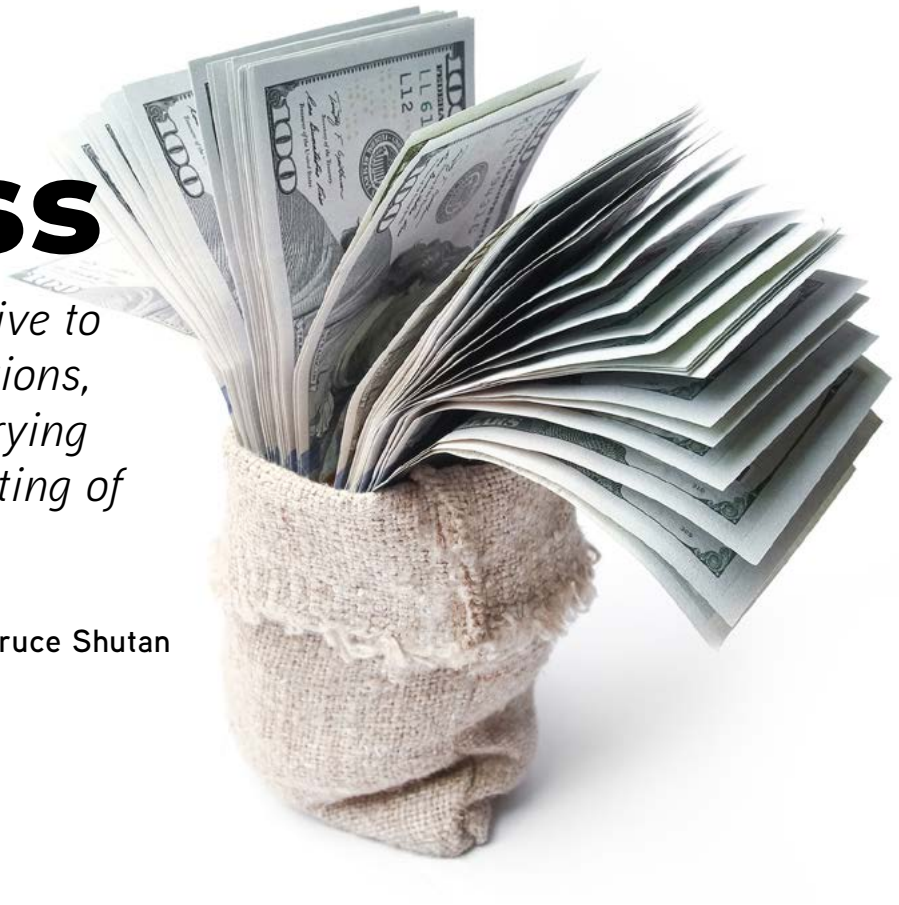
Rethinking Stop Loss

From leveraging adaptive captive to weekly aggregate accommodations, self-insured health plans are trying novel approaches to ease the sting of a hardened market



Written By Bruce Shutan

In response to a hardened stop-loss insurance market, pressure is mounting on self-insured employers to employ novel strategies that generate more meaningful results.

One such approach involves building hyper-targeted financial solutions that shield employers from financial uncertainty. The idea is to leverage adaptive capital to eliminate an employer's stop-loss reimbursement lag and improve their cash position, according to Gerardo Zampaglione, Founder of Aegle Capital and a member of SIIA's 2026 Cell and Gene Task Force.

He points to numerous gaps in the administration of self-funded health plans that dedicated financial products can actually solve. But capital must be adapted to specific use cases within the self-funded space with a set of accompanying technology tools that exists in workflows in order to actually make it useful, Zampaglione explains.

As more smaller employers self-fund their group health benefits, some stop-loss carriers in cooperation with their client's third-party administrator are offering weekly vs. typically monthly aggregate accommodations for level-funded products to speed up cash flow and limit surprise funding needs, notes Wendy Dine, Director of Strategic Risk Solutions, Inc.

"It further protects the level-funded employer from any cash-flow volatility within their self-insured retention," she explains. Separately, there are contract protections for their specific stop-loss claims."

Gerardo Zampaglione

When aggregate performance is tracked weekly instead of monthly or annually, reimbursements that start much sooner if claims exceed the prorated threshold will have a positive impact in a number of ways. They include reducing the need to prefund excess claims, preventing cash strain on the carrier or fronting arrangement and keeping the program operating closer to the expected level-funded cash flow. Similar strategies to reduce lag times also benefit larger employers (more on that later).

More advisers, third-party administrators and captives are looking for risk-management tools that can reduce, transfer and possibly eliminate risk in the medical stop-loss environment, observes Dale Sagen, VP and Business Development Leader for QBE North America. He says many of them are targeting mounting catastrophic claims from specialty drug programs, as well as condition-specific items on hospital invoices involving dialysis, end-stage renal disease, cancer, musculoskeletal and prenatal care.

Sagen sees the bill-review segment moving fast as more self-insured health plans explore payment-integrity solutions, usually on a post-payment basis. "There's something to be said for engaging early in the bill-gathering bundled-payment process that the TPAs are actually working through," he says, noting how such efforts help with both stop-loss and captives.

Expertise plays a big role in efforts to ease the sting of stop-loss. For example, benefit advisers, health plans and captives increasingly are considering contracting with outpatient surgical centers of excellence, Sagen says. They're also taking this approach by delivering oncology infusion alternatively rather than in a hospital setting, as well as primary care inside the direct primary care model to offer greater value.

Dale Sagen

Tommy Maher, SVP for RMTS LLC, cautions that while centers of excellence targeting specific disease states such as cancer or musculoskeletal conditions are certainly valuable, these best-in-class treatments won't necessarily help reduce costs.

The ultimate aim, of course, is to steer covered lives to low-cost providers that offer the highest quality of care, but the challenge is verifying and quantifying their clinical outcomes. The problem is that many newer programs lack the necessary data to justify their use in the eyes of actuaries and underwriters, he says.

Tommy Maher

Cell and gene therapies are full of enormous potential from a clinical standpoint, but also significant risks. Sagen says single-parent captive owners looking to reduce or remove that volatility from their self-funded retention health plan can add capacity to those risks to handle multimillion-dollar exposures.

"Many are trying to put a limit on their risk," he says, "and that's inclusive of the cell and gene therapy. That's where we see a lot of single parent-captive owners start to gravitate back toward stop-loss as a solution that includes the cell and gene therapy risk that they are now seeing as a concern in their health plan."

MANAGING LARGE CLAIMS

Heading off high stop-loss renewals by actively managing large claims as they arise in real time is the key to success, Maher says, noting that there are a variety of ways to do that. "It's identifying specialists in a specific area and leveraging their expertise to manage claims," he suggests.

Those efforts to cover treatments within a stop-loss policy at a reduced price rather than carve them out may include contracting with, say, a dialysis service to lower a self-insured group health plan's overall exposure to costs associated with treating kidney disease. The same could be said about hiring a specialty Rx vendor to supply a $100,000 per month maintenance drug at half the cost with little to no interruption to the claimant.

Some health plans, however, don't cover cell and gene therapy risk or pharmacy costs that exceed $1,000. "At that point, you have to work with a solution that's going to potentially source that for much less cost," he explains. What the captive space does is allow self-funded employers to create policies and coverages that are creatively customized to meet their own needs, he adds.

Some captives are asking for medical stop-loss with a fronting carrier or assuming the risk within their captive with a reinsurance partner at a higher limit than they would typically be able to procure in the stop-loss market.

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"The fronting arrangement is one of a couple of ways that you can transfer risk into your captive," Sagen explains. "It adds value because you have a rated policy from an admitted insurer in your state. You have the underwriter, claims, policy issuance, actuarial – everything that insurers bring to the table, you are effectively bringing that into your captive."

Since most captive owners, especially in today's market, are uncomfortable with taking unlimited risk, he says they effectively look toward the reinsurance market to limit their exposure. "You can create a limit that makes you a little bit more comfortable based on the capital that you've exposed in your captive," he says.

What group captive participants have essentially signaled to their underwriter is that putting up collateral to join forces with like-minded employers shows a willingness to take on a bit more risk for the ability to self-fund, Sagen observes. This, in turn, allows the underwriter to feel more comfortable with small and midmarket employers that are seeing some extreme volatility in the market.

Strength in numbers cannot be underestimated when it comes to easing the sting of high stop-loss rates. Dine says some group medical stop-loss captive programs are being developed that allow employers that are level-funded on the front end to share in a portion of the stop-loss, providing "the best of both worlds." In essence, they're able to leverage the advantage of self-funding alongside financial protections and dividends from the captive in a good claims year.

In addition, stop-loss carriers and captive program managers are seeing an influx of self-insured, midsize employers pooling their risk to tap into more resources, better understand their claim activity and reduce some of that volatility, according to Dine.

"If they were self-funded on their own and procuring stop-loss, a carrier may look at them and say, 'we don't want to quote this,' but if they're with a larger pool, then there's the ability to say, 'well, we'll write this case and won't place all these lasers, and we want them to utilize some of those cost-management resources,'" she explains.

SWEETENING BITTER PILLS

Likening managing catastrophic healthcare claims to swallowing a bitter pill, Zampaglione says one approach involves excluding various categories such as cell and gene therapies, which amounts to avoiding the pill altogether. A second method involves paying another party to swallow the pill, which he describes as a very expensive proposition.

A third approach that his firm has developed essentially employs using a reliable knife to cut up the pill so that it's much easier to swallow. For example, that could involve switching from a Big Three pharmacy benefit manager to a transparent or fiduciary PBM. But there's also a fourth angle, which he says amounts to actually shrinking a large bitter pill. That effort may involve leveraging reference-based pricing, the 340B federal drug pricing program and the No Surprises Act.

Noting a universal reluctance among HR departments to exceed their budgets, his company developed a more sophisticated version of pill cutting. That level-funded model allows employers to move a budget overage into the following year or next several years, guaranteeing they will not go over budget in a given year. "Everyone in the business knows that over a five-year timeframe, it's really hard to come in that much over year to year to year," he says.

Thinking beyond standard calendar or fiscal-year objectives with regard to healthcare budgets holds great promise in the current climate, Zampaglione suggests. "If you had ways where you can start to chop up this exposure and think about it over time that help with budgeting, imagine you do an intervention where you see benefits three years from now," he poses.

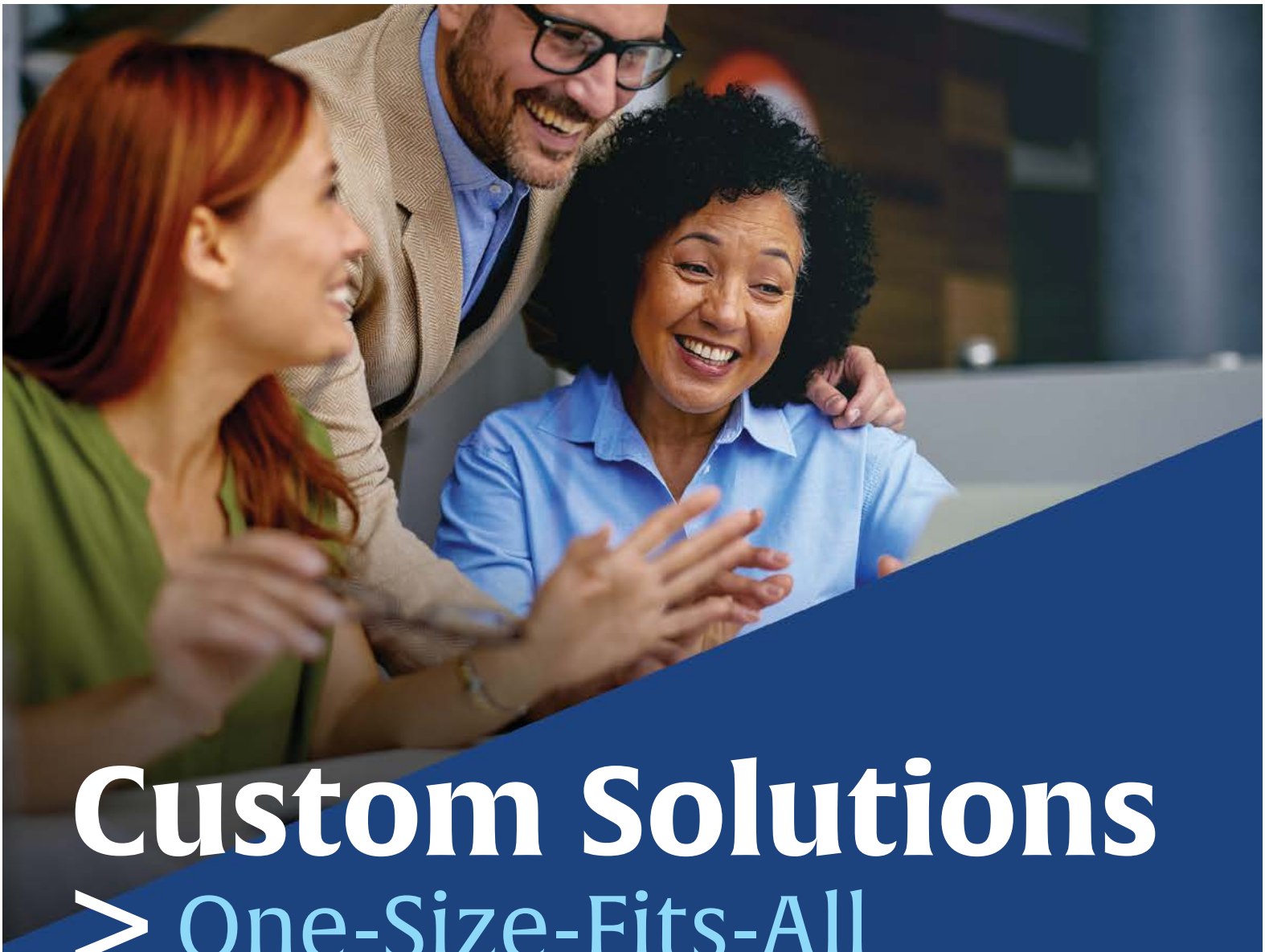
THE WAITING GAME

Although the $40 billion stop-loss market has grown four times since 2013, Zampaglione says the 60% BUCA-owned solutions relative to 40% independent players have remained unchanged. Moreover, the number of self-insured employers encountering three claims of more than $1 million in a given year is up an astonishing 400% on average since 2013, he adds.

It's understandable that a private-equity-backed $7 million EBITDA business that has to wait 180 days for a $3 million claim to be reimbursed is going to be rather eager to get its hands on those funds, Zampaglione notes.

The first part of that lag, anywhere from 30 to 40 days, typically involves a TPA gathering eligibility forms and other data. Then the stop-loss carrier will want to review all the charges, which consumes additional time.

But self-insured employers no longer need to wait around for long periods when innovative approaches are within reach. "Where we accelerate that reimbursement is by essentially allowing the distribution partner to trigger it within 24 hours, and then we get repaid by the reinsurer directly," he explains, citing it as an example of using institutional capital to fill gaps in the self-funded arena.



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The program he built has handled over $80 million of claims to more than 40 clients with anywhere from 20 to more than 30,000 lives since its inception. His goal is to push funding upstream as much as possible to insulate employers from that variability.

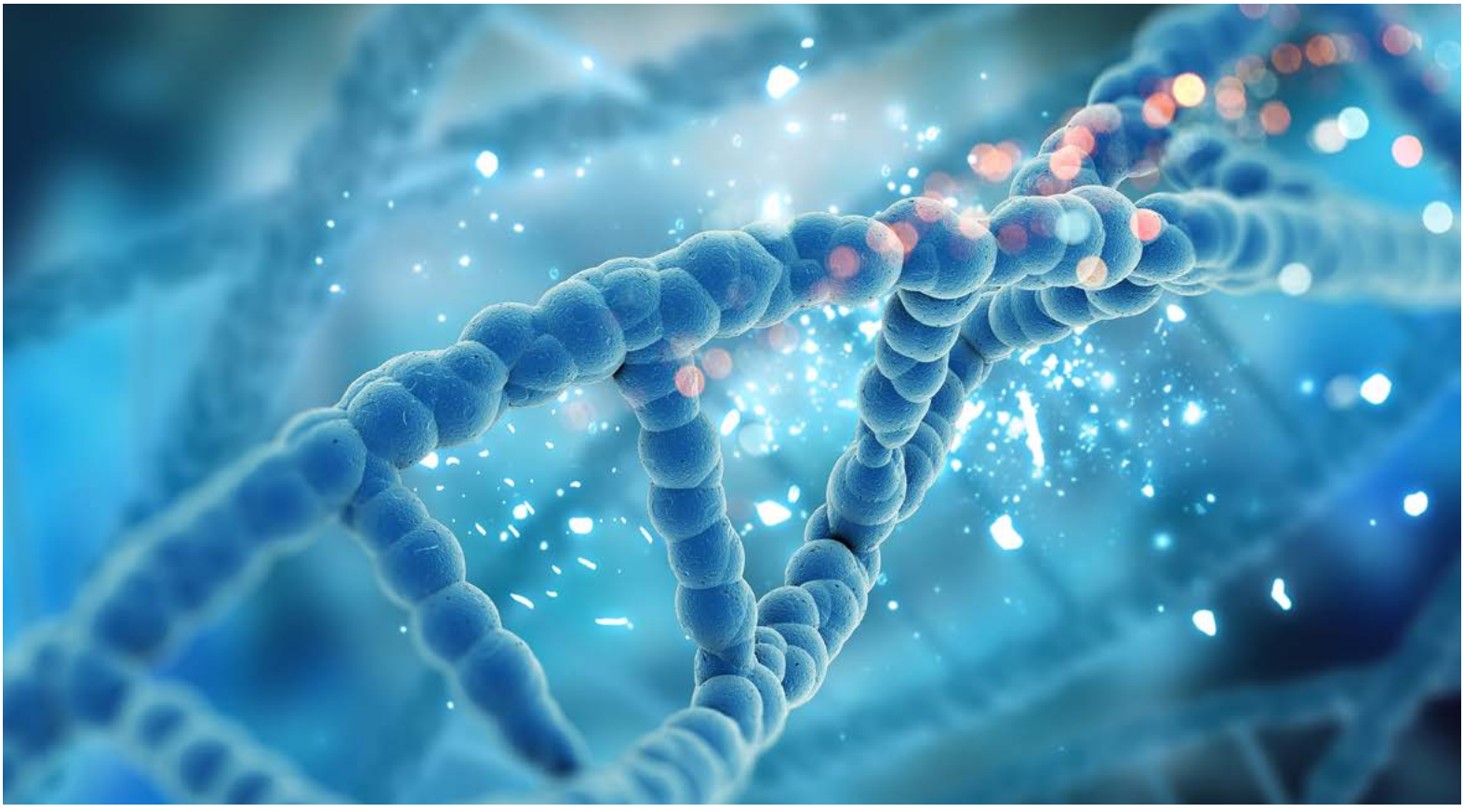
“It’s one thing to know that you have insurance and that you will eventually be covered. It’s another one to actually have money in the bank,” he says. “You cannot make payroll if you do not physically have the money, and so we want to narrow the gap between bundled and independent stop-loss.”

FOCUSING ON QUALITY CARE

Doubtful that stop-loss rates will soften anytime soon, Maher believes the market in general needs to understand the severity of some newer treatments such as cell and gene therapy opportunities that are increasing in number by the day. He says this category has grown from barely two handfuls – numbers that are expected to significantly multiply in the coming years.

“Until the market can understand the gravity of that situation and prevalence of these very high-cost solutions, I think it’s going to be a hardened market for the foreseeable future,” he observes. Offering no new lasers on renewal or rate-cap programs is a frightening proposition in the face of multimillion-dollar cell and gene therapy solutions, not to mention the rate at which even medical expenses have risen, he adds.

Dine recalls how someone actually referred to the existence of a tightening rather than hardened stop-loss insurance market. Her sense is that employers are being smarter with their underwriting and in assessing their risk appetite.



She believes some managing general underwriters – particularly those that have been less disciplined in recent years – will face ongoing pressure due to the excess reinsurance market increasing rates and tightening underwriting guidelines that may have been overlooked. Direct writers, who she says for the most part have been more disciplined and not as dependent on the excess reinsurance market, are likely to navigate this firming market.

"We're seeing a correction, not necessarily major increases that are unwarranted," she says. "Captives certainly can benefit from that because most of these carriers, if they analyze their traditional stop-loss vs. their captive stop-loss book, will find their captives are performing better than their traditional stop-loss."

Bruce Shutan is a Portland, Oregon-based freelance writer who has closely covered the employee benefits industry for nearly 40 years.