

Observations on the employer stop-loss market

2020 survey

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In March 2020, Milliman sent survey participation requests to a wide range of employer stop-loss market participants. Of those receiving a request, 25 provided survey responses.

The subset of carriers responding included:

- Third-party or direct carriers (10)
- Administrative services only (ASO)/health plans offering stop-loss products (9)
- Managing general underwriters (MGUs) and carriers that offer coverage through MGU channels (6)
- Several of the 10 largest carriers by 2019 premium¹ (6)
- Organizations for which stop-loss is a core business, defined as 15% or more of total premium (13), and those for which it is not (12)

The survey asked questions about various topics, including:

- Portfolio characteristics, such as employer size and deductibles purchased
- Underwriting measures, such as persistency and close ratios
- Pricing measures, including target loss ratios
- Historical results, both loss ratio and growth
- Product terms offered, such as rate caps and experience refunds
- Contractual limitations, including practices around lasering
- Distribution compensation structures and commission rates
- Impact of high-cost pharmacy and gene therapies

This survey is an update to Milliman's prior employer stop-loss market survey, last published in May 2019.

Background

Stop-loss coverage is purchased by self-insured employers looking for coverage from catastrophic medical and pharmacy claims. Based on the most recent data available from S&P Global Intelligence, the stop-loss market stands at approximately \$24 billion in premium.

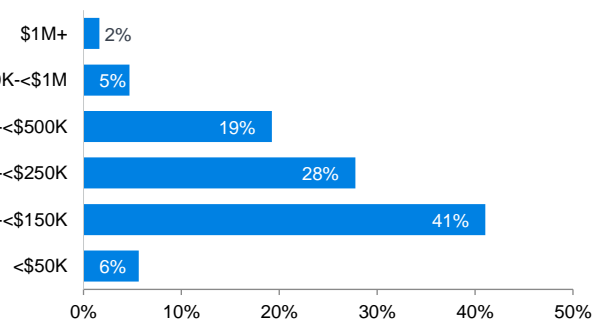
Employers generally purchase stop-loss coverage from one of two sources. If the employer uses a health plan as its administrator, the employer may be able to purchase stop-loss directly from that health plan. If the employer doesn't purchase coverage from its administrator, it can purchase coverage from a stop-loss carrier, either directly or through a managing general underwriter (MGU). We believe health plans represent roughly 60% of reported stop-loss premium in the market.

Portfolio characteristics

DISTRIBUTION OF PREMIUM BY STOP-LOSS DEDUCTIBLE

Employers can purchase specific (or individual) stop-loss policies with deductibles as low as \$25,000 (even lower in some states) to as high as \$1 million (occasionally even higher). Figure 1 shows the share of premium attributable to various ranges of specific stop-loss deductibles.

FIGURE 1: DISTRIBUTION OF PREMIUM BY SPECIFIC DEDUCTIBLE



¹ From "MyHealthGuide News for the Self-Funded Community" (May 23, 2020).

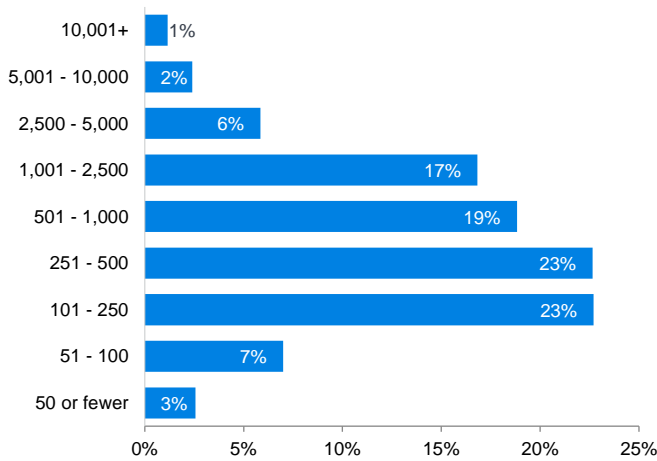
From this graph we see that premium is relatively evenly split around the \$150,000 deductible, with a little over half of premium accounted for by policies with deductibles of \$150,000 or greater. The very highest deductibles (over \$1 million) and the very lowest (less than \$50,000) collectively account for less than 10% of total premium.

Nearly 50% of specific stop-loss premium in 2019 can be attributed to policies with deductibles of \$150,000 or less.

DISTRIBUTION BY EMPLOYER GROUP SIZE

Self-funded employers purchasing stop-loss can vary in size from 50 employees (or under in some states) up to the tens of thousands. Figure 2 shows the share of premium attributable to various ranges of group size.

FIGURE 2: DISTRIBUTION OF PREMIUM BY EMPLOYER SIZE



Similar to Figure 1 above, the graph shows a relatively even split around groups of 500 employees, with a little over half of stop-loss premium attributed to groups of 500 employees or under. The very largest groups (over 10,000 employees) and the very smallest (under 50 employees) collectively account for less than 5% of total premium.

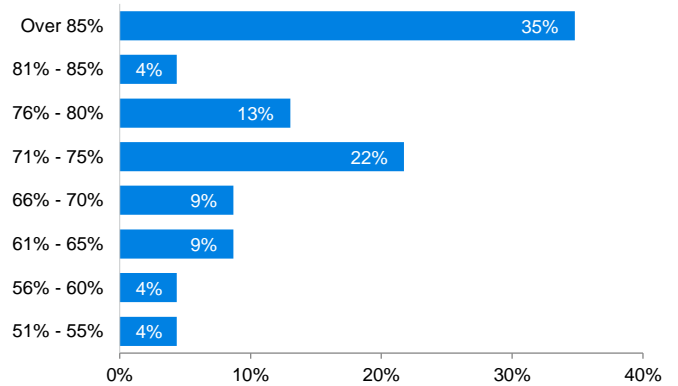
It is worth noting that we would expect different results in Figure 2 if it were based on lives rather than premium. Larger groups tend to purchase higher deductibles, resulting in less premium per life.

Underwriting results

PERSISTENCY RATIO

Generally, the stop-loss industry defines persistency as the percentage of premium in year x that was successfully renewed in year x+1. Figure 3 summarizes each respondent's persistency during 2019. While the most commonly reported persistency was over 85%, there was significant variation in responses.

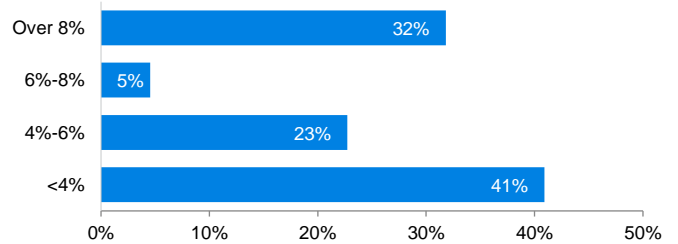
FIGURE 3: 2019 PERSISTENCY RATIO



CLOSE RATIO

Close ratio is defined as the percentage of stop-loss rate quotes on prospective business that turn into issued policies. Figure 4 summarizes each respondent's close ratio during 2019.

FIGURE 4: 2019 CLOSE RATIO

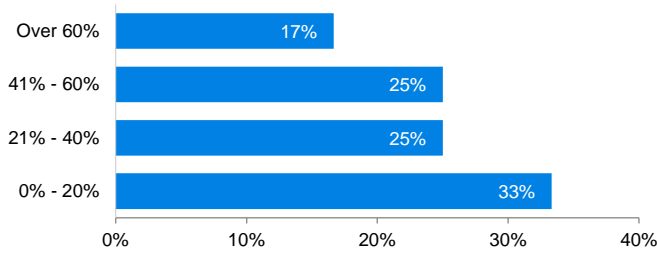


As with Figure 3 we see quite a bit of variation in responses. Over 40% of carriers reported close ratios less than 4%, while over 30% of carriers reported close ratios over 8%.

DECLINE RATIO

Decline ratio is typically defined as the percentage of requests for proposal (RFPs) on prospective business received where a quote is not issued. This could be due to a perceived lack of competitiveness relative to the current in-force rates (if known) or for some other reason.

FIGURE 5: 2019 DECLINE RATIO



Again we see significant variation in responses, with about half of carriers reporting decline ratios less than 20% or more than 60%.

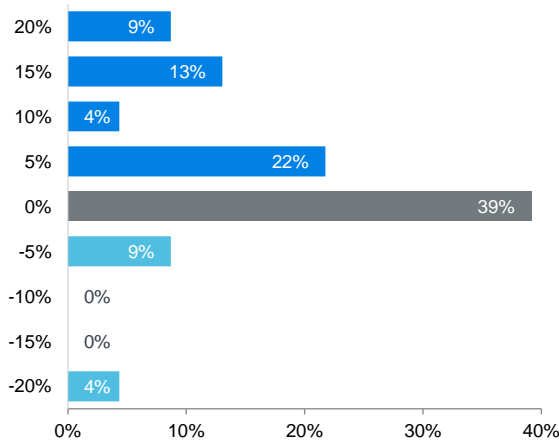
PROFITABILITY

The survey asked each respondent for its target, or desired, loss ratio for specific stop-loss coverage and the actual loss ratios for 2019 policies. Figure 6 summarizes the difference between target and actual loss ratios. In this graph, positive numbers (dark blue bars) indicate an actual loss ratio above target. Negative numbers (light blue bars) indicate a loss ratio below the target.

This graph shows that roughly half of carriers experienced loss ratios in 2019 that were higher than target. However, it is also true that 70% of carriers reported loss ratios that were within approximately +/- 5% of target loss ratios.

It should be noted that, because both the target loss ratio and the actual loss ratio were reported as ranges, the differences reported are only approximations. For example, a carrier whose target and actual loss ratios were reported to be in the same range (e.g., 75% to 80%) could have experienced a loss ratio that was as much as 5% higher or lower than its target.

FIGURE 6: ACTUAL VS TARGET LOSS RATIO



In 2019, roughly half of survey respondents experienced loss ratios that exceeded target loss ratios by 5% or more.

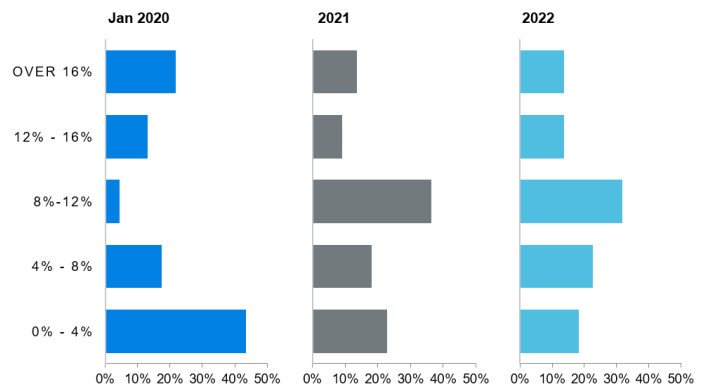
PORTFOLIO GROWTH

Figure 7 shows actual premium growth for January 2020 business, as well as carrier expectations for premium growth over the full year periods 2021 and 2022. Premium growth, as defined here, is total annual premium for new business sold and existing business renewed in the current period, relative to business sold and renewed in the prior period. For example, January 2020 growth is the total premium for new policies sold and existing policies renewed in January 2020, divided by the total premium for policies sold and renewed in January 2019.

As in prior exhibits, Figure 7 shows significant variation in results for January 2020 growth. While over 40% of respondents reported actual growth less than 4%, nearly a quarter of respondents reported growth in excess of 16%. Expectations for 2021 and 2022 are somewhat less variable, with roughly a third of respondents expecting growth of 8% to 12% in each year.

It is worth noting that survey results were collected in the early stages of the COVID-19 pandemic. Therefore any impact to future growth expectations as a result of COVID-19 is likely not captured.

FIGURE 7: ANNUAL PREMIUM GROWTH, 2020-2022



Assumptions and methodology

This white paper is intended to summarize the findings from Milliman's 2020 stop-loss survey. This information may not be appropriate, and should not be used, for other purposes.

In preparing our white paper we relied upon data collected from survey participants and estimated certain statistics, such as persistency, carrier premium, and loss ratios, based on the ranges submitted by participants. Survey data was collected, without audit, though we did review for reasonability. Results will vary based on actual carrier performance.

To limit confidentiality concerns, numeric responses generally required ranges rather than precise values. As a result, certain market-wide values cited in this report are estimated rather than calculated.

Survey inquiries

The carriers who participated in this survey will receive a detailed report including responses to all, or nearly all, survey questions. Many of the questions will be summarized separately for third-party and health plan carriers and, in some cases, by carriers for which stop-loss is (or is not) a "core" business. For more information or to participate in the next update to Milliman's stop-loss survey, please contact Rob Bachler (206 504 5946 or rob.bachler@milliman.com) or Brian Reed (206 504 5748 or brian.reed@milliman.com).



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