Projecting the Future for the Employer Stop Loss Market

By Travis Micucci, President, Munich Re Stop Loss, Inc., *as seen in the March 2015 edition of The Healthcare Savings Quarterly*

Projecting the future of the Employer Stop Loss Market requires trend analysis, review of multiple market factors, and detailed examination and probability assignment for the occurrence of external events.

All other things being equal, the Stop Loss market will continue to grow as the number of self insuring employers continues to grow. Current estimates put the overall size of the Stop Loss market at between $10 and $14 billion – that's a large spread, but it's due to the way some of the larger insurers classify this product on their financial statements.

Several factors within the Affordable Care Act have had the unintended effect of tilting the playing field towards Self Insurance and against Fully Insured medical insurance. These include:

- The Health Insurance Tax, which began as a large number ($7 billion in 2014, growing to $13 billion five years later) that is apportioned among all fully insured health plans. These plans are pushing this tax straight through to the consumers, and it increases their premiums by about 2% in 2014, and rising each year. This tax does not apply to Self Insuring Plans, so regardless of any other considerations, Self Insurance has been given a 2% cost advantage. As more groups leave the fully insured space, the number of people paying that tax decreases, so the share that each insured person has to pay will increase.

- Additionally, Small Groups that are required (in the Fully Insured segment) to undergo community rating have seen the number of age-bands compressed from either 5 or 7 bands down to 3. The impact of this is to essentially require small and healthy employee groups to subsidize the older and less robust groups. Employers with especially young and healthy employee populations can opt out of that space by self insuring, thereby taking advantage of their favorable demographics. This also has the additional effect of removing many of the younger and healthier people from the community rating pool, causing the overall block of remaining lives to look less healthy (and become more expensive to insure).

- Another feature within the Affordable Care Act worth reviewing is called "The 3 R's" and consists of Risk Adjustment, Reinsurance, and Risk Corridors. These 3 programs act independently to protect insurers operating in the new Health Insurance Exchanges from the possibility of taking on more health risk than they are able to adequately handle. Without the ability to perform individual underwriting, the Exchanges guarantee coverage to all who apply. This creates the potential for insurers in the Exchanges to experience anti-selection, and pick up a larger than anticipated share of high claim members. To guard against this potential, the government has created the 3 programs to shift premiums from those carriers who experience low claims activity to those carriers experiencing high claims. However, in 2017 two of these programs will expire (leaving only the Risk Adjustment program in place). This will potentially remove some stability from the Exchanges, and may cause rates to rise. Even though this is for the Individuals Market Exchanges, if rates rise, it may become less of an option for small employers who might have otherwise subsidized employee coverage through the Exchanges.

- One final feature worth noting in 2017, States may permit the sale of fully insured group plans on Exchanges (called SHOP Exchanges). This will likely extend community rating (as previously mentioned) and require the provision of mandated health benefits, all of which would continue to make Self Insuring an attractive alternative.

But not everything that is occurring in the market will potentially benefit the Self Insurance marketplace.

Some of the State Health Insurance Exchanges are operating in the red, and are looking for new and untapped sources of funding. Since Self Insuring Employers are not easily identified by the State Departments of Insurance (since it's not insurance), the TPAs that administer the self insurance programs are coming under scrutiny. Will States create taxes or fees for the TPAs to pass along to the employers? It is under discussion in some jurisdictions.

Additionally, there have been and currently are several State based legislative developments that could restrain Self Insurance growth:

State	Initiative
California	Stop Loss
Connecticut	Exchange Assessments
District of Columbia	Stop Loss
Maryland	Stop Loss
Minnesota	Stop Loss
New Mexico	Exchange Assessments
New York	Stop Loss
Rhode Island	Exchange Assessments
Utah	Stop Loss

Some of these initiatives refer to potential restrictions on the lowest attachment point available through stop loss insurance. The smaller the employer, the greater the chance for claims volatility, which speaks to a need for a lower attachment point. Some legislators believe that attachment points at extremely low levels ($5,000) amount to nothing more than a fully insured plan with a high deductible. Along these lines, several States are installing minimum attachment points just to keep a distinction between fully insured and self insuring plans with stop loss coverage.

Some States, such as New York, are enacting legislation that restricts the entire form of self insurance to employers with less than 100 employees (as of 1/16/2016). This completely sidesteps the issue of low attachment points for small groups by eliminating small groups from the discussion.

On the whole, this market will continue to grow because Self Insurance allows employers a lower cost alternative than full insurance, and contains fewer fees and taxes than full insurance.

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About Munich Re Stop Loss, Inc.

Munich Re Stop Loss Inc., (MRSL) a subsidiary of Munich Re, is an industry leader in Employer Stop Loss insurance. As part of Munich Re, MRSL has the ability to leverage a global knowledge base to develop and deliver innovative, forward-thinking risk solutions to help our clients manage risks in a complex and evolving world. MRSL continues a tradition of excellence by using technical knowledge to help clients manage risks, and optimize their business results, and by working closely with brokers and TPAs to find the right solutions for employer and provider groups. MRSL understands that stop loss insurance policies need to be altered to fit each clients' needs. So MRSL offers plan policy options and alternatives that help employers manage their healthcare program.