Cost of large medical claims is shifting back onto self-funded employers

The cost of large and often ongoing claims is going up along with the cost of medications and treatment. According to the *2018 Sun Life Stop Loss Research Repor*t, the number of claims in excess of $1 million has increased 87% between 2014 and 2017. The HM Insurance Group's *Five-Year Claims History Report* shows the cost per employee per month for claims over $1 million has increased 139% between 2013 and 2017. While claims of $1 million or more make up only about 2% of stop-loss claims, these claims account for nearly 20% of stop-loss reimbursements.

Historically, self-insured employers have used stop-loss insurance to protect against the "unknown risk" of unexpected spikes in medical expenses, such as a new diagnosis. Stop-loss insurance carriers responded to the rising costs of large claims by raising premiums and imposing lifetime maximums on coverage for individuals with extremely expensive medical conditions. The Affordable Care Act (ACA) has since eliminated lifetime maximums, however, the cost of large claims continues to rise. As a result, insurance carriers are starting to shift more of the burden back onto employer-sponsored, self-insured health plans.

What's driving up costs?

Medical conditions like cancer and blood disorders are extremely costly due to the cost of ongoing care and the incredibly expensive medications used to treat these conditions. Costs related to cancer treatment make up about 27% of stop-loss reimbursements, and the injectable medications commonly used to treat cancers account for 9% of reimbursements, according to the Sun Life report. Other conditions, though rare, comprise the most expensive of claims, with Sun Life reporting $6.7 million paid on one claimant in 2017 for a metabolic disorder, followed by $5 million on another single claimant for a blood disorder. These claims are not a one-time occurrence, but often an annual payment for as long as the employee stays on the plan. Where insurance carriers used to rely on plan limits to cap the amount paid out on expensive ongoing claims, the ACA's elimination of lifetime maximums places the full burden of the most expensive claims squarely on the carriers.

How insurance carriers are responding to the elimination of lifetime maximums

Stop-loss insurance carriers have reacted by shifting more of their burden onto self-insured employers, not just by raising premiums, but also requiring more rigorous underwriting, resulting in denied applications or even non-renewal. Carriers have also been using "lasers" to apply a higher stop-loss deductible, often 2 to 3 times the current specific deductible, to high cost individuals – or "known risks" – on the plan, often with ongoing claims. One carrier in the Minnesota market

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took this a step further by announcing they will start enforcing provisions to apply a *total* laser to large ongoing claims once they become a "known risk," removing the stop-loss deductible altogether and transferring the risk *entirely* onto the self-insured employer.

Employer actions steps

Self-insured employers can prepare for the rising costs of large claims by looking at their current stop-loss policy to determine whether the coverage meets the risk profile of the organization.

- Is coverage adequate?
- Does the stop-loss contract match the organization's health plan description of benefits?
- Does coverage include pharmacy to mitigate the rising cost of expensive medications?
- Are there adequate clinical resources available to help contain costs for large claimants?

Employers should also carefully manage claim disclosures to avoid coverage gaps due to non-disclosed claims, and should evaluate their current Third-Party Administrator (TPA) or Administrative Services Only (ASO) provider on their cost management approach and ability to mitigate large claims.

If stop-loss coverage is inadequate, it may be time to look for a new carrier or consider changing to a fully insured plan. Employers should consider the following when searching for a stop-loss carrier or policy:

- Guarantee of no new lasers or additions to existing lasers
- Options for rate caps
- Longer lock-in periods offered by some carriers
- Carve-out options for high-cost conditions or procedures such as organ transplants
- Termination coverages for run out risk

Employers do not have to face these decisions on their own. Review stop-loss coverage and discuss the best options for the organization's employee health plan with a trusted advisor.

For more information, contact us.

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