

FAQs: Lasers in Stop Loss Insurance

What is a laser in Stop Loss?

A laser is an underwriting tool that helps an insurer manage risk by limiting exposure to high-cost anticipated claims. Lasers address the risk posed by an individual who is expected to incur high-dollar medical expenses due to a known severe or chronic condition. Carriers manage this known risk by removing that person from the pooled coverage, and the lasered risk remains with the employer.

Are there different types of lasers?

While the types of lasers used are up to each individual Stop Loss carrier's risk management approach, there are several kinds of lasers they may choose to implement, including:

- **Standard Lasers** – Use a higher attachment point/deductible for all claims on a specific individual
- **Limited Contract Basis Lasers** – Restrict coverage to a specific period and/or contract basis
- **Exclusion Lasers** – Entirely exclude an individual from the Stop Loss coverage, making the employer fully retain the risk for all of that individual's claims
- **Contingent Lasers** – Use a higher attachment point/deductible for claims related to a specific condition, diagnosis, or prescription cost

Why are lasers used, and how do they help self-funded employers?

Lasers are used by Stop Loss carriers to help maintain competitive premium pricing for the policy overall. When employers decide to self-fund, they take on financial risk for increased control of their plans and potential cost savings. Lasers attempt to address who will bear the risk for the plan's foreseeable claims.

The use of a laser enables an employer to budget for the potential exposure of a claim in advance. The employer could possibly benefit from upside savings if the claim ends up over budgeted or does not come to fruition. The employer also saves money by not paying Stop Loss insurance premium for this risk – premium that likely would have been a higher amount than what the employer might have budgeted for claim expenses because carrier premiums typically include carrier overhead and acquisition expenses. Finding the right balance for both the group and the carrier is essential when building Stop Loss coverage that truly protects.

Why does it seem like recommendations for lasers are increasing now?

Lasering has been on the rise due to significant market pressures, predominantly driven by rapid medical cost growth, especially in the area of prescription drugs. The surge in high-dollar medical costs compounds risk for Stop Loss carriers due to leveraged trend and the disproportionate rate at which high-dollar services and treatments drive claim costs above the employer's Specific deductible. This has Stop Loss carriers implementing risk management strategies to help employers contain the rising cost of Stop Loss premiums.

The purpose of all insurance, including Stop Loss insurance, is to provide coverage for unknown occurrences or risks. A laser helps the employer and the Stop Loss carrier by limiting the cost of the Stop Loss insurance to the unknown risk exposure that the plan bears. This dynamic is becoming increasingly relevant where known prescription regimens and costs have become highly predictable and recognized risks for the self-funded plan. Enacting a laser for that type of scenario, in effect, provides another lever for potential cost savings for the employer, as the known risk isn't added into the Stop Loss premium expense, and the employer could experience upside savings if the budgeted claims do not materialize or reach the projected level.

How are lasers determined?

Underwriting reviews reporting data and case management notes to flag any potential catastrophic claimants. Nurses and pharmacists also may review the cases and make projections on the potential cost risk based on the diagnosis, current treatment protocol, and prognosis. Once the risk is identified and the estimated annual cost is determined, the carrier can arrive at an appropriate deductible or other special policy terms for that high-risk plan member. Employers should note, though, that if the actual claim costs for the lasered member exceed the lasered amount, the costs beyond that specified individual deductible are covered by the Stop Loss insurance.

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How does HM Insurance Group (HM) approach the use of lasers?

HM's standard policy is a "no new lasers" renewal offer. Existing or current lasers are reviewed at renewal and are subject to change. It's important to note that both changes to lasers or the addition of new lasers are made on a case-by-case basis and with thorough discussion to help ensure that it is the right risk mitigation tactic. HM will offer a renewal option with new lasers upon request, and, in many cases, a renewal with laser options may be more beneficial to the employer's overall costs.

What additional approaches can be considered to better manage risk and costs when discussing the implementation of lasers?

For employers who want to best manage the use of lasers in their Stop Loss policy, there are certain tactics, as well as a variety of tools and approaches, that can be considered. Key options include:



Providing Complete Data – First and foremost, brokers should work to ensure that they are providing the most complete data possible on the group as the carrier works to underwrite the case. The better the data, the more accurately the business can be assessed and priced. While some may fear that more detailed information could lead to negative risk identification implications, thorough reports enable clinicians to recognize treatment details that could be addressed with effective cost management strategies for more positive outcomes for the group.



Implementing Rate Caps – Rate caps, which do come with an extra cost, are a tool that can be used to manage premium increases. However, following the market shift in 2025, carriers are more frequently removing rate cap features for future renewals to help stabilize their own financial results due to the extended period of higher-than-anticipated loss ratios. Certain groups, however, may be given the option to retain their rate cap if they are willing to incorporate lasers to bring more balance to the risk-sharing of foreseeable known claims exposure.



Increasing Deductibles – Groups can consider increasing their overall deductible level to better balance the financial risk across the plan. Often, groups set a deductible level that remains in place for years despite costs continuing to rise with medical trend and other economic factors. This creates an unbalanced scenario that can impact coverage costs in the long run as the lower-than-appropriate deductibles cause the Stop Loss carrier to bear much more known risk driven by a high frequency of Stop Loss claimants. This leads to employers paying grossed up premium to reflect the claim frequency that could be avoided if more risk was budgeted and retained with a higher deductible.



Adding an Aggregating Specific Feature – The Aggregating Specific Feature is another lever than may be pulled. With this option, groups accept an amount of additional risk in exchange for the financial advantage of paying lower premiums.

For more information, contact your HM sales representative or visit hmig.com



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MTG-3706 (9/26)

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