SOCIETY OF ACTUARIES

Health Spring Meeting
May 2008

Session # 16: Current Topics in Employer Medical Stop-Loss

David C. Fry, FSA, MAAA
Jeffrey T. Gavlick, FSA, MAAA, FCA
Raymond J. Marra, FSA, MAAA

Moderator
Michael R. McLean, FSA, MAAA

Medical Risk Managers

Maintaining a Tradition of Strength & Security

Session 16

May 28, 2008

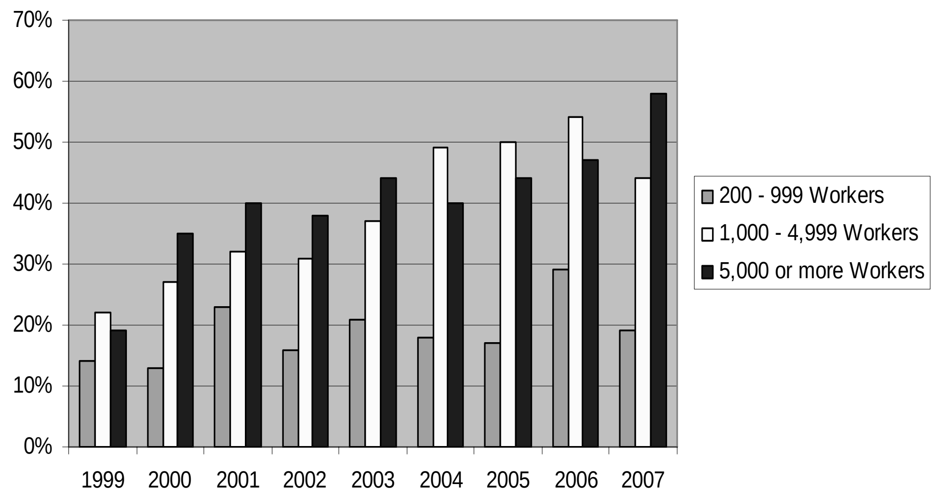
Current Topics in Employer Medical Stop Loss

Michael McLean, FSA, MAAA

Trends in Stop Loss Marketplace

- Continued Shift towards Self Funding
  - Migration Especially Prominent in HMOs
  - PPOs Gained Marketshare over HMOs
  - Vast Majority of Large PPO Cases are Self Funded
- BUCAs Gain Self Funded Marketshare at TPA's and Rental PPO's Expense
- Soft Market for Many (But Not All) Players

Percentage of Covered Workers in Self-Funded HMO Plans

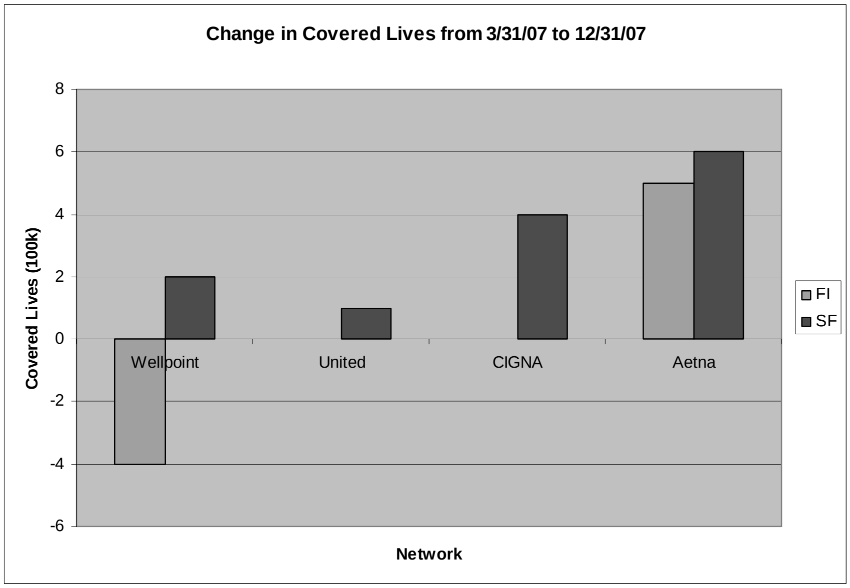


Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999 - 2007

Percentage of Covered Workers in Self-Funded Plans - 2007

	Conventional	HMO	PPO	POS	HDHP/SO
200 - 999 Workers	NSD	19%	65%	33%	27%
1,000 - 4,999 Workers	81%	44%	87%	47%	86%
5,000 or more Workers	99%	58%	90%	89%	97%
All Firms	**53%**	**34%**	**65%**	**34%**	**41%**

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007



Source: Health Plan Week, AIS Health

Trends in Stop Loss Marketplace

- Reinsurance Capacity Greatly Diminished
  - Impacting New Business for MGUs (DWVD survey)
  - Less Important than Last Hardening Cycle
    - Biggest Players (e.g., BUCA, HCC, Symetra, Sun, Optum, Highmark, etc.) don't tend to Reinsure
    - Consolidation of Stop Loss Blocks Further Reduces Importance of Reinsurers

A Marriage Made in Heaven

- TPAs want Access to a BUCA-like PPO
- BUCAs want more Bodies in their PPOs
- Aetna Approach- ASA
- United Approach- Buy TPA, then give Access
- CIGNA Approach- Buy GreatWest
- Blues- Some give Access
- Key is to avoid Channel Conflict!

Current Topics in Employer Medical Stop Loss

Session 16
May 28, 2008

David Fry, FSA, MAAA
Senior Actuary

SYMETRA FINANCIAL

05/08

Current Topics in Employer Medical Stop Loss

- Cuba vs. TPA
  - December 17, 2007 - Fidel Castro Retires at age 80.

Current Topics in Employer Medical Stop Loss

- Cuba vs. TPA
  - December 17, 2007 - Fidel Castro Retires at age 80.
- Not Cuba… BUCA

Session 16
May 28, 2008

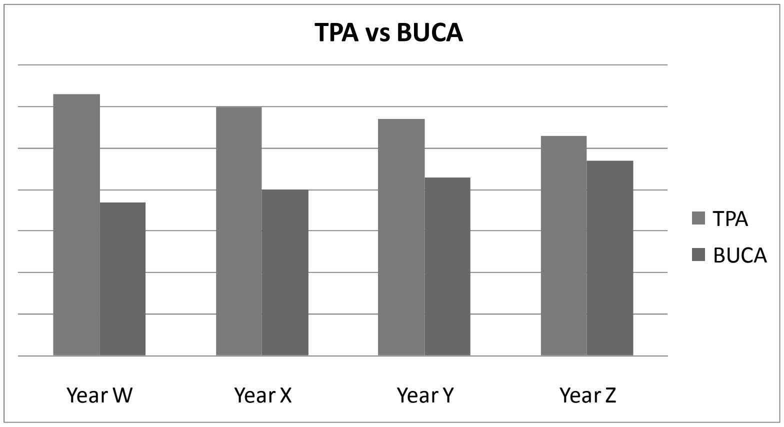
Current Topics in Employer Medical Stop Loss

- Cuba vs. TPA
  - December 17, 2007 - Fidel Castro Retires at age 80.
- Not Cuba… BUCA
  - Blues
  - United Health Care
  - Cigna
  - Aetna

Session 16
May 28, 2008

Current Topics in Employer Medical Stop Loss

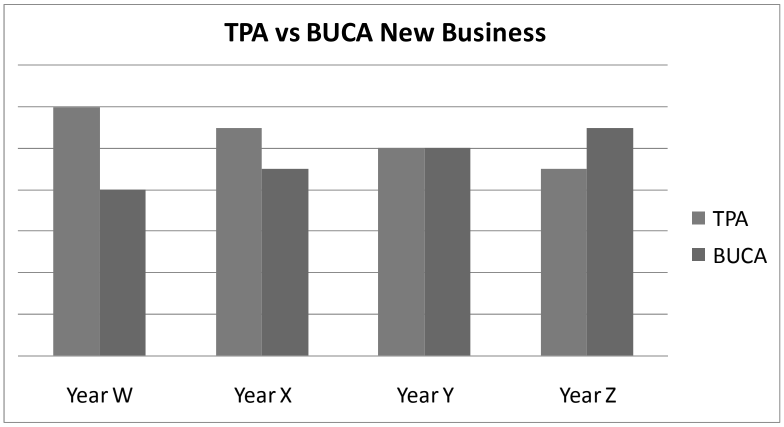
Premium



Session 16
May 28, 2008

Current Topics in Employer Medical Stop Loss

Premium



Session 16
May 28, 2008

Current Topics in Employer Medical Stop Loss

Key Topics for providers

- Market Conditions
  - New Business
  - Renewal
- Trend
- Plan design
  - Shifting deductible
  - Multi-year guarantees

Current Topics in Employer Medical Stop Loss

Key Topics for providers - continued

- Lasering
- Claims
  - Frequency
  - Severity
- Assessments
  - Oregon
  - New Hampshire

Session 16
May 28, 2008

Current Topics in Employer Medical Stop Loss

Key Topics for providers - continued

– Commissions
– Loss ratio targets

Current Topics in Employer Medical Stop Loss

QUESTIONS?

Session 16
May 28, 2008

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Consulting. Outsourcing. Investments.

Session 16
May 28, 2008

Current Topics in Employer Medical Stop Loss

Jeff Gavlick, FSA, MAAA, FCA
Princeton, NJ

Services provided by Mercer Health & Benefits LLC

Stop Loss from the Employer's Perspective

- The Universal Belief of Employers
- Other General Truths about Employers and Stop Loss
- Priorities of a Sensible Buyer
- Comprehensive Coverage
- Appropriate Coverage Levels
- Fair Prices

G:\o_stoploss\2008\Vendor Meetings\Anthem\Anthem v3.ppt

The Universal Belief of Employers

"All claims are covered by the stop loss contract."

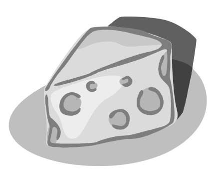
When this universal belief is broken by a denied claim, fingers start to point:

- At the stop loss carrier
- At the administrator
- At the provider
- At the consultant/broker

G:\o_stoploss\2008\Vendor Meetings\Anthem\Anthem v3.ppt

Other General Truths about Employers and Stop Loss

- Employers want comprehensive coverage at a fair price, but most lack the knowledge to understand what "comprehensive" and "fair" means
- Most employers neither read nor understand their stop loss contracts
- Many employers and their brokers (wrongly) treat stop loss as a convenience purchase
- It's fairly easy to give price-focused shoppers a low cost stop loss product…



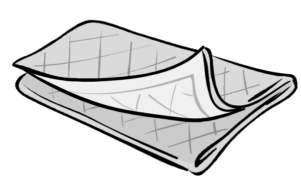
G:\o_stoploss\2008\Vendor Meetings\Anthem\Anthem v3.ppt

Priorities of a Sensible Buyer

- Comprehensive coverage
- Reasonable and appropriate coverage levels
- Fair prices

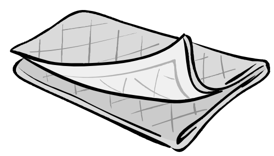
Comprehensive Coverage

- Paid contracts rather than limited coverage (i.e. 15/12, 12/15)
- No “hidden” exclusions
  - actively-at-work
  - dependent non-confinement/non-disabled
  - pre-existing conditions
- Stop loss contract “blankets” underlying medical plan coverage
  - covered benefits
  - lifetime maximum
  - eligibility
- Prescription drugs covered



Comprehensive Coverage (continued)

- Reasonable underwriting and claim practices
  - right to re-rate
  - no lasers as a goal
  - quick claim turnaround (especially for smaller employers)
  - minimum aggregate attachment point percentage < 100%
  - consistent and achievable data requirements
- Products & Services
  - revisit Terminal Liability Option offering
  - no laser/guaranteed maximum increase products
  - early lock-in option



G:\o_stoploss\2008\Vendor Meetings\Anthem\Anthem v3.ppt

Appropriate Coverage Levels

- ***The table below illustrates an appropriate range of specific stop loss deductible levels based on the number of covered employees. These guidelines are designed to be used along with an employer's tolerance for risk to determine the optimal specific stop loss level:***

Number of Employees	Minimum Specific Stop Loss Deductible	Maximum Specific Stop Loss Deductible
<250	$20,000	$75,000
250	$50,000	$100,000
500	$50,000	$125,000
1,000	$75,000	$175,000
1,500	$100,000	$225,000
2,000	$125,000	$275,000
2,500	$150,000	$300,000
3,000	$150,000	$350,000
3,500	$150,000	$400,000
4,000	$200,000	$450,000
6,000	$250,000	$500,000
10,000 or more	$300,000	No Stop Loss Coverage

G:\o_stoploss\2008\Vendor Meetings\Anthem\Anthem v3.ppt

Fair Price

Stop-Loss Database- Rate Ranges by ISL Level

Actual 2007 Rates for Direct Stop Loss Writers

ISL Level	Sample Size	Mean	Median	Complete Range	Expected Range 25th-75th Percentile
$75,000	8	$64	$44	$39 - $177	$49 - $81
$100,000	11	$44	$44	$27 - $95	$38 - $67
$125,000	17	$42	$41	$20 - $85	$41 - $67
$150,000	14	$33	$31	$15 - $59	$29 - $52
$175,000	9	$31	$28	$23 - $49	$30 - $47
$200,000	22	$26	$25	$14 - $51	$25 - $37
$250,000	20	$16	$16	$10 - $32	$14 - $22
$300,000	12	$13	$13	$5 - $31	$11 - $18
$500,000	3	$7	$7	$6 - $9	$7 - $9

Notes:
1. Commissions are excluded from the rates above
2. Immature cases (i.e. 12/12) are not included
3. All cases are trended appropriately to reflect a 1/1/07 plan year effective date

Source: 2007 Stop Loss Renewals captured by Mercer's Stop Loss Rate Database

G:\o_stoploss\2008\Vendor Meetings\Anthem\Anthem v3.ppt

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Services provided by Mercer Health & Benefits LLC

Current Topics
In
Employer Medical
Stop
Loss

Session 16
May 28, 2008

Aetna's Historical Focus – Full Service Medical Programs

- HMO/PPO
- Small Group/National Accounts
- Fully Insured/ASC

Session 16
May 28, 2008

How to Expand Market Reach?

- 25% of Middle Market customers use TPA's
- TPA relationships are typically personal, local/regional, long-standing and very difficult to break

Historical Results – Year-End 2003

Total Commercial Medical Membership:	12.8 million
Fully Insured Membership:	4.4 million
Stop Loss Premiums:	$ 152 million

Aetna Signature Administrators is Born

- Leverage a key corporate asset – our networks
- Very limited number of administrators (<10) invited
- First sale – 2005
- Separate business team
- Need a claim department !?!

Current Topics in
Employer Medical Stop Loss

Who does what?

TPA	Aetna
- Sales/Distribution	- Stop Loss Pricing and Risk
- Enrollment/Member Services	- Network Management
- Claims Intake	- Sales Support
- Claims Adjudication	- Large Claim Medical Management
- Provider Service	- Claim Repricing
- Medical Management	- Provider Relations Oversight
	- IOE Network for Transplants

Aetna Signature Administrators – Year-End 2007

- 200k+ members
- $40 million in stop loss premium
- Collecting Network Access Fees
- Spreading overhead
- Diversifying risk
- Generating additional incremental earnings

Two Worlds – ASA vs. Direct

- Disclosure/lock-in and timing
- Lasers