

Edward P. Potanka
Vice President and Assistant Chief Counsel
900 Cottage Grove Road B6LPA
Hartford, CT 06152
860.226.6418



July 2, 2011

Office of Health Plan Standards and Compliance Assistance
Employee Benefits Security Administration
Room N-5653
United States Department of Labor
200 Constitution Avenue NW
Washington, DC 20210
Attention: Stop Loss Comments

Re: Request for Information Regarding Stop Loss Insurance

Thank you for the opportunity to respond to the Request for Information (Request) published on May 1, 2012 in Vol. 77, No. 84 of the Federal Register. Cigna welcomes the chance to comment both on the positive role stop loss insurance products play for employers and employees and specifically to the questions included in the Request.

Cigna is a global health services organization with insurance subsidiaries that are major providers of medical, dental, disability, life and accident insurance and related products and services. Cigna's mission is to improve the health, well-being and sense of security of the individuals it serves around the world. Key to our mission and strategy is our customer-centric approach; we seek to engage our U.S.-based and global customers by offering effective, easy-to-understand insurance, health and wellness products and programs that meet their unique individual needs. We do this by providing access to relevant information to ensure informed buying decisions, partnering with physicians and care providers in the U.S. and around the world, and delivering a highly personalized customer experience. This approach aims to deliver high quality care at lower costs for each of our stakeholders: individuals, employers and government payors.

Employer-sponsored coverage is a critical component of the American health care system. Employers are uniquely positioned to understand the needs of their employees and to create a culture of health and wellness. Moreover, when employers self-insure, they are incentivized to improve the health and wellness of their employees and are, therefore, highly motivated to implement wellness programs to improve their employees' health and productivity while controlling health care benefit plan costs. We believe that every effort should be made to encourage employers to continue to provide affordable coverage for their employees. However, employers of all sizes are struggling with escalating medical costs and are exploring all options available to assist them. For many, self-insuring with stop loss coverage has proven to be the best alternative. For some, particularly small and medium employers, it may be the only alternative to providing no coverage at all for their employees – many of whom may not be eligible for subsidies under the provisions of the Affordable Care Act.

"Cigna" is a registered service mark, and, the "Tree of Life" logo is a service mark, of Cigna Intellectual Property, Inc., licensed for use by Cigna Corporation and its operating subsidiaries. All products and services are provided exclusively by such operating subsidiaries and not by Cigna Corporation. Such operating subsidiaries include Connecticut General Life Insurance Company (CGLIC), Cigna Health and Life Insurance Company (CHLIC), and HMO or service company subsidiaries of Cigna Health Corporation and Cigna Dental Health, Inc

Cigna's self-funding solutions are designed to offer employers two crucial benefits in today's healthcare market – choice and transparency. Choice is provided by offering employers that may otherwise struggle to provide competitive benefits to their employees an important option that can be tailored to their individual and unique needs. Transparency is provided by allowing those employers to directly track the impact that medical costs and other healthcare decisions have on their costs of coverage – and importantly, allow those employers to directly benefit when positive medical cost gains are achieved. Stop loss policies are a crucial component of these health benefit plans as they protect against claims volatility and extraordinary claims that could overwhelm self-funded arrangements and thereby create barriers for employers who would not otherwise offer health care benefits to their employees.

In our view, the goals of increased accessibility, improved quality, and reduced costs are furthered when consumers have choice, transparency and multiple entry points to the commercial markets – whether through employer or individual markets. Stop loss insurance has been very successful in providing these benefits and in opening an entry point (small to mid-sized employers) for many Americans who would not otherwise be offered health insurance through their employer.

Questions

1. How common is the use of stop loss insurance in connection with self-insured arrangements? Does the usage vary (and, if so, how) based on the size of the underlying arrangement or based on other factors? How many individuals, if known, are covered under stop loss insurance (either nationally or on a state-specific basis)? What are the trends? Are past trends expected to be predictive of future trends? Is the Affordable Care Act expected to affect these trends (and, if so, how)?

In Cigna's experience, employers self-insure for many reasons including:

1. **Affordability:** self-insuring may be the most affordable option for employers desiring to sponsor coverage for their employees. For some, it may be the only viable alternative to providing no coverage at all.
2. **Benefit Uniformity:** self-insuring allows employers to provide uniform benefits to all employees regardless of where they live.
3. **Choice and Plan Design Flexibility:** self-insuring provides employers with maximum flexibility in designing their benefit plan to meet the unique needs of their employees.
4. **Transparency:** self-insuring provides employers with maximum transparency into how their benefit dollars are being spent allowing them insight into how to adjust benefits in the future to meet the unique health needs of their employees and to identify and implement programs to improve the quality of health of their plan participants and reduce their benefit plan costs.

While stop loss insurance is available to employers of all sizes who elect to self-fund their employee plans, small to mid-sized employers are more likely to purchase stop loss coverage than large employers as they cannot as readily absorb high cost individual claims or large increases in aggregate claims. Stop loss insurance coverage makes it possible for small to mid-sized employers to enjoy the benefits realized by larger employers by insulating their employee plan from claims in excess of what they can absorb financially. For some employers, particularly smaller employers, self-insuring with stop loss protection may be the only alternative to providing no coverage at all.

2. What are common attachment points for stop loss insurance policies, and what factors are used to determine these attachment points? What are common attachment points by employer size (e.g., for plans with fewer than 50, between 50 and 100, or between 100 and 250 employees, and how do these compare to attachment points used by larger plans)? What are the lowest attachment points that are available? What are the trends?

Cigna prides itself on providing its customers with choices that meet their needs. We establish attachment points for stop loss policies by working with our customers and their brokers to understand their objectives. We discuss their budget for the upcoming plan year, the expected cost of their self-insured benefit plan, the amount of risk the employer is willing to assume and the plan design changes that can help accomplish their budget and health improvement targets.

Given Cigna's deep commitment to tailored solutions, there is not a single attachment point suitable for every employer. Typically, the more risk averse an employer is, the lower the attachment point of the stop loss policy and the higher the price for stop loss insurance. Cigna supports the recommendation by Heartland Actuarial Consulting, LLC of a minimum pooling level of \$20,000-\$30,000 per individual with 120% of claims for an aggregate limit¹ as well as the point made in Milliman's report to the NAIC's ERISA Workgroup that a 110% aggregate limit without individual coverage may also strike the correct balance between employer risk and reward, allowing employers the flexibility to continue offering health benefits to employees².

3. Are employee-level ("specific") attachment points more common, or are group-level ("aggregate") attachment points more common? What are the trends? What are the common attachment points for employee-level and group-level policies?

Cigna recommends that employers purchase stop loss insurance with both individual coverage and aggregate coverage. We encourage employers to consider a range of options and to choose the right option that fits their risk tolerance and benefit plans.

Cigna supports the recommendation by Heartland Actuarial Consulting, LLC of a minimum pooling level of \$20,000-\$30,000 per individual with 120% of claims for an aggregate limit¹ as well as the point made in Milliman's report to the NAIC's ERISA Workgroup that a 110% aggregate limit without individual coverage may also strike the correct balance between employer risk and reward, allowing employers the flexibility to continue offering health benefits to employees². The attachment point may also be subject to state regulation.

4. How do insurers work with small employers to integrate stop loss insurance protection with self-insured group health plans? What kinds of options are generally made available? Are policies customized to meet the needs of different employers? How are the attachment points for a stop loss policy determined for an employer? Do self-insured group health plans purchase stop loss insurance anticipating that they will purchase it every year?

Cigna will first discuss with the employer the funding solution it is interested in and the funding presently in place, as well as their tolerance for risk and other foundational questions. The fact that we can offer a broad

¹ Heartland Actuarial consulting gave its opinion to the California Coalition for Health Care Choice for the purposes of analyzing proposed stop loss legislation in California. This legislation, SB 1431, proposed raising the individual and aggregate attachment points to \$95,000. In addition, under the legislation, the aggregate attachment point would be capped at \$19,000 times the total number of covered employees and dependents.

² Milliman, Inc. Statistical Modeling and Analysis of Stop- Loss Insurance for Use in NAIC Model Act, 2012.

spectrum of insured and self-insured solutions allows us to work with employers to find suitable, technologically secure health care solutions that provide access to our extensive provider networks/discounts, administrative services, claims administration, and 24/7 customer service tools. We often integrate stop loss insurance coverage with a variety of other services and programs designed to limit unexpected claims or utilization increases. We believe this improves the financial security of our self-funded clients and supports their ability to continue offering benefit plans to their employees.

In addition, Cigna will go through the choice of plan designs and individual and aggregate stop loss options that we feel are appropriate for the client based on its size and risk tolerance. In all cases Cigna's recommendations are made in conjunction with the employer's broker or consultant, who provides impartial guidance to the client around the appropriateness of self-funding their benefit program and specific recommendations for individual and aggregate stop loss options. We work with our customers and/or their brokers/consultants to design an appropriate risk corridor that serves the financial needs of the employer while complying with state regulatory requirements. An attachment point will be based on a number of factors including: the employer's tolerance for risk, its overall financial position, the needs of its employees, and regulatory requirements.

5. For a given attachment point, what percentage of total medical costs incurred by the employees is typically paid for by the employer and what percentage is typically paid for by the stop loss insurance policy? How much do the relative percentages vary for different attachment points? What are the loss ratios associated with stop loss insurance policies?

The range of medical costs paid for by the employer-sponsored plan varies based on the individual coverage pooling level. Generally speaking, for individual coverage pooling levels up to \$40,000, the employer's plan pays an estimated 60%-75% of the claims. For individual coverage pooling levels between \$40,000 and \$60,000, typically that range is 75%-85%. And for individual coverage pooling levels exceeding \$60,000 the employer pays greater than 85% of claims.

Specific stop loss policy loss ratios have wide fluctuations between the individual and aggregate stop loss depending on the total claims of the employer and its choice of benefit coverage. Claim fluctuations can occur due to catastrophic claims, unexpected serious illnesses or an overall shift in utilization (such as a widespread flu outbreak). These types of occurrences can significantly impact an employer's cash flow as well as the bottom line if stop loss coverage is not available.

6. What are the administrative costs to employers related to stop loss insurance purchased for the employers' self-insured group health plans? How do these costs compare to the administrative costs related to purchasing a health insurance policy from an issuer?

In general, the administrative costs of providing a national network, processing claims and responding to customer calls are similar for self-insured and fully insured plans. In addition, because employers self-insuring their benefit plan have greater visibility into the cost drivers of their benefit plan and a direct financial incentive to manage costs, they tend to purchase more value-added services and programs that are designed to promote the health and well-being of their employees, improve their productivity and reduce benefit plan costs.

7. Is stop loss insurance more prevalent in certain industries or sectors? Are there any minimum employee participation requirements for a small employer to be offered stop loss insurance?

Cigna provides stop loss coverage to employers in a broad range of industries and sectors. The purchase of a stop loss policy is more indicative of an employer's risk tolerance and less about specific industry sectors. In our experience, those who self-insure with stop loss coverage tend to be small to mid-sized companies. They elect to do so for general business purposes that are relevant across sectors, i.e. they want to provide their employees with flexible health insurance options that give them better clarity into claims experience and utilization rates. The availability of stop loss insurance is a key component to this equation which allows them to manage their risks.

Stop loss insurance is a critical consideration for employers that decide to self-fund their benefits. It enables employers of all sizes to enjoy the benefits of self-funding while limiting the associated risks. There are minimum employee participation requirements for all employers who purchase any kind of coverage from Cigna, including stop loss.

8. What types of entities issue stop loss insurance? How many small entities issue stop loss insurance policies? (For this purpose, a small entity is defined as (1) a proprietary firm meeting the size standards of the Small Business Administration or (2) a nonprofit organization that is not dominant in its field.)

Stop loss carriers can range in size from small units within large multi-national companies to smaller, niche companies. The entities issuing stop loss insurance include fully integrated stop loss, benefit program, and health and wellness administrators such as Cigna; fully integrated stop loss and benefit program administrators; and standalone stop loss insurers that do not offer administrative services, but contract with employers, brokers, or third-party administrators.

9. Do stop loss issuers increase fees for groups below a certain size or exclude those groups? If so, how?

Generally, our stop loss rates vary based on pooling levels. Cigna, however, has a variety of coverage options that allow employers of all sizes and pooling levels to choose stop loss coverage levels appropriate for their businesses.

10. How do stop loss insurers evaluate the plans seeking coverage and how is this evaluation reflected in the coverage or premiums offered? Does the profile of the plan have an effect on the attachment points available?

Employers sponsoring self-funded benefit plans assume the financial risk of their own claims experience and rely on the stop loss insurer to gauge those future risks as accurately as possible. Cigna does not deny coverage based on risk profile; however, Cigna does consider certain risk characteristics to assess risk and set its stop loss premium accordingly. There are a number of factors to consider when evaluating coverage options and premium rates. These factors include medical history, employee turnover, and the employer's financial position and tolerance for risk. To ensure that the product chosen meets the employer's needs, Cigna works with employers and their brokers/consultants through a risk assessment process.

To minimize claims exposure, Cigna offers self-insured plans wellness and customer engagement programs around better health. Employers also get access to our broad, deeply discounted provider network that mitigates claim cost as well as stop loss claims. These programs yield concrete results that help employers manage their overall claims experience. For example, Multi Services Group International (MSGI) of Tampa, Florida, a self-funded client with 64 employees, has achieved better health and lower costs. Employees at MSGI have reduced their usage of emergency rooms by 12% and increased their use of generic drugs by 75%.

Another example is Citywide Banks in Denver, Colorado, a self-funded client which has 250 employees and has engaged in Cigna's Healthy Frontiers Program. This employer has achieved a participation rate of greater than 75% in the Cigna wellness program offerings. The percentage of employees who score in the high-risk category for weight has declined by 5.5% as a result of this program. The percentage of employees who have scored at a low risk factor for blood pressure has increased by 15.4%. The most remarkable changes in the lifestyles of these employees center on their level of physical activity. The Lifestyle Risk Factor for physical activity has declined for those considered "high risk" by 25% and has increased for those considered low risk by 32%.

Cigna believes that self-funded employers that elect to self-insure their benefit plan have more incentive and opportunity to engage their employees in wellness programs to improve health and reduce benefit plan costs. The use of employee health data, in addition to measuring risk accurately, helps identify and direct at-risk employees into care management or other specialized programs designed to improve their individual health. Self-funding allows Cigna to collaborate with employers to meet their needs and enjoy the benefits of investing in a healthier workforce.

11. How do States regulate stop loss insurance? In States that are regulating this insurance, what are the licensing processes and standards? Have States proposed laws, regulations, or best practices with regard to stop loss insurance? Do such proposals focus on attachment points, size of the group, percent of total claims paid by the stop loss insurer, or other criteria? What are the issues States face in regulating stop loss insurance?

Cigna believes that any regulation of attachment points should be based on sound public policy and actuarial principles that consider appropriate risk levels for both the employer and the stop loss insurer. A sensible level of individual and aggregate risk balances both the interests of employers to manage their risks while providing health care benefits to their employees and advances regulatory objectives to preserve the role of stop loss as a risk mitigation tool, and not a substitute for a fully insured health benefit product.

Currently, 22 states regulate stop loss insurance through the insurance regulatory authority. Stop loss insurers are also subject to market conduct activities, including mandated reports and examinations of business practices. While regulations vary by state, attachment points range from \$5,000 - \$25,000 and aggregate stop loss levels range from 0% to 125%. Cigna supports the recommendation by Heartland Actuarial Consulting, LLC of a minimum pooling level of \$20,000-\$30,000 per individual with 120% of claims for an aggregate limit³ as well as the point made in Milliman's report to the NAIC Subcommittee that a 110% aggregate limit without individual coverage may also strike the correct balance between employer risk and reward, allowing employers the flexibility to continue offering health benefits to employees⁴.

Cigna believes that policy makers should consider that stop loss insurance is a mechanism that allows employers to (1) compete in a global market for the best and brightest talent; (2) offers their employees a valuable benefit; and (3) provides access to health care to those who may not have otherwise had it. Regulating stop loss by setting high attachment points (beyond most employers' risk tolerances) or other restrictions does a disservice to employers and their employees by limiting their choice of insurance products, their access to health care and transparency into cost drivers.

12. What effect does the availability of stop loss insurance with various attachment points and other particular provisions have on small employers' decisions to offer insurance to employees?

³ Heartland Actuarial.

⁴ Milliman, Inc.

Cigna believes that employers should have the opportunity to choose how to structure their self-funded plans. Employers of all sizes are looking for insurance and administrative options that best match their risk tolerance, health improvement goals, and budget. Offering small to mid-sized employers the option of purchasing stop loss insurance with appropriate risk corridors is a critical component to their decision to offer health benefits to their employees. Cigna believes that limiting access to stop loss insurance would result in many of these employers ceasing to offer health benefit coverage altogether, which harms the employee from a wellness perspective and the employer's ability to compete with larger firms in a global marketplace.

An employer's ability to offer health insurance benefits is a vital issue for small and mid-sized employers and their employees. It is also crucial to the overall economic vitality of the United States. According to the Small Business Administration, small employers have generated 65% of the new jobs created over the past seventeen years. A recent [Kaiser Family Foundation 2011 Annual Survey](#) confirmed in general the connection between firm size and offering health insurance. This survey demonstrated that about fifty percent of very small firms (less than ten employees) offer health benefits. The ratio grows to nearly seventy five percent for firms with less than twenty-five employees and to almost ninety percent for firms with less than fifty employees and to nearly one hundred percent for firms with two hundred employees or more. In general small firm employees were almost twice as likely to be uninsured than their large firm counterparts⁵.

Further, a recent Rand study of this topic published in *Health Affairs* (*Health Affairs* 31, no.2 2012:324-331) reaches an important conclusion related to this issue. The [report](#) analyzes the premium and enrollment impact of grandfathering and self-insuring. This study concluded that "...when self-insurance is not an option, most firms that would otherwise have self-insured decline to offer coverage rather than moving to the exchanges." In recognition of the critical role that small employers play in the national economy and as a matter of basic fairness, small and mid-sized employers deserve the same access to self-funded products that large employers enjoy. Employers of all sizes are looking for transparency into their benefit costs and the health of their employees so they can continue to offer health coverage. Smaller employers do not have to provide employees with health benefit coverage: they do so as a benefit to their employees so that they can attract the best and brightest talent and compete in a global market. The availability of meaningful stop loss coverage that allows them to plan for their expenses allows small and mid-sized employers to compete for talent with large employers.

13. What impact does the use of stop loss insurance by self-insured small employers have on the small group fully-insured market?

Cigna does not believe that the use of stop loss insurance products generates any negative impact on the fully insured small group marketplace. Many small employers prefer the transparency and flexible benefit design choices offered to them in a self-insured plan and, therefore, are not choosing between self-insurance and fully insured products. They are deciding whether to self-insure or to provide no insurance coverage at all. Self-funded plans provide many positive impacts for the public by creating an environment where small employers have a meaningful choice to continue providing benefits to their employees and investing in their health and wellness.

There are many factors that impact overall insurance enrollment and premium increases in the small group fully insured market. To focus on the availability of stop loss insurance as the primary driver for any weaknesses in the small group insurance market does policy makers, employers, and employees a disservice

⁵ Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999–2011.

as it fails to consider other drivers for this outcome such as the significant job losses our nation has experienced since 2008 and higher medical costs.

In conclusion, stop loss insurance makes it possible for many American employers to self-insure their employee benefit plan and to implement programs to improve the health and productivity of their employees. For some, stop loss insurance coverage makes it possible for them to continue providing any coverage at all.

Our nation relies on these employers to create new jobs, retain existing jobs and provide income for their employees. To do this, they must be able to compete in a global marketplace for the best and brightest talent. We ask that you keep these factors in mind to minimize the possibility of unintended consequences and market disruption that may result from limiting the freedom of employers to choose how to fund their employee benefit plans.

Sincerely,

A handwritten signature in blue ink, appearing to read "Edward P. Potanka".

Edward P. Potanka
Vice President and Assistant Chief Counsel