STOP LOSING SLEEP

Stop Loss companies and reinsurers help employers tackle key market challenges

Written By Laura Carabello

Sticker-Shock is the best way to describe employer reactions to the high cost of healthcare products and services, with many losing sleep wondering how they are going to maintain a robust menu of healthcare benefits within budget.

This situation is now heightened by the general malaise over inflation and supply chain problems. Collectively, these issues and current market forces now account in large part for the accelerated adoption of self-funded health benefits to address the volatility of health care costs.

As escalating high-cost claims of $1 million or more show no signs of abating, this environment creates an even greater reliance upon stop loss coverage.

A recent report from The Kaiser Family Foundation states that in 2021, sixty-four percent of covered workers were in a plan that is self-funded.

Today, most self-insured companies purchase reinsurance to protect against unexpectedly high claims and protect themselves in the event of a single very large claim or total costs that exceed their actuarial projections.

Ongoing challenges to meet client expectations persist. Thanks to the feedback from member companies of SIIA that provide stop loss or reinsurance coverage, we have a bird's eye view of the types of claims and other issues that lead to these cost over-runs and payouts by the stop-loss carriers or reinsurers.

These companies have an overarching goal to enhance sustainability by controlling costs, ensuring the financial well-being of a self-insured plan by paying constant attention to controlling costs without sacrificing service quality.

Jay Ritchie

CLOSER LOOK AT CATASTROPHIC CLAIMS

While catastrophic claims have always existed from either injury, accident, or a major medical condition, Jay Ritchie, president & CEO, Tokio Marine HCC – Stop Loss Group, says, "What has changed is our perspective on what is catastrophic. There was a time where $500K in annual spend on an individual was considered catastrophic, then it was $1M. Now the frequency of $1M claims has become fairly consistent over a large book of medical stop loss (MSL) and $2M seems to be the new catastrophic point. This is not to say that any of these are insignificant, but that the definition of catastrophic has to trend along with claim costs."

The use of technology is evident across-the-board, as automated systems and experienced stop loss analysts utilize the latest automated technologies and algorithms to flag potential catastrophic claims, allowing for early interventions to mitigate negative impacts on the self-funded plan.

This is critical since industry observers affirm that 0.6% of a clients' claims drive 35% of their self-insured medical and pharmacy spend each year.

So what are the most painful claim conditions? See the chart below:

Top 10 High-Cost Claim Conditions for Stop-Loss Insurance in 2020 and Their Annual Cost

1. Malignant neoplasm (solid tumors): **$744 million** (between 2016 and 2019)
2. Leukemia, lymphoma and/or multiple myeloma: **$276 million**
3. Chronic/end-stage renal disease: **$165 million**
4. Congenital anomalies: **$161 million**
5. Septicemia: **$120 million**
6. Liveborn with secondary complications: **$119 million**
7. Transplants including blood and stem cells: **$118 million**
8. Complications due to surgical and medical care: **$109 million**
9. Unspecified procedures and aftercare: **$83 million**
10. Hemophilia/bleeding disorders: **$82 million**

Source: Sun Life Assurance Company

Source: https://www.leadersedge.com/healthcare/headed-for-catastrophe


Jakki Lynch

Jakki Lynch RN, CCM, CMAS CCFA, director cost containment. Sequoia Reinsurance Services points out that admission to the hospital usually means someone is trying to recover from illness and no one ever expects to get sicker as a result of their stay.

"Preventable hospital-acquired conditions continue to have a high financial burden on the health care system and contribute significantly to inpatient morbidity and mortality," she explains. "Sepsis -- a life-threatening organ dysfunction caused by a dysregulated host response to infection -- is a leading cause of in-hospital mortality and one of the most expensive preventable conditions treated in hospitals. According to the Joint Commission Center for Transforming Healthcare, sepsis treatment costs approximately $17 billion dollars each year."

Lynch makes it clear that treatment for sepsis often involves a prolonged stay in the intensive care unit and costly complex therapies, adding, "Although health plans may have payment policies that address these issues, many do not have processes to identify them and adjust claim payments. Charges incurred for sepsis should not be paid and hospitals will remove them if presented with adequate clinical record support by payment integrity specialists."

She describes a recent high dollar sepsis case reviewed by their payment integrity team which identified $255K (26%) of overall contract payable charges of $984K incurred from preventable sepsis after cardiac surgery. Based upon the claim payment integrity review, the facility agreed these charges are not payable.

"Plans can successfully implement a comprehensive payment integrity program to mitigate significant charges associated with unexpected hospital acquired conditions," she continues.

While there are many approaches to addressing these types of unexpected costs, here is some overall guidance from Thomas Power, managing member, Phoenix Excess Risk Underwriters, LLC who says, "As a Managing General Underwriter (MGU), it is important to work together with the Third Party Administrator (TPA.) Early notification and involvement by the TPA with the specialty vendors who address large claims and sometimes difficult claims are essential to create the best outcome."

He maintains that transparency and management of large claims by a good administrator in partnership with the employer while keeping the carrier/MGU informed is critical. "While the carrier cannot make plan decisions, there are opportunities available to impact the best possible solution."

COVID AND PANDEMIC ISSUES PERSIST

Stop loss companies are actively monitoring the changing situation related to COVID-19 claims.


Mark Lawrence

According to Mark Lawrence, president, HM Insurance Group, "We've seen numerous claims greater than $1 million where COVID-19 is the primary diagnosis. There's been a higher incidence of aggregate claims, as well. In addition to our "normal" business, where the frequency and severity of high-cost claims continues to rise, we've also seen significant changes in claims development patterns – primarily driven by a lull of claims for most of 2020 and part of 2021, followed by an increase in claims thus far in 2022. This creates challenges in reserve setting."

The post COVID inflationary environment is going to create a period of higher-than-normal medical trend for catastrophic claims defined as those greater than $500K.