MILLIMAN WHITE PAPER

# Observations on the employer stop-loss market

2021 survey

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In March 2021, Milliman sent survey participation requests to a wide range of employer stop-loss market participants. Of those receiving a request, 31 provided survey responses.

Characteristics of the carriers that responded include:

- Different carrier types
  - Third-party or direct carriers (11)
  - Administrative services only (ASO) providers/health plans offering stop-loss products (12)
  - Managing general underwriters (MGUs) and insurance carriers that offer coverage through MGU channels (8)
- Most of the 10 largest carriers by 2020 premium[1] (7)
- Organizations for which stop-loss is a core business, defined as 15% or more of total premium (15), and those for which it is not a core business (16)

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 August 2020.

## Background

Stop-loss coverage provides protection from higher-than-expected medical and pharmacy costs. It is purchased by employers that self-insure their employee and/or retiree health benefits. Based on the most recent data available from S&P Global Intelligence, the stop-loss market stands at approximately $26 billion in annual premium.

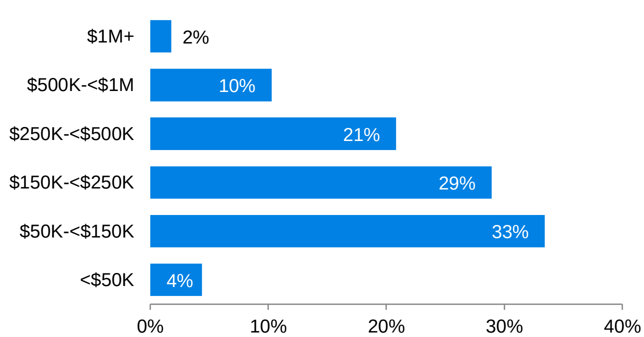
Employers generally purchase stop-loss coverage from one of two sources. If the employer contracts with a health insurer to administer its health benefits, the employer may be able to purchase stop-loss directly from that health insurer. If the employer doesn't purchase coverage from its administrator, it can purchase coverage from a stop-loss carrier, either directly or through a managing general underwriter (MGU). We believe health insurers represent at least half 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 from $25,000 or lower to as high as $1,000,000 (occasionally even higher). The minimum allowed deductible varies by state. 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] MyHealthGuide (May 23, 2020). Medical Stop-Loss Providers Ranked by Annual Premium for the Years 2019, 2018, 2017, and 2016. Retrieved August 5, 2021, from https://www.myhealthguide.com/articles/MyHealthGuideNewsletter-Stop-Loss-Ranking-2016-2019.html.

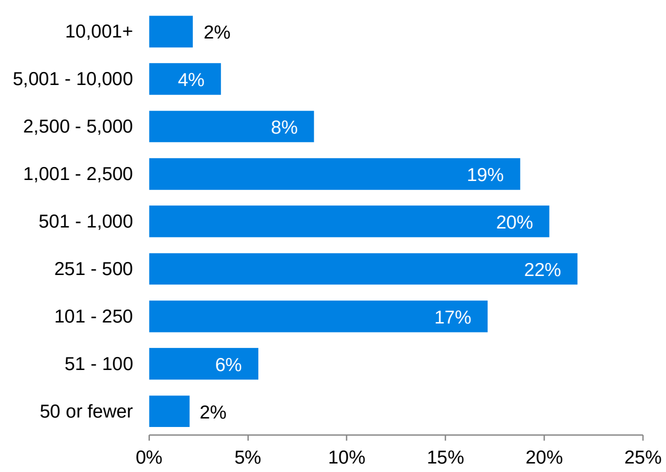
From this graph we see that deductibles are relatively concentrated between $50,000 and $500,000. A third of individual deductibles were seen in the $50,000 to $150,000 range. The very highest deductibles (over $1,000,000) and the very lowest (less than $50,000) collectively account for just over 5% of total specific stop-loss premium.

Nearly two-thirds of specific stop-loss premium in 2020 in our survey can be attributed to policies with deductibles between $50,000 and $250,000.

### DISTRIBUTION BY EMPLOYER GROUP SIZE

Self-funded employers purchasing stop-loss can vary in size from 50 employees (or less 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**




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

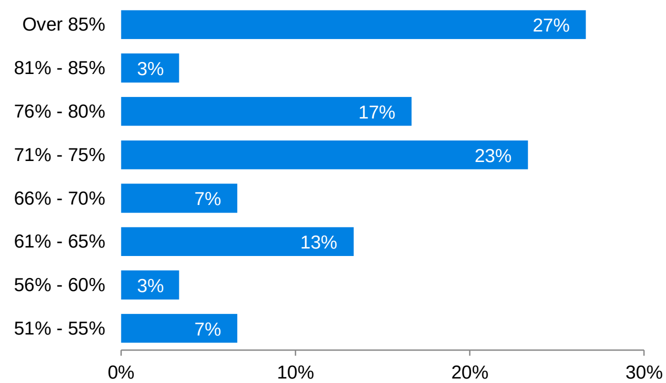
It is worth noting that Figure 2 would look different if it showed the distribution of lives rather than premium, as a higher percentage of covered lives would be attributable to larger groups. However, larger groups that purchase stop-loss tend to purchase policies with higher deductibles (if they purchase coverage at all), 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 renewed in year *x+1*. Figure 3 summarizes each respondent's persistency during 2020. While the most commonly reported persistency was over 85%, there was significant variation in responses.

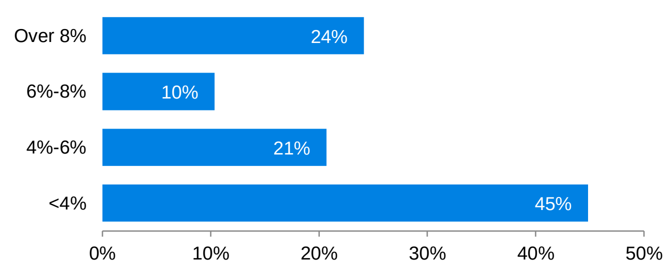
**FIGURE 3: PERSISTENCY RATIO**




### CLOSE RATIO

Close ratio is defined as the percentage of stop-loss rate quotes on prospective new business that turn into issued policies. Figure 4 summarizes the distribution of respondents' close ratios during 2020.

**FIGURE 4: 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 20% 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: DECLINE RATIO, 2020

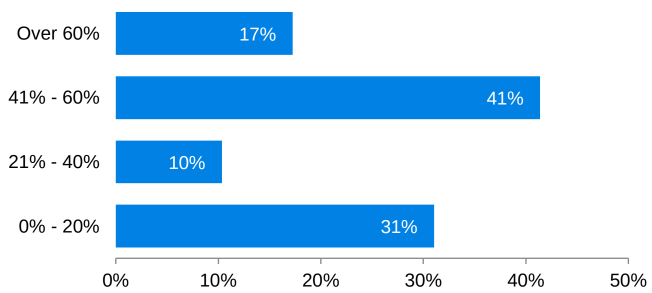
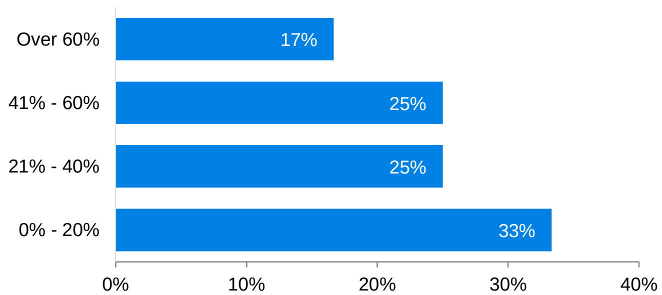



Figure 5 shows the distribution of decline ratios for 2020. Again we observed a significant variation in responses. When compared against the same data for 2019 (as shown in Figure 6), we see a shift of about a 15% increase in the 41%-60% category when compared to 2019 as well as a 15% decrease in the 21%-40% category when compared to 2019.

FIGURE 6: DECLINE RATIO, 2019



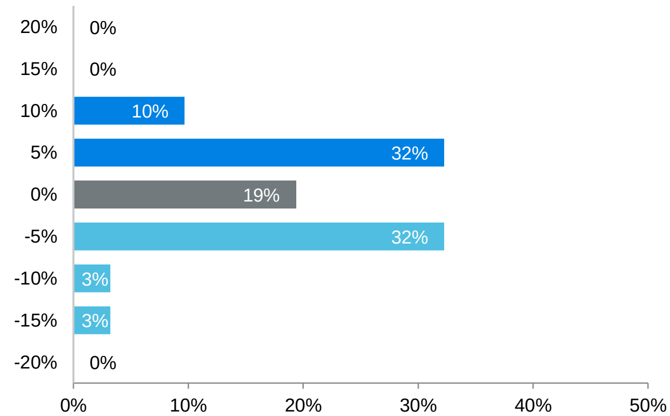

## PROFITABILITY

The survey asked each respondent for its target, or desired, loss ratio for specific stop-loss coverage and the actual loss ratios for 2020 policies. Figure 7 summarizes the difference between target and actual loss ratios. In this graph, positive numbers (red bars) indicate an actual loss ratio above target. Negative numbers (blue bars) indicate a loss ratio below the target.

This graph shows that, in 2020, carriers were evenly split between those that experienced loss ratios higher than target and those with loss ratios lower than target. Generally, results were also reasonably close to target, as over 80% of carriers reported loss ratios that were within approximately +/-5% of target loss ratios.

It should be noted that respondents reported both their target loss ratios and actual loss ratios as ranges, meaning the differences reported here 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%) would be shown in Figure 7 as having a 0% difference, but could have experienced a loss ratio that was as much as 5% higher or lower than its target.

FIGURE 7: ACTUAL VS. TARGET LOSS RATIO – 2020 SPECIFIC STOP-LOSS




In 2020, over 80% of respondents experienced loss ratios on their specific stop-loss business that were within +/-5% of their target loss ratios.

In general, carriers saw reductions in their fully insured loss ratios in 2020 due to the impact of "deferred" care resulting from COVID-19 shutdowns and general hesitancy to seek medical care. However, Figures 8 and 9 on page 4, which show deviations from target observed in respondents' aggregate stop-loss loss ratios for 2020 and 2019, respectively, do not appear to show much change from 2019 to 2020.

FIGURE 8: ACTUAL VS. TARGET LOSS RATIO – 2020 AGGREGATE STOP-LOSS

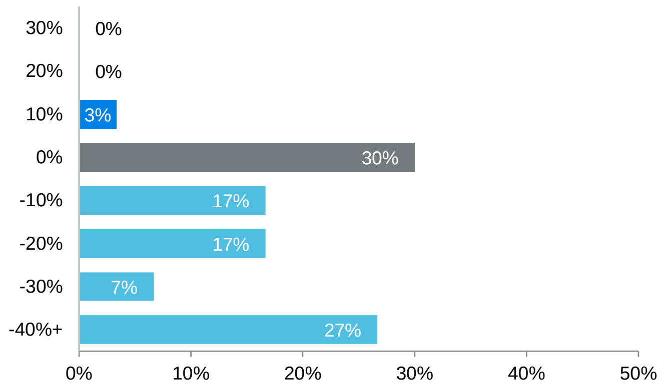
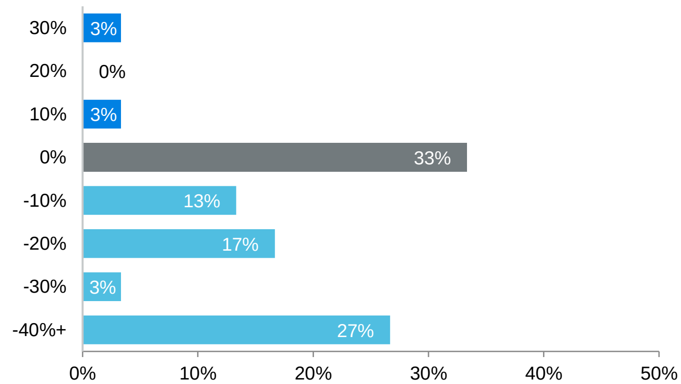



FIGURE 9: ACTUAL VS. TARGET LOSS RATIO – 2019 AGGREGATE STOP-LOSS

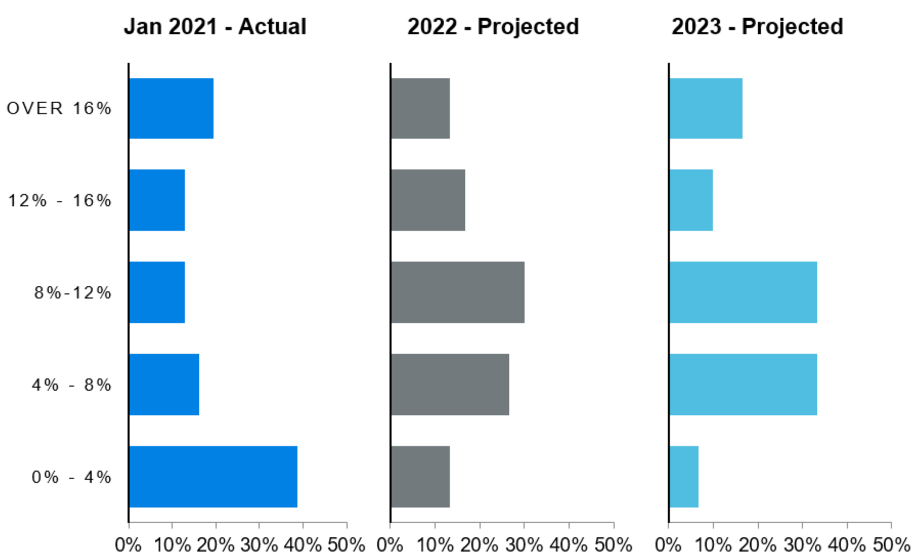



## PORTFOLIO GROWTH

Figure 10 shows actual premium growth from 2020 to 2021 for business with January effective dates, as well as carrier expectations for premium growth over the full-year periods 2022 and 2023. 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 2021 growth is the total premium for new policies sold and existing policies renewed in January 2021, divided by the total premium for policies sold and renewed in January 2020.

As in prior exhibits, Figure 10 shows significant variation in results for January 2021 growth. While just under 40% of respondents reported actual growth less than 4%, nearly 20% of respondents reported growth in excess of 16%. Expectations for 2022 and 2023 are somewhat less variable, with roughly a third of respondents expecting growth of 8% to 12% in each year.

FIGURE 10: ANNUAL PREMIUM GROWTH, 2020-2022



## Assumptions and methodology

This white paper is intended to summarize the findings from Milliman's 2021 stop-loss survey. This information may not be appropriate, and should not be used, for other purposes.

In preparing this 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 it for reasonability. Results will vary based on actual carrier performance.

To ensure confidentiality of carrier-specific responses, numeric responses generally required ranges rather than precise values. As a result, certain market-wide values cited in this report should be considered estimates rather than precise calculations.

## Survey inquiries

The carriers that participated in this survey will receive a detailed report including responses to all, or nearly all, survey questions. In the detailed report, 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 (+1 206 504 5946 or rob.bachler@milliman.com).

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