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## Health Reform and Medical Stop Loss

### Market Support of Unlimited Maximums and Evolving Renewal Strategy Spring 2011

Passage of the Patient Protection and Affordable Care Act (PPACA) and its removal of lifetime maximums have a direct impact on the risks insured by medical stop loss. As the regulations are further understood, and the market responds, Aegis Risk will provide a summary of our ongoing findings.

Key points in our initial summary (April 2010):

- Removal of individual lifetime maximums on employer-sponsored health plans for plan years beginning October 1, 2010.
- Further restriction on annual limits will be effective in 2014, but permit interim annual limits for plan years beginning after September 23 as follows:
  - 9/23/2010: \$750,000
  - 9/23/2011: \$1,250,000
  - 9/23/2012: \$2,000,000
- Health reform does not mandate these lifetime and annual provisions on medical stop loss.
- Unlimited lifetime maximums in the stop loss market were uncommon (only 8% of plans, per *2009 Aegis Risk Medical Stop Loss Premium Survey*), if not even an offering by many carriers.
- Moving forward, many plan sponsors expect to seek unlimited stop loss maximums.
- Stop loss carriers are actively reviewing their product offering and reinsurance treaties to provide an unlimited offering – pricing still to be determined.
- Policyholders should aggressively manage the related premium adjustments at renewal.

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#### Market Support of Unlimited Maximums

Since passage of the health reform legislation, stop loss carriers have actively sought the ability to write unlimited lifetime maximum policies. At the current time, most support the product. Previously, unlimited offerings were generally provided by only the large national health plans (e.g. Aetna, CIGNA) on their own enrollments. It was not a typical offering of “third party” stop loss carriers.

Provision of an unlimited maximum generally requires each stop loss carrier to negotiate their own reinsurance to “back-up” such an unlimited liability. Once reinsurance treaties are in place, stop loss carriers are positioned to price an unlimited maximum. As stated in our initial summary, the post 9/11 reinsurance markets withdrew

unlimited liabilities for many types of insurance. The anticipated demand caused by health reform has effectively removed this obstacle.

Several carriers indicated the ability to write unlimited policies effective October 1, 2010. Actuarially, the move from a \$2 million to an unlimited maximum may only be three to five percent. However, the fee or premium imposed on stop loss carriers by reinsurers (and passed on) may alter the actual impact to policyholder premium. In some cases, the load may be a fixed dollar of as much as \$2 to \$5. On an average premium of approximately \$24 per employee per month for a \$250,000 specific (*2010 Aegis Risk Medical Stop Loss Premium Survey*), these fixed amounts may be as much as 8% to 21%. An evolving offset is the companion presence of annual limits of perhaps \$1 million alongside the unlimited lifetime maximum – again, permissible on stop loss.

This is still a fluid situation and may ultimately create variation in market pricing for unlimited plans – and further responsibility for plan sponsors and their advisors to identify and manage.

#### Evolving Renewal Strategy

The creation of an unlimited liability for many health plan sponsors (who didn't previously have it) will cause many to seek an equivalent protection on their 2011 and 2012 stop loss renewals. However, several thoughts should be considered during the renewal process, including:

*Do we truly need an unlimited maximum?* While \$1 million claimants have become more common, those past \$2 million, let alone \$5 million, are traditionally rare. Depending on an organization's risk tolerance, a fixed dollar limit such as \$5 million or \$10 million – and its lower premium, may be sufficient.

*If an unlimited maximum is desired, will the premium load be fair and reasonable?* Any load which approximates the actuarial estimates will be preferential to one with a fixed dollar load.

*If an unlimited maximum (or any maximum) is selected, what is my stop loss carrier's approach to "lasering" at renewal?* Lasering is the exclusion of known claimants to higher deductibles or limited coverage. Ideally, policyholders should seek "laser-free" contracts and preserve the full protection of their stop loss contract.

*Are there creative solutions we're not considering?* This is especially relevant for larger organizations that traditionally have not had stop loss coverage. In one example, a high deductible specific (e.g. \$500,000 or higher) with an unlimited maximum might equate to less than 0.5% of overall plan expense. Hedging that risk with fixed premium instead of an estimated claim projection of 1% or more may be an advisable move. The inclusion of an annual limit may also support risk objectives while further lowering premium.

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As a consultant with a dedicated focus on medical stop loss, Aegis Risk is actively monitoring these developments on behalf of its clients and business partners.

For further information, please feel free to reach out to your Aegis Risk contact, email us at [info@aegisrisk.com](mailto:info@aegisrisk.com), or call Ryan A. Siemers, Principal, at 703.778.6520.