

STOP LOSS MARKET UPDATE

SEMI-ANNUAL REPORT: **SEPTEMBER 2020**

The stop loss market continues to harden with high loss ratios and an 86% increase in catastrophic claims over the past four years. The overall effect of COVID-19 on the stop loss market remains unknown despite the fact that large numbers of COVID-19 claimants never materialized. Cases running well continue to have access to favorable contract provisions, but we expect pending specialty drug approvals, emerging gene therapies and COBRA provisions related to the pandemic will impact rates well into the coming year.

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STATE OF THE STOP LOSS MARKET

Market growth and high loss ratios have been the norm for the past 12 months. In 2019, NAIC data showed the market grew more than 20%. Most of this growth was directly related to the top 10 direct stop loss writers and the BUCA carriers. At the same time, the overall loss ratio was over 80% – the highest it has been in more than 10 years.

Capital has continued to flow into the market, artificially holding prices lower for well-performing groups despite the ongoing increase in \$1M claims. For groups with marginal to poor performance, finding a new carrier to accept ongoing risk has been difficult, especially for smaller groups with premiums under \$500K.

Sun Life Financial reports an 86% increase in high-dollar claims over the past four years. And, with new gene therapy drugs coming to market, this rise is expected to continue into 2024. Effective discounts from the BUCA PPOs on facility claims remain lower than expected. Consequently, claims are being scrutinized for validity and appropriateness.

THE OVERALL LOSS RATIO WAS
OVER 80%
 THE HIGHEST IT HAS BEEN
 IN MORE THAN 10 YEARS

HIGH COST CLAIM DRIVERS

High cost claims are not always predictable. Whether covering claims above a certain dollar amount on individuals on the medical plan with Specific stop-loss or also covering unexpected costs across a group of employees with Aggregate coverage, stop-loss insurance reimburses the employer for the portion of the claim that exceeds the stop-loss deductible. It is a critical consideration for self-funded employers that want to limit the risk associated with their medical plan and create a self-funding strategy that works with their business.*

Below, we take a look at five of the top high cost claim conditions paid out between 2016-2019*



Malignant Neoplasm
(Cancer)



**Leukemia, Lymphoma,
Multiple Myeloma**
(Cancers)



**Chronic/End-Stage
Renal Disease**
(Kidneys)



Congenital Anomalies



Septicemia
(Infection)

86% OF EMPLOYERS HAVE A STOP-LOSS CLAIM IN ANY GIVEN YEAR

THE EFFECTS OF COVID-19

Aggregate claims are down significantly due to COVID-19 restrictions currently in place

Despite the fact catastrophic claims are still occurring, many carriers do not regard current claims as credible predictors of future performance. They have shown an unwillingness to lock in attachment factors without 10 months of data, proving especially difficult as BUCAs are already limiting how claims data can be used by carriers from an underwriting and pricing perspective.

Carriers are also concerned about a significant claims rebound following the pandemic as elective procedures resume. As a result, they are often less willing to go below a 125% aggregate corridor. Carriers continue to rely on two or three commercial “manuals,” but are making significant adjustments to utilization assumptions and network discounts as the pandemic rages on.

Specific claims volumes are down slightly due to the delay in elective procedures and standard care

With the drop in preventive and elective treatments, many carriers fear that hospital systems and facilities will increase pricing to make up for lost revenue. Clients in areas served by large, well-organized hospital systems can expect higher claims and even more aggressive billing practices in the coming year.

According to one major network CEO, providers are reporting losses that will result in double-digit increases in 2021. Fee for service arrangements will be more expensive, direct costs for inventory of critical supplies will be passed on and a return of demand will lead to higher prices overall.

RENEWAL SEASON PREVIEW

While the effect of COVID-19 on the stop loss market is still relatively unknown, the fear of plans experiencing large numbers of COVID-19 claimants has not materialized. Carriers are putting much more weight on 2018-2019 claims and trending them forward versus the traditional approach of using the current plan year's claims.

Enrollment levels are also playing a larger role in determining renewal rates. Many carriers are asking if the employer has experienced a reduction in enrollment of at least 15% since March 1, 2020. If so, they also want to know the following:

- Was this a one-time event? Is it permanent or temporary? If temporary, how long will the reduction last?
- Will there be further reductions in staff? If so, will the reduction be gradual or incremental?
- Will enrollment fluctuate more than 15% between now and the proposed renewal date?



COVID-19 RELIEF LEGISLATION

Stimulus packages in support of the COVID-19 relief act stalled in Congress recently, with both houses breaking for the August recess locked in a stalemate. With a lack of bipartisan support to meet and conduct business prior to Labor Day, legislative changes are not expected until later this year.

Talks are expected to resume in September and legislation to create a money flow to employers to assist in covering healthcare costs of the unemployed may result in changes to the above.

PENDING DRUG APPROVALS, INCLUDING EMERGING GENE THERAPIES, WILL IMPACT LASERS

Lasers are not new to stop loss. However, with the increasing number of gene therapy drugs in the approval pipeline, we fully expect to see more "if" lasers generated. For example, if a hemophilia patient is prescribed and administered a new gene therapy drug, the existing laser could increase by more than \$1.5M. Similarly, spinal muscular atrophy claimants may have additional lasers assigned if the government approves the drug for anyone over the age of two.

COBRA PROVISIONS ARE UNAVOIDABLE

New, pandemic-related COBRA rules have resulted in adverse selection for some groups. However, the need for open-ended COBRA provisions is unavoidable.

Whether it is an increase in claimants that may be excluded at renewal or more contingent lasers on those same claimants, it's critical to provide the carrier with an up-to-date census. Be sure to include current and potential COBRA participants (i.e., those that are in the COBRA election period even if they haven't considered electing at this time).

If the employer has experienced a reduction in enrollment, carriers will also need to know if the employer is continuing benefits. Employers should provide a timeline for how long the eligibility exception will remain in effect before the benefits are terminated and the employee is offered COBRA. If the company is terminating benefits as a result of bankruptcy, COBRA would not be a factor.

As mentioned earlier, any COVID-19 relief legislation may result in changes to existing COBRA provisions.

CASES RUNNING WELL CONTINUE TO HAVE ACCESS TO FAVORABLE CONTRACT PROVISIONS

Based on the hardening market, we continue to see large variations in rates between carriers on individual cases. And while many markets are still looking for cases that are running well, changing carriers for a small savings may not be prudent. Here's what to look for:

- No new laser rate caps, which have more value now than ever before
- Experience refund provisions

Early lock-in dates, including the option to lock in specific with attachment factors to follow at a later date, is also something we expect to see this renewal season.

COST CONTAINMENT

Stealth Partner Group provides you with instant access to more than 150 years of collective stop loss insurance experience—along with the extensive knowledge, established relationships, and proven processes and results that go with it.

Combined with our strong cost containment protocols, Stealth can help mitigate rising claims costs on your behalf. Below are just some of the tailored solutions we employ to meet your needs and ensure you gain the most value out of our partnership.

SPECIALTY CARE MANAGEMENT

- Renal dialysis programs that provide an in-depth review and analysis of claims to prevent inaccurate billing and significantly reduce costs
- Negotiated rates on air ambulance transportation services so there is no surprise bill

HIGH-COST PRESCRIPTION DRUG SOLUTIONS

- Patient Assistance Programs (PAP) to contain specialty prescription drug costs, assist plan members suffering from conditions that require expensive treatments and offer medical tourism benefits for prescription drugs that may be more cost-effective when administered outside the US
- Agreements with hemophilia treatment centers that integrate clinical and pharmacy services for rare blood disorders

DIRECT CONTRACTING SERVICES

- Direct employer programs to help save money on provider costs and surgical claims
- Proactive health management services with direct hospital contracts and a narrow network
- Robust cost containment solutions including cancer care, transplant network, reference-based pricing, direct contracting hospitals and out-of-network claims negotiation
- IVF specialty network contracts designed to lower costs and specific claims

CLOSING THOUGHTS

With uncertainty in the market and the overall effect of COVID-19 still unknown, rates which for some groups had been artificially low in 2019 are expected to rise. Pending drug approvals, emerging gene therapies and COBRA provisions related to the pandemic will also continue to impact rates well into the coming year.

Reinsurers do not appear to be making pricing decisions based on current business trends, especially as an increase in front-line claims has yet to materialize. That's why stability in your stop loss plan during this time is paramount. Relationships matter in our industry and, while we are seeing flight towards the largest, strongest and most well-capitalized claim paying carriers, making a move now may not be prudent.

We recommend partnering with a group like Stealth. During uncertain times like these, you will want to take advantage of our deep experience, robust market relationships, superior service and strong cost containment protocols to obtain preferred access to the most agile, direct writers for your clients.

At the same time, we can help you avoid potential E&O exposure – eliminating timely filing issues, reviewing disclosures and providing an extra layer of attention when you need it most. Let us deliver the solutions and options you need to mitigate rising claims costs.

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