THE JOURNAL

solid group plans made simple

STOP LOSS COVERAGE

Stop loss coverage, otherwise known as large amount pooling (LAP), is designed to help protect an employer sponsor against the significant and negative financial consequences of a catastrophic or expensive recurring or non-recurring extended health claim, essentially transferring this risk to the insurer. Claims that are over a pre-determined amount are removed from the claims experience before renewal rates are calculated. This helps smooth the impact of large claims on benefit premiums rates and allows the plan sponsor to continue to provide a comprehensive and affordable plan.

Stop loss can be defined in three ways:

- Aggregate claims that exceed a certain percentage (ie. 125% of expected claims)
- Individual claims exceed a certain dollar amount (ie. levels of pooling typically $25,000 and above in a calendar year, depending on the contract details)

Factors that are typically considered when setting stop loss coverage include:

- Claims history
- Current exposure (risk of exceptionally large claims)
- Ability to absorb fluctuations in cost
- Underwriting approach
- Business outlook

Stop Loss – Extended Health

Pooling protection helps to keep plans affordable. Most extended health care stop loss arrangements cover all claims, including recurring claims, such as expensive specialty drugs. With the number of new biologic and specialty drugs, many used to treat complex conditions such as rheumatoid arthritis, hepatitis C, and cancer, the usage of these drugs over more traditional drugs is increasing. We know prescription drug coverage helps employers attract and retain quality employees. These plans also help to keep those employees healthy and productive. Still, not all stop loss arrangements provide this kind of protection. Some contracts will only pool claims that are not recurring and therefore will not protect groups if an employee is claiming a high cost recurring drug claim.

THE JOHNSTONE'S ADVANTAGE

Our mission is simple: **Treat each client as if they were our only client**.

Our value is clear: **We are completely independent**. We work for you and offer total flexibility on insurers and plans.

We offer all your group insurance services including administration, brokerage, consulting, and communications.

We provide dedicated client support, customization and flexibility to meet all of your company's benefits needs. And we make **solid group plans simple**.

Stop Loss – Out of Country

Stop loss insurance is often used for out of country coverage, which we see as part of the extended health benefit in most group insurance plans. In an article entitled "Back to basics on stop loss insurance", the author quoted Mike Sullivan, co-founder and chief executive officer of Cubic Health Inc. who identifies medical emergencies while travelling for work, costs around hospitalization and repatriation as high costs if incurred. "You can't tell when it's going to happen so … [travel] lends itself well to stop loss and catastrophic risk management, because it truly is a really low frequency, and it can be a very high cost."

Stop Loss - Costs

Insurers set up a portion of the cost associated with stop loss coverage as a pooling premium, separate from the extended health premium. These premiums can be costly, based on potential risk, and typically only the extended health insurer will quote of this coverage (ie. the plan sponsor cannot 'shop' for a better premium rate). The premium rate is likely to increase if the claims experience shows the plan has one or more incurred health expenses that is high cost and/or reoccurring.

Depending on how the plan is underwritten, stop loss insurance can be a good budgeting tool, or it may provide only short-term stabilization of costs. For large plans, underwritten on an ASO (administrative services only) basis, some employers are including a pre-existing condition clause for an employee's first year of employment, setting the extended health benefit to a specific limit, to mitigate their risk.

Stop Loss – Benefits Small and Medium Business

Stop loss coverage is particularly beneficial to the small and medium-size businesses: the lower the pooling level, the better the protection.

As mentioned earlier, one of the factors to consider in setting the stop loss insurance amount is the ability to absorb fluctuations in annual costs. For a small company under 20 employees, a $10,000 individual pooling level may make good sense. If that company has a claimant incurring $30,000 of drugs annually, $20,000 of the annual claims are removed from the group's renewal calculation. The extended health care plan remains far more affordable for the company, and the insurer is left paying $20,000 every year from the pool.

While $20,000 may seem high for a small company to absorb without stop loss coverage, insurers have reported individual claims that have surpassed $500,000 annually. Health issues requiring expensive treatment can occur without warning making exposure hard to predict. But imagine what that would mean for a plan sponsor without stop loss coverage!

Stop Loss – Time to Review?

Your Client Account Manager can help you determine if you have the right stop loss coverage for your organization. A perfect time to review your current coverage level is at the annual renewal. If you wish to discuss at a separate time, please don't hesitate to contact us!

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JOHNSTONE'S JOURNAL is published monthly and designed to provide topical information of interest not only to plan administrators, but to all employees who enjoy coverage under the benefit plan. Feel free to make copies and share with your employees.