ocrevus	$8.9M	$110.7K
9	Zolgensma	$8.6M	$2.1M
10	Avastin	$8.1M	$54.8K

Cancer conditions
Blood disorders
All other conditions

// To reflect the high average cost of Zolgensma at $2.1M, the line break demonstrates that it is not to scale.

Source: Sun Life book of business data. Top 20 rank order, average paid, total paid and condition category are all based on 2021 book of business data. Four-year comparison view is based on 2018 and 2021 book of business data.

Top 20 High-Cost Claim Conditions

Stop-loss claim reimbursements

4 Year Rank	2021 Rank	Condition/Disease/Disorder	2021 Single Year Reimbursements	2018-2021 Reimbursements
1	1	Malignant Neoplasm	$294.9M	$1.03B
2	2	Leukemia, Lymphoma, Multiple Myeloma	$117.0M	$443.1M
3	3	Cardiovascular	$102.3M	$389.4M
4	4	Orthopedics/Musculoskeletal	$89.6M	$297.5M
5	5	Newborn/Infant Care	$82.3M	$287.0M
6	6	Respiratory	$65.0M	$234.1M
7	11	Urinary/Renal	$57.5M	$222.6M
8	9	Neurological	$61.2M	$210.7M
9	10	Gastrointestinal/Abdominal	$59.3M	$200.9M
10	7	Sepsis	$64.2M	$182.4M
11	13	Congenital Anomaly (structural)	$41.9M	$172.0M
12	12	Physician Treatment	$47.1M	$143.1M
13	17	Transplant	$26.7M	$127.8M
14	14	Cerebrovascular	$29.8M	$98.7M
15	16	Hemophilia/Bleeding	$28.4M	$96.3M
16	19	Immune System	$21.2M	$87.5M
17	15	Mental and Behavioral Health	$28.5M	$87.1M
18	18	Malnutrition	$23.1M	$79.8M
19	8	COVID-19	$61.5M	$75.4M
20	21	Blood and Blood Forming Organs	$18.6M	$72.0M
		Stop-loss reimbursements for top 10 conditions		**$3.50B**
		Stop-loss reimbursements for top 20 conditions		**$4.54B**
		Stop-loss reimbursements for all conditions		**$4.97B**

38% Top 3 conditions

70% Top 10 conditions

Indicates a change in 3 or more places compared to the single year rank

Source: Sun Life book of business data, stop-loss reimbursements from 2018-2021

Market Outlook and Cost-Saving Considerations

Plan design, coverages and exclusions

Effective plan design is about finding the right balance between healthcare coverage, access, and cost. Self-funded employers make difficult decisions about plan coverages that not only have the potential to create member disruption but also can create additional costs and risk exposures within the plan if not carefully considered.

Plan design should be a well-defined strategy based on historic claims data unique to each employer. This will reduce the likelihood of care avoidance and non-adherence that can ultimately increase claims cost.

A well thought out approach will also incorporate pathways for members to receive plan-excluded treatments through fully vetted third-party solutions or plan exceptions. This will be increasingly important as more high-cost specialty drugs and therapies become available in the market.

Identifying the potential for third-party solutions to plan exceptions for specific treatments (including manufacturer performance-based contracts for specialty drugs)—and incorporating them into your stop-loss policy—is a critical step to consider for reducing financial exposure.

Planning for exceptions and exclusions has become even more relevant as we see a trend toward blanket exclusions where a treatment may not even be prevalent in the plan now, but its exclusion is being written in as a contract provision for the future.

Increased lasers

While the stop-loss market is not hardening from a premium perspective, we have observed a deliberate risk transfer to employers through other available contract levers. The most pronounced method has been through more liberal deployment of lasers.

44%

This year lasers are present on 44% of groups on Stealth's book, which is a significant increase over last year, where just over a third of groups had lasers.

Additionally, we've seen a significant softening in carrier appetite to deploy no new laser and renewal cap provisions for certain size and risk profile groups.

68%

On average, 68% of groups in 2022 had a no new laser rate cap, compared with 65% in 2021.

The likelihood that a group will have a no new laser rate cap provision increases as the group size increases, as 75% of groups with over 500 employees include this provision in their contracts.

As carriers continue to be more judicious in their underwriting around known risks, benefits brokers and consultants need to be prepared to have difficult conversations about lasering with groups that include high-risk members.

Plan mirroring

Self-funded employers should review and compare their plan documents and stop-loss contracts to ensure there are no oversights or discrepancies between what the medical plan covers and what the stop-loss plan covers. To avoid gaps in coverage, the stop-loss plan should mirror the medical plan and/or address coverage for third-party solutions to plan exclusions.

Stop-loss and alternative risk solutions market growth

In the U.S., 64% of covered workers are now enrolled in a self-funded plan and 62% of self-funded groups have purchased stop-loss insurance as a back stop to potentially catastrophic claims.[4] Total earned stop-loss premium grew to over 26.8 billion in 2021. This represents a 4.8% growth rate year over year, which is down from the trailing compounded annual growth rate of 12.4% (measured from 2016 on).[5]

Contributing to the growth are alternative risk solutions, such as captive arrangements (representing 10% of the market and growing) and level funding, each of which are used as a strategy to transition from a fully insured plan to self-funded status.

In its 2021 survey, the Kaiser Family Foundation reports that 42% of small firms in their study offer a level-funded plan and notes that it is a much higher percentage (13%) than 2020. The report suggests that that the increase might mark a "significant shift" in the small group market toward health-status-based rating, and that the trend should be monitored to see if it continues over the next few years.

Both captives and level funded arrangements are attractive options for many smaller employers as they offer access to preferred stop-loss contract terms and cost containment solutions traditionally only available to larger self-funded employers.

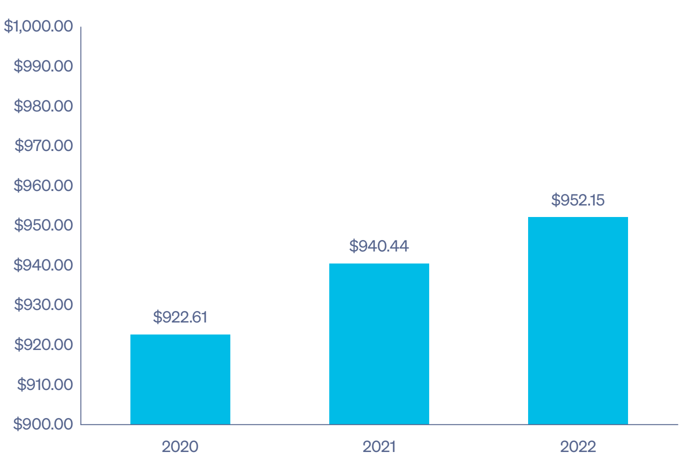
While these programs can provide less volatility and increased cashflow protection, not all available options are created equally or deliver the desired financial results or member experience. It is critical that each program's administrative partners and stop-loss contracts are fully evaluated and that decision makers are properly educated prior to implementation.

Benchmarking Data

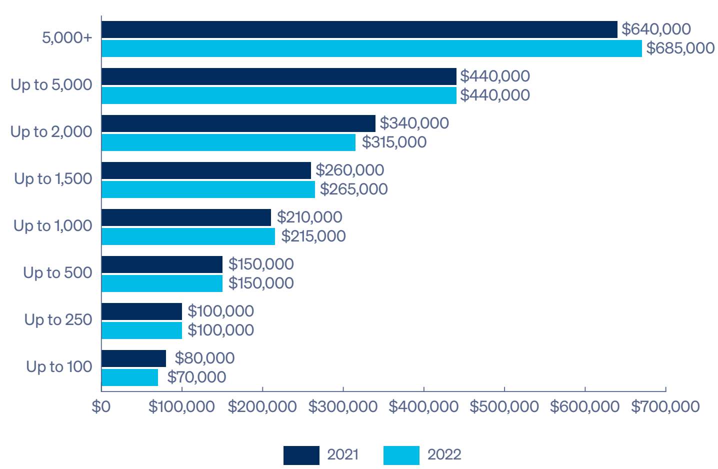
The following data from Stealth's own book of business is provided as a benchmarking tool for brokers to compare similarly situated groups and assist employers in determining which stop-loss solutions will most appropriately balance risk and protection for their clients.

Premium and Contract Type

Per Employee Per Year (PEPY) 3-Year Look Back



Average Spec Deductible by Group Size



Note: these amounts are not normalized for market, and reflect changes in book of business, employer size, deductible, and / or lasers, etc.

Percent of Cases Electing Aggregating Specific Deductible & Corresponding Premium Decrease

	2021		2022	
Specific Deductible	% Elected Aggregating Specific Deductible	% Premium Decrease	% Elected Aggregating Specific Deductible	% Premium Decrease
up to $50K	11%	12%	21%	10%
up to $75K	16%	23%	31%	16%
up to $100K	13%	16%	36%	14%
up to $125K	19%	25%	39%	17%
up to $150K	18%	21%	30%	15%
up to $175K	20%	25%	36%	18%
up to $200K	19%	25%	27%	17%
up to $250K	21%	24%	32%	21%
up to $300K	21%	23%	25%	21%
up to $400K	26%	24%	21%	24%
up to $500K	17%	24%	11%	16%
up to $750K	19%	19%	29%	17%
up to $1.5 M	30%	20%	15%	16%

Key Points Per Employee Per Year (PEPY) increased year-over-year by 1%, relatively flat overall, which corroborates a highly competitive market with carriers offering capacity.

Overall, the average spec deductible remained relatively flat year-over-year, even decreasing in a few group sizes, reinforcing the evidence of a competitive market. This reflects a similar pattern from last year with growth in the single digits reflecting the reality of a competitive market giving many groups favorable renewal experiences.

Compared to our report last year, the distribution by contract types stayed consistent, with the majority of contracts sold on a paid basis. Paid contracts are typically attributed to more mature groups which require continuation in coverage without gaps.

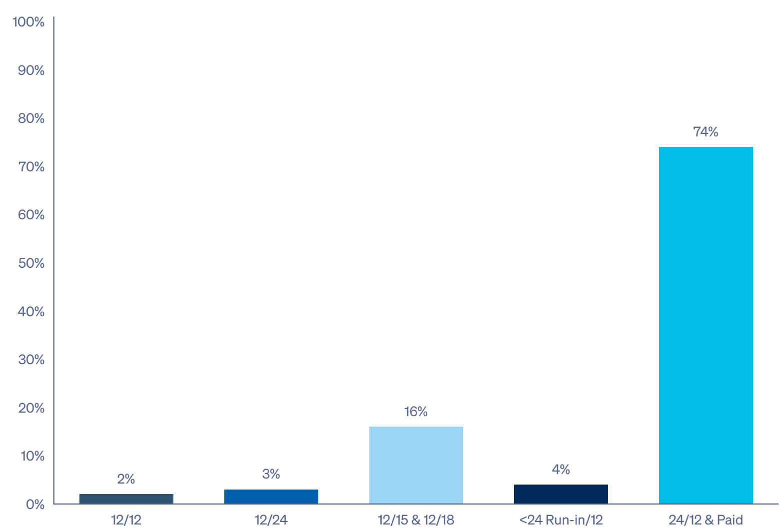
Aggregate Coverage

Group (EE) Size	2021 % of Cases with Aggregate Coverage	2022 % of Cases with Aggregate Coverage
up to 100	85%	86%
up to 250	85%	86%
up to 500	75%	71%
up to 1,000	61%	64%
up to 1,500	46%	45%
up to 2,000	32%	44%
up to 5,000	21%	15%
5,000+	0%	12%

Key Points Claims predictability naturally increases as the number of employees in a group increases, so larger groups are more willing to forgo aggregate coverage. Consistent with recent years, the majority of groups with less than 1,000 employees do elect aggregate coverage. While it may look odd to see any groups with over 5,000 employees with aggregate coverage, there are some entities (like school districts), that are legally required to purchase aggregate coverage. While catastrophic claims risk is an increasing concern even for those large groups, unless legally obligated, very large groups are still not purchasing aggregate coverage.

Overall, a consistent number of groups elected aggregating specific deductible but most experienced a slightly lower percentage decrease in premium because of this election this year compared to last year. This is likely due to premium increasing slightly year over year.

Contract Type Breakdown



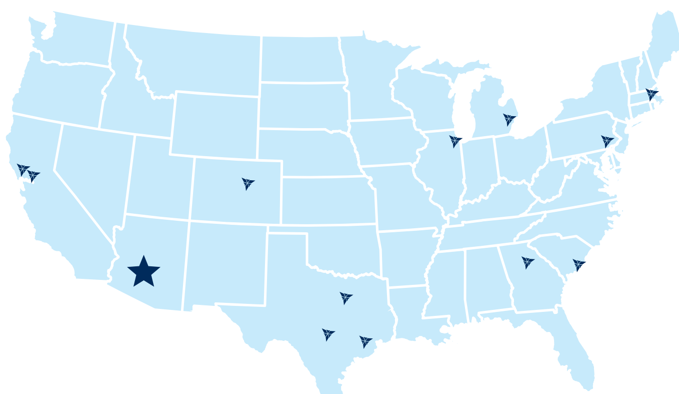
Stealth: Bringing Best-in-Class Expertise to You

The employer stop-loss market has experienced impressive growth over the last decade, and all the evidence points to the trend continuing as more organizations entertain self-funding options for healthcare.

Stability in a stop-loss plan is paramount to successfully managing the risks of self-funding.

To best serve your clients in the stop-loss space, it's critical to work with a partner who can offer you the advantage of deep experience, robust market relationships, superior service and strong cost-containment protocols.

Let us deliver the solutions and options that best meet the needs of your clients.



#1 Largest Stop-Loss Wholesale Broker	**$1.3B+** Premium Placements	**2,000** Groups	**35+** Carriers/Markets
1.4M+ Insureds	**225** Employees Nationwide	**29** National Producers	**13** Locations

With focused expertise and a complete, unbiased commitment to providing quality, turnkey stop-loss solutions, since 2009 Stealth has made **self-funding a more viable option that drives value for employer groups of all sizes.**

For more information, contact your Stealth broker.

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Sources:

1. Milliman White Paper: Observations on the Employer Stop-Loss Market 2021 Survey
2. Tokio Marine HCC 2021 Annual Market Report
3. Sun Life 2022 Edition High-Cost Claims and Injectable Drug Trend Analysis
4. Kaiser Family Foundation Employer Health Benefits 2021 Annual Survey
5. MyHealthGuide Newsletter for the Self-Funded Community, Sept. 18, 2021
6. Real-world CAR-T treatment costs can range from $700,000 to $1 million (primetherapeutics.com)
7. DWL Roctavian to treat hemophilia A (primetherapeutics.com)
8. CAR T-cell Therapy and Its Side Effects (cancer.org)