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Medical Stop-Loss Carriers Eyeing Unlimited Lifetime Maximums in US Health Reform

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As individual lifetime medical maximums are removed under U.S. health care reform, companies that self-fund their employees' health benefits are looking to medical stop-loss insurers to protect them against potentially hefty exposures. Most carriers are eager to offer additional coverage but likely need the help of reinsurers to do so, experts say.

The new law requires most self-funded medical plans to remove individual lifetime maximums for plan years starting six months after the date of enactment, and Jan. 1, 2011 for calendar year plans, according to Aegis Risk.

Stop loss provides coverage to self-funded medical plans, and specific policies are more prevalent among employers than aggregate policies, said Ryan Siemers, a principal with Aegis Risk. Many employers "are seeing this uncapped liability" and want their stop-loss carrier to cover this additional exposure, he said.

For the past six years, the market has been soft, but the law "may force a hard market," said Sam Fleet, president and chief executive officer of AmWINS Group Benefits.

A specific policy covers the medical claims of one employee. If a plan sponsor buys a policy with a \$150,000 deductible, the stop-loss carrier would pay for any eligible claims greater than that amount, said Peter Kavanaugh, a consultant with the Segal Co., an employee benefits consulting firm.

Generally, companies with 1,000 or more employees are likely to self-fund their health benefits but not all employers that self-fund have stop-loss coverage, he said.

Most self-funded plans have lifetime maximums ranging from \$1 million to \$5 million -- but unlimited ones in the stop-loss market have been difficult to obtain, Aegis Risk said, because many writers can't get reinsurance allowing this uncapped liability -- especially post-Sept. 11.

Some big health insurers, such as UnitedHealth, Cigna and Aetna, already offer unlimited stop loss on their own blocks of business, Siemers said.

The big issue is whether carriers will reinsure the risk or take it on themselves and whether capital will erode from reserving for that higher amount, said Fleet.

Michael Fry, senior vice president of the group division of stop-loss carrier Symetra Life Insurance Co., said the challenge is the company must scramble to keep up with varying interpretations as the law is implemented.

"From what we know today, we are confident we will be able to make the necessary reinsurance arrangements to offer a competitively priced stop-loss product that complies with the law's provisions," Fry said. Medical stop-loss premiums totaled \$391.4 million in 2009, Symetra said. Symetra Life is a subsidiary of Symetra Financial Corp. (NYSE: SYA).

Traditionally, an employer's stop-loss coverage aligns with the lifetime maximum of its medical plan if it's \$5 million or less -- amounts available in the market, according to Aegis. Those with unlimited lifetime maximums often get by with a more restrictive maximum of \$2 million or \$5 million on their coverage.

This leaves an uncapped liability but that's been OK for plan sponsors, as claimants greater than \$5 million have been quite rare, Aegis said. "Very few claimants go past \$2 million in lifetime reimbursement," Siemers said.

Ten years ago, a million-dollar claim was rare but today they're more frequent because of increasing medical costs due to improvements in technology, Kavanaugh said.

Many carriers are likely to amend their contracts to provide -- at a price -- the unlimited lifetime coverage, Fleet said, who predicts stop loss may start to look like property catastrophe risk.

A carrier may assume 100% responsibility for the first layer, from \$50,000 up to \$1 million, for example; then go to a reinsurer to assume the next layer, up to \$5 million; and perhaps to another reinsurer for the final layer, more than \$5 million, Fleet said. Each layer would have its own cost and stop-loss coverage could be quoted with each layer separately priced, he said.

On May 26, Canada-based Sun Life Financial Inc. (NYSE: SLF, TSX: SLF) said its employee benefits group division will provide unlimited lifetime maximums for stop-loss policies effective on and after Oct. 1. Providing unlimited lifetime maximums "is an example of how we continue to deliver on our stop-loss value proposition-expert solutions that help employers keep their costs down," said Scott Beliveau, vice president of underwriting and claims for the employee benefits group division, in a statement.

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