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The employer stop-loss insurance marketplace since the Affordable Care Act

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Introduction

Most large employers self-insure their medical benefits,[1] but with the enacting of the Affordable Care Act (ACA) in 2010, small and mid-sized employers are also evaluating the benefits of self-insurance. A self-insured group health plan is one in which the employer assumes the financial risk for providing healthcare benefits to its employees. Self-insured employers pay for claims by their members as they use healthcare services as opposed to paying a fixed premium to an insurance carrier. With self-insurance, employers bear the risk of high-cost or catastrophic claims, which can exceed $1 million and create cash flow and volatility issues for employers. Cancer treatments, organ transplants, high-cost pharmaceuticals, and premature births are just a few conditions and procedures known to exceed $1 million in treatment expense. According to the National Business Group on Health's 2016 healthcare survey,[2] high-cost claimants are the number one cost driver for 43% of large employers. Employer stop-loss insurance is meant to mitigate that risk by allowing employers to shift risk for claims above a fixed threshold to insurance carriers.

Impact of the ACA on self-insurance

The stop-loss market is believed to be a roughly $15 billion industry, up from $8 billion to $10 billion pre-ACA. Its growth is related to the increased prevalence of self-funding along with the changes from ACA which increased premiums, plan enrollment, or both for stop-loss insurance carriers. Kaiser Family Foundation, in its 2016 Employer Health Benefits Survey, indicated that the prevalence of self-insuring was up to 63% in 2015 from 59% in 2010.[3] The interest in self-insuring is primarily due to cost savings as self-insured plans avoid state-mandated benefits as well as premium tax—an estimated 2% to 3% lower cost for self-insured plans. With additional taxes for health insurers and the looming excise tax (originally scheduled to commence in 2018 but postponed to 2020), self-insurance can be a meaningful strategy for benefit advisors to help clients curb or delay costs associated with ACA. Other benefits of self-insuring include more flexibility in benefit plan design and access to member utilization data, which can be used to identify population health concerns.

1 Based on Kaiser's 2016 Employee Benefits Survey – Exhibit 10.11 indicates 82% of large employers (those above 200 employee lives) are covered by partially or completely self-insured plans.

2 https://www.businessgrouphealth.org/pressroom/pressRelease.cfm?ID=263

3 Kaiser 2016 Employee Benefits Survey: http://kff.org/report-section/ehbs-2016-section-nine-section-ten-plan-funding/ exhibit 10.1

Impact of ACA on stop loss

ACA has considerably increased the need for and expanded employer interest in stop-loss coverage due to several factors:

- Removal of annual and lifetime maximums (prior to ACA, a cap on annual expenses on an employer-sponsored plan was common and allowed stop-loss insurance carriers to limit their exposure).
- Removal of pre-existing condition exclusions (prior to ACA, employers could temporarily exclude high risk members).
- The individual mandate and extending dependent coverage to age 26 have all increased membership in employer-sponsored plans.
- Expanded taxes on fully insured health plans.

From an underwriting perspective, the first two items above represented considerable uncertainty that needed to be priced into coverage. Prior to unlimited maximums, many healthcare providers would cap their charges at $1 million, knowing that recouping charges in excess would be difficult. With ACA, the frequency of claims in excess of $1 million has increased significantly as confirmed by data shown in Sun Life's Spring 2016 Stop-Loss Research Report (estimated 25% annual increase in frequency from 2012–2015).[4]

In contrast, the individual mandate and age 26 dependent coverage expanded membership among employers with what can be considered largely low-risk individuals (typically young and healthy individuals who previously decided to forego coverage). This allowed insurers to spread known and unknown risk across a larger population. The increased enrollment provided organic growth for stop-loss carriers as many of their clients saw an increase in membership due to new enrollees or new dependents covered under existing enrollees.

4 Sun Life Stop Loss Research Report: http://www.sunlife.com/us/News+and+insights/Press+releases/2016/Top+Ten+Catastrophic+Claims+Conditions+report+explores+costliest+medical+conditions+and+emerging+trends?vgnLocale=en_CA

The health insurer tax (along with other taxes and fees that employers needed to prepare for) paved the way for fully-insured employers to enter the self-insured market with stop-loss coverage. These new entrants typically secured stop-loss coverage with their plan administrator as a lack of access to appropriate underwriting data kept many third-party carriers from being able to quote coverage.

Stop-loss marketplace changes

With the growth seen since ACA, the stop-loss industry has seen heightened merger and acquisition activity as well as new entrants into the space. Two large acquirers were Japanese life insurers (Tokio Marine purchased HCC[5] in June 2015 and Sumitomo purchased Symetra[6] in January 2016). These acquisitions allow for exposure to the U.S. medical insurance market as well as a more favorable interest rate environment. Acquisitions were also made by property/casualty reinsurers (Swiss Re and Houston International Insurance Group) looking to diversify into a market largely dominated by specialty life insurers. The market today consists of nearly 30 to 40 third-party carriers and another 30 to 40 direct writers/health plans, such as the large national carriers like Aetna, Cigna, and United Healthcare, regional health plans, and local licensees of the Blue Cross brand. This count does not include several additional carriers that provide coverage through managing general underwriters. The trend in consolidation is expected to continue as smaller insurers seek to gain economies of scale to compete with the larger insurers. The growth of the market will likely attract new entrants as well, especially those carriers already providing other types of employer coverages such as life, disability, dental, and critical illness. Fueling that activity is the expectation that the industry will continue to grow organically with a combination of new self-insured employers and leveraged trend (typically 10% to 25% depending on the deductible). Assuming the market grows between 7.5% and 15% per year, the industry is expected to be $19 billion to $23 billion over the next three years. These estimates are based on the current structure of employer-sponsored plans and may change as a result of decisions made by the new administration.

5 http://globenewswire.com/news-release/2015/06/10/743426/10137979/en/Tokio-Marine-Holdings-to-Acquire-HCC-Insurance-Holdings-in-7-5-Billion-Transaction.html

6 http://www.businesswire.com/news/home/20160201005675/en/Sumitomo-Life-Insurance-Company-Completes-Acquisition-Symetra

Tracking growth for specific insurers will be tough to measure as the excess capacity in the industry could cause insurers to hold or even reduce current rates in order to renew policies. Further capping individual insurer growth (or net revenue growth) is the growing emergence of products with various combinations of rate caps, dividend/refund programs, and no-new laser policies.

The Donald Trump administration is not in favor of ACA and has advocated for a “Repeal and Replace” strategy. House Speaker Paul Ryan, in his “A Better Way” vision for America,[7] also supports the repeal of ACA and protecting employers’ flexibility for self-insurance. While repealing ACA is likely focused on the individual and small group/small business market, the impact could be felt in the employer self-funded market, which could translate to stop-loss carriers. Early indications are that the Trump administration will not hinder the growth of the employer self-insured market—but time will tell and further evaluation will be needed once the Trump administration announces its strategy. To date, the Trump administration has not put forth any proposal that would hinder the growth of the employer self-insured market.

7 A Better Way Report: https://www.speaker.gov/sites/speaker.house.gov/files/documents/ABetter-Booklet.pdf

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