MILLIMAN WHITE PAPER

Health plan participation in the employer stop-loss market

Considerations before taking the plunge

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As health plans look for opportunities to grow their business, many see employer stop-loss as an opportunity.

Over the past decade, submitted financial filings suggest the employer stop-loss (ESL) market has nearly tripled, growing from roughly $7 billion in premium in 2008 to over $21 billion in 2018. As this growth has occurred, a significant share of it has accrued to health plans rather than traditional ESL carriers. While there can be hurdles for a health plan to overcome when trying to enter the ESL market or grow an existing stop-loss block, the market can provide meaningful opportunities.

Stop-loss: A historical view

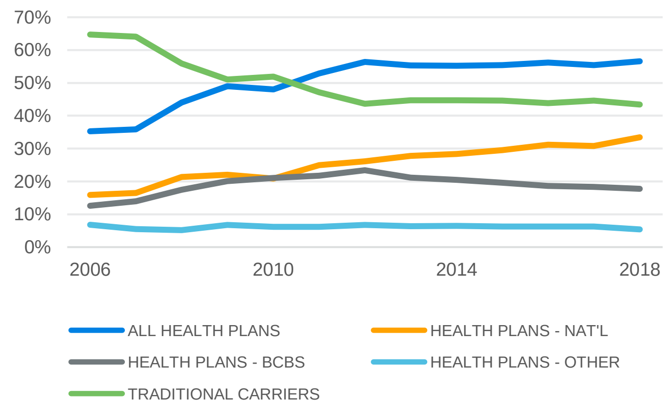
Using the S&P Global Market Intelligence database, we aggregated National Association of Insurance Commissioners (NAIC) filings from 2006 through 2018 to understand the historical growth of ESL premium, both market-wide and for health plans. To avoid difficulties caused by intercompany accounting adjustments, we relied on SNL Financial groups[1] rather than individual filings. In general, we treated health groups as "health plans" and life groups as "traditional ESL carriers." The exceptions are organizations classified as life groups, but generally considered to be health plans rather than traditional ESL carriers (e.g., Aetna, Cigna, United Healthcare, and Humana).

HEALTH PLAN MARKET SHARE IN THE ESL MARKET

Over the last decade, a significant share of the ESL market premiums have shifted from the traditional ESL carriers to health plans. Figure 1 shows the shift in market share from traditional ESL carriers to health plans. Since 2006, when health plans represented just over one-third of the ESL marketplace, health plans have grown to represent nearly 60% of the ESL market.

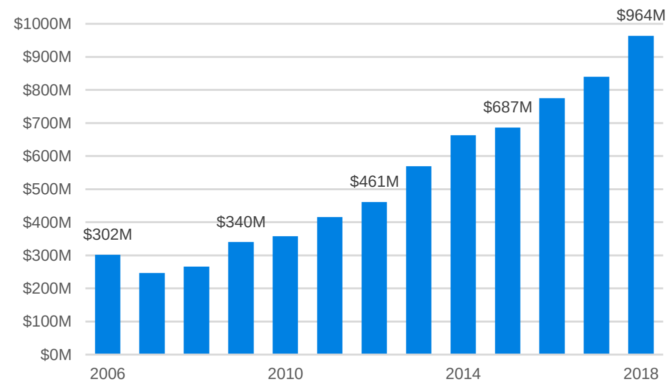
As shown in Figure 1, a majority of this growth in that time period has been concentrated in large, national health plans (United, Cigna, Aetna), whose market share has more than doubled, from 16% to 33%. Market share for Blue Cross Blue Shield (BCBS) organizations (including multistate groups such as Anthem or Health Care Services Corporation and single-state Blues plans) is around 18%, having peaked at 23% in 2012. The market share of other regional or smaller plans has been quite steady at 5% to 7%.

FIGURE 1: ESL MARKET SHARE BY CARRIER TYPE



This steady market share, however, means that even "regional" health plans (i.e., non-national, non-BCBS) have participated in the ESL market's dramatic growth. Figure 2 shows premium for these health plans each year since 2006.

FIGURE 2: ESL PREMIUM FOR REGIONAL HEALTH PLANS



[1] From the S&P Global website: "SNL's groups are created from the company's corporate structures, backing out investments within the group (largely found in Schedule D, Part 6, Section 1 and Schedule BA) and income passed within the group (typically reported dividends). In some cases, additional accounting information may be obtained from the companies in question or from additional research and applied to the group adjustments."

Considerations for potential ESL market entrants

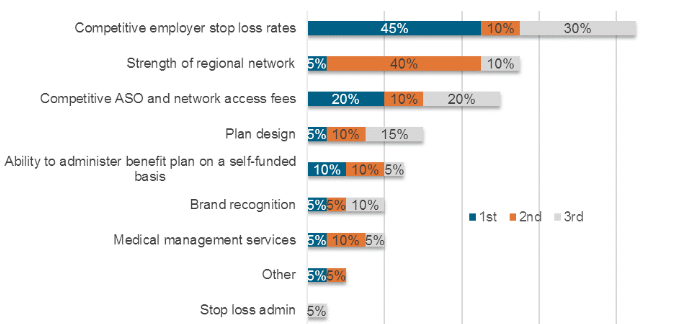
For reasons discussed below, the ESL market is different from the fully insured market that comprises the majority of most health plans' premium. As such, it is important that health plans wishing to enter (or grow in) the market understand the ramifications of the decision.

CONSIDERATIONS: BROKERS' VIEW

In May 2018, Reinsurance Group of America (RGA) conducted a survey of brokers about the ESL market, the participants, and the potential opportunity available in the market. The findings from this survey provide an interesting view into important considerations for organizations looking to enter the market or grow an existing block of ESL business.

Figure 3 shows the most commonly cited critical success factors for carriers in the ESL market. It shows the frequency with which each factor was cited as one of the top three issues, as well as the placement within the top three. Clearly, financial competitiveness is key, as the two reasons most frequently cited as the most important success factor (stop-loss rates, and fees for administrative services and network access) are financial in nature.

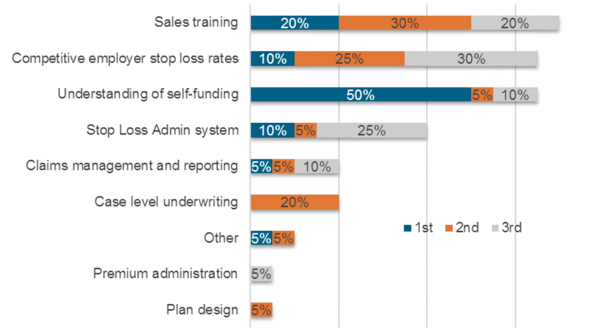
FIGURE 3: SUCCESS FACTORS IN THE ESL MARKETPLACE



Source: RGA US Group Re Stop Loss Broker Survey, 2018

Interestingly, even though financial competitiveness seems to be at the top of the list of critical success factors, it is not cited as the top challenge for health plans entering the ESL market. Figure 4 is similar to Figure 3, showing market entry challenges. Of these, two of the top three (sales training and understanding of self-funding) could be categorized as problems associated with a lack of market familiarity, especially for regional and small health plans.

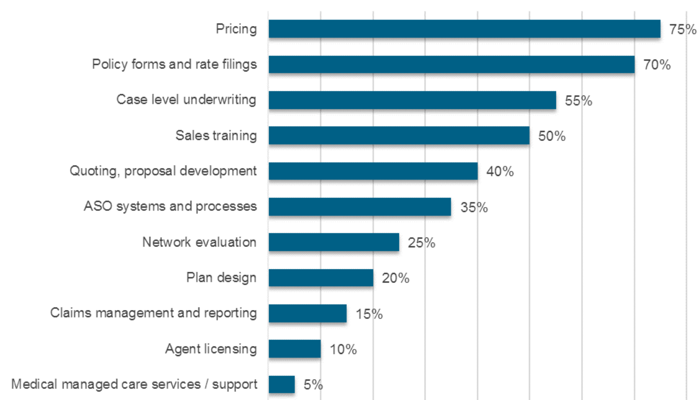
FIGURE 4: CHALLENGES TO ESL MARKET ENTRY



Source: RGA US Group Re Stop Loss Broker Survey, 2018

Concerns about market familiarity can make outsourcing certain functions an attractive way to shorten the time required to enter the ESL market. Figure 5 shows the most frequently outsourced services for those participating in the ESL market. Of those services least likely to be outsourced, most do not require specialized ESL knowledge (claims/medical management, plan design). Those services that are most frequently outsourced, however, do tend to require knowledge of the ESL product and marketplace.

FIGURE 5: MOST FREQUENTLY OUTSOURCED SERVICES



Source: RGA US Group Re Stop Loss Broker Survey, 2018

CONSIDERATIONS: OUR VIEW

There are benefits to health plans entering or growing market share in the ESL market. These benefits can include:

- Ability to retain insured customer groups that are exploring self-funding
- Ability to attract new groups from the approximately 60% share of the employer medical market that is self-funded[2]
- A means to driving more patients to provider-owned facilities by making the health plan's network available to self-funded employers
- Synergies with employer clients and distribution partners as they pursue the self-funded model
- Because stop-loss premium is not subject to the medical loss ratio requirements of the Patient Protection and Affordable Care Act (ACA), stop-loss can be written at higher margins than fully insured business.

As they try to succeed in the ESL market, many health plans have advantages over traditional stop-loss carriers that can be relied upon, including:

- Better knowledge of the local employer market (smaller and regional plans)
- A fully insured alternative (for employers unsure about self-funding)
- Availability of superior data for underwriting employers (for employers already covered or administered by the plan)
- Stronger provider contracts, especially when outlier provisions are either advantageous to the plan or nonexistent

However, even with these advantages, there are potential downsides to ESL market entry that plans need to consider before making a final decision, including:

- The time or resources required to build, buy, or outsource market expertise in functional areas such as sales and underwriting
- Lack of knowledge and understanding of the self-funded market may lead to poor business and underwriting decisions
- Potential sales channel conflict
- Performance of the business needs to be monitored differently from fully insured business due to several factors, such as:
  - The slower development of claims
  - The unique seasonal nature of claim incurral throughout the contract period
- Higher risk-based capital requirements for stop-loss premium relative to first dollar premium.
  - Because no capital is required for the self-funded portion of medical costs, capital required for a stop loss portfolio may be lower than if that same portfolio of groups were fully insured.
  - Capital requirements can be mitigated through the use of quota share reinsurance

Conclusion

The ESL market has grown significantly in the last several years, with the potential for further growth in the years to come. For health plans that can commit the necessary resources and are willing to accept the inherent risks, ESL can be a growth opportunity that complements their fully insured business.

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[2] KFF Employer Health Benefits Survey, 2018, Figure 10.2