I am Bruce Wagner, owner of Boulder Administration Services, a Third Party Administrator that works with self-funded Medical Plans for employers in the 30 to 500 employees range. I am answering these questions from the perspective of the employer size groups that I work with.

Questions:

1. How common is the use of stop loss in connection with self-insured arrangements?
   All of the groups that I work with use stop loss insurance.

   Does the usage vary (and if so, how) based on the underlying arrangement or based on other factors?
   The usage doesn't vary since all of my groups use stop loss. What does vary is the size of the specific deductible which will be explained in more detail in question 2's answers.

   How many individuals are covered under stop loss?
   We are a small TPA with approximately 5,000 individuals covered.

   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)?
   The trend that we are currently seeing is that more employers in our key market size of 30 to 500 employees are showing more interest in self-funding. One trend that we have not seen is for employers to leave self-funding and return to fully insured products. I believe that the ACA will have a positive impact on self-funding.

2. What are the common attachment points for stop loss insurance policies, and what factors are used to determine these points?
   In order to answer this question you must be aware that there are 2 stop loss policies for a group; one is the specific stop loss and the other is the aggregate stop loss. If you are referring to the specific stop loss deductible, this is generally based on the size of the group and by the quotes that we get from the various stop loss carriers that are bidding on the group. By examining the quotes it is easy to find the "sweet spot" where the employer is getting the most coverage for the least amount of premium. If you are referring to the minimum aggregate attachment point, this is set by the underwriter based on actuarial tables using the demographics of the group and claims history (if available).

   What are common attachment points by employer size? What are the lowest attachment points that are available? What are the trends? By this question I am assuming that you are asking about the Specific Deductibles, which is the amount of risk that an employer takes on any one individual on the plan. The smaller employees in my market will go down to a $20,000 specific, I see these on plans that have roughly 30 to 50 employees, as the number of employees goes up so does the Specific Deductible to a high of $75,000 on my larger groups. In my opinion, one of the main reasons for self-funding is the ability of the employer to share in the saving in good claims years, if you get much less than a $20,000 Specific Deductible there isn't much chance of a saving. Even though there are some stop loss carriers that offer Specific Deductible as low as $10,000 I do not go that low. The only trend that I see is employers increasing their Specific Deductible or reducing it as their employee numbers rise or fall.

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?

   With the group sizes that I work with, they have both specific and aggregate policies. When you get to larger employers, then you will have groups that have only Specific coverage but the smaller groups need both types of protection. As explained in Question 2, the Specific Deductible is mostly driven by group size, while the aggregate attachment point is more a function of the demographics of a group. A group that has mostly employee only coverage will have a lot lower aggregate attachment point than a very similar group that has a high number of families enrolled.

4. How do insurers work with small employers to integrate stop loss protection with self-insured group health plan?

   To start the answer to this question insurers are not involved in working with small employers, or any other size employers, for that matter. This falls to the TPA that is administering the claims and the broker. If you are referring to Stop Loss carriers as the "insurers" you have to keep in mind that the only function that the Stop Loss carrier has is to reimburse the employer for claims that exceed the Specific Deductible or the Aggregate Attachment Point. All the other functions that you associate with an insurance company are handled by the claims administrator, which in most cases is a TPA.

   What kinds of options are generally made available? Are policies customized to meet the needs of different employers?

   Here is another one of the key reasons for employers to be self-funded, the ability to customize the benefits for the employees. We generally start with their existing benefits but then are able to change the ones that are working. Since fully insured plans have to be filed and approved by the state insurance commissioner there is very little in flexibility, if the fully insured plan is filed with 6 chiropractic visits that's all there is. A self-funded plan can increase that to 12 or 24 visits very easily.

   Do self-insured group health plans purchase stop loss insurance anticipating that they will need it every year?

   In my market size the answer is a definite yes! Stop Loss is what makes it possible for employers in my market to offer the advantages of self-funded coverage.

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 the different attachment points? What are the loss ratios associated with stop loss insurance policies?

   Due to the nature of self-funded plans this is a very abstract question. For normal small claims, such as a routine pregnancy, appendectomy, hernia, broken leg or arm, etc., all of these will be paid by the employer. It is when you get into the large claims that the stop loss coverage comes into play, such as a back operation that costs $163,000. Then it depends on the Specific deductible as to what percentage the employer pays versus the stop loss. Usually when the Specific Stop loss has to pay out it can be anywhere from a couple thousand dollars to hundreds of thousands of dollars, it depends on that individual's claims. It is very seldom that aggregate coverage has to pay out, and this is reflected in the very low premiums that this coverage costs. Due to the competitiveness of the market place, the loss ratios of the stop loss carriers have to be high. The high number of carriers in the market is in sharp contrast to the limited number of fully insured carriers in any one state. With the amount of competition the stop loss carriers have to price their product properly or they will not be writing business and will be losing their current business to their competitors.

6. What are the administrative costs to employers related to stop loss insurance purchased for the employer's self insured group health plan? How do these costs compare to the administrative costs related to purchasing a health insurance policy from an issuer?
   The administrative costs include claims adjudication, network access fees, Pre-certification, COBRA Administration, HIPAA compliance, compliance for notices (privacy, Women's Breast Cancer Act, etc.), and agent fees. While these are the same services that are provided by an issuer, these fees as completely transparent as required by ERISA. Issuers do not make available the breakdown on their administration fees so there is no way for me to make a comparison of 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?
   By the first part of this question I am taking it to mean is self funding more prevalent in certain industries or sectors. My answer to that is "No". I think it is most prevalent when the business owner, or CFO (remember I work in the small market of 30 to 500 employees) understands cash flow and risk management.
   Yes there is a participation requirement, it varies from 70 to 75% participation of eligible employees.

8. What type of entities issue stop loss insurance? **How many small entities issue stop loss insurance policies?
   The only entities that my firm works with are all rated at least an "A" rating with A. M. Best. I do not have any knowledge of small entities that offer stop loss insurance policies.

9. Do stop loss insurers increase fees for groups below a certain size or exclude those groups? If so, how?
   Here I am assuming that by fees you mean premiums for coverage, and yes there are differences in premiums between a group of 50 employees versus a group of 400 employees. However the group with 400 employees will be responsible for more claims in total (higher specific deductible) so their claims liability is higher. But in the end the rates, including the stop loss premiums and the claims factors will end up close to the same. They exclude groups by setting a minimum size that they will quote on, some companies will quote down to 25 employees while others will only quote groups with 100 or more employees.

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?
    For the smaller groups (30 to 500) that are fully insured and are looking at self funding, they will look at the demographics of the group and any claims information that is available to determine the risk. After the risk is established they use actuarial tables to

determine the pricing. Small group information is not creditable so they project the demographics based on a 1000 person group with similar demographics. By doing this, the stop loss carrier knows that they will “win” on some and “lose” on some. They manage this business to “win” slightly more than they “lose”. Again, the competitive nature of the market prevents any one company from having huge profits.

The plan profile does have some effect on the attachment factors; it does not have much of an effect on the specific premium since that is used to offset claims over the specific deductible. The specific deductible is usually at least $20,000 so any benefit design is not going to affect the large claims.

11. There are better sources than me for the answer to this question. I work with a very limited number of States.

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

    I think that it has a large impact on the decision to offer a self funded benefit plan to employees. For the employers that understand cash flow and risk management, this gives them the ability to customize a plan for their employees and one that they, as the employer, can afford. Employees move for benefit reasons as much as for salary. Having the ability to offer a tailor made plan versus an “off the shelf box plan” from an issuer can give the employer a recruiting edge and greatly aids in the retention of employees.

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

    Not that much of an impact, the vast majority of small businesses (under 100) are still in the fully insured market. Self funding is not for every group but it should be available as an alternative to fully insured coverage. Fully insured coverage is not flexible. By having an alternative that offers flexibility an employer can be innovative in the design to meet the needs of the employees. This does not give the employer a blank page to create a plan, ERISA has very strict guidelines on what can and cannot be done within a plan. There are already numerous laws besides ERISA that prevent things like discrimination, which protects the employee. The competitiveness of the market for quality employees also dictates that the employer offer a fair, comprehensive coverage plan.

Self funding plays an important role in shaping changes in the market place. By trying to force it into a box is taking away any room for innovation. Fully insured groups will always have a place in the market but self funded groups should have a place also. There needs to be an alternative to the fully insured that are regulated to the point they are limited on what can be offered. Regulation already exists on the self funded, but regulating it to the point that it is as limited as fully insured would be a disservice to the employees covered by self funded plans.

Thank you for your work on this difficult undertaking,

Bruce Wagner
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