HM STOP LOSS

HM InSights: Claim Trends

Monitor Claim Trends to Help Determine Cost Containment Programs & Proper Protection

Over the past 10 years, HM Insurance Group (HM), a leading Stop Loss insurance carrier, has seen an average annual trend of approximately 40 percent on claim costs in excess of $1 million. In fact, according to internal analysis and projections from 2011 to 2015, claims incidence per 100,000 employees increased 175 percent at the $1.5 million mark, 64 percent at $1 million and nearly 40 percent at $500,000.

This upward trend in claim costs that has been experienced across the health insurance industry has been tied, in part, to Affordable Care Act (ACA) mandates, including the removal of lifetime maximums, allowing dependent coverage to age 26 and the elimination of pre-existing condition exclusions. There also continues to be a rise in costs associated with medical care, and it can only be assumed that hospitals' billed charges will continue to increase due to new treatment options, break-through medications, emerging medical technology and record-keeping requirements, all of which may improve medical care or extend lives, but at a significant cost.

Since there is no indication that the trend will reverse in the near future, it is important to diligently evaluate risk in an effort to ensure proper protection is in place for each group. Self-funded plans can work to manage the impact of the cost growth by closely monitoring claim trends and taking an approach that makes effective cost containment practices a core element of their program. They also can purchase Stop Loss insurance to protect against the financial impact of catastrophic or unpredictable losses that exceed deductible limits.

Neonatal, Cancer Lead Claim Categories

HM has seen increases in large claims, particularly those tied to neonatal care and cancer. Neonatal represented the highest percentage of first-dollar claims over $1 million in three of the past five years, with cancer taking the top spot one year and tying neonatal in 2015. In fact, since 2011, neonatal and cancer claim expenses have accounted for around 40 percent or more of all claims exceeding $1 million yearly.

And while final claim costs for 2015 are still immature, following neonatal and cancer, which were both at 21.4 percent, are trauma (14.3 percent), heart disease (11.9 percent) and respiratory diseases (7.1 percent).

The Importance of Stop Loss Protection

The startling figures only help to emphasize the importance of Stop Loss coverage for a self-funded plan. Stop Loss is designed to pay for catastrophic claims that exceed the employer's predetermined level of risk tolerance. It helps to protect the employer when catastrophic claims occur within the employee population. Leading Stop Loss carriers can tailor coverage to the specific employer's financial situation and overall risk tolerance level through a variety of riders and options.

Without Stop Loss protection in place, self-funded employers could have to pay significantly more out of pocket to cover catastrophic claims – a much higher price than the cost of the premium for Stop Loss coverage, particularly considering the unlimited maximum and claims frequently trending beyond $1 million.

Why Would a Group Choose to Self-Fund?

Some may ask then, why then would a group consider self-funding – especially when claim payment responsibility falls to the employer and large claims continue to increase in frequency and severity? Hearing about growing claim trends may make it sound a bit risky, and truth-be-told, not all groups are good candidates for self-funding. However, the right candidates have an opportunity to gain a certain level of control over their insurance program. They assume the financial risk of paying their own claims in exchange for flexibility in their coverage options and the potential for cost savings when the plan is running well.

As an alternative to fully insured coverage, self-funding entices some employers with the allure of reduced costs for not paying fully insured carrier profit margins. And the added flexibility in plan design, state mandate exemptions and ownership of claims data and reporting make it an attractive option that puts the employer in a position to design a program that best meets the specific needs of the employee population at-hand.

Continued...

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Why Would a Group Choose to Self-Fund? - Continued

Self-funded employers essentially pay for what they use. Fully insured groups pay monthly premiums to an insurance carrier, and those premiums also continue to rise in light of the aforementioned claim trend. And with fully insured coverage, anything left over when claims are settled is retained by the carrier, not the group. Self-funding allows the group an opportunity to use prudent risk management and cost containment techniques to achieve positive results in the group's favor.

Take a Proactive Approach to Cost Containment

To cultivate savings opportunities, clinical expertise and proven cost containment strategies can go a long way. Groups should begin with the end in mind by incorporating strong cost containment practices into their plan document language. Diligent review of claimant notices and the use of competitive out-of-network discount programs and Centers of Excellence for transplant services also play an important role in managing costs, along with strong case management and third party recovery services. Staying on top of spending trends helps to develop additional cost-saving solutions for groups – solutions that should be executed while continuing to offer quality care and promoting healthier populations.

Awareness Is Foundational to Success

Growing claims are a very real part of the current healthcare landscape – whether groups are fully insured or self-funded. But self-funded groups that safeguard against the financial impact of catastrophic claims through smart cost containment programs and the added protection of Stop Loss coverage gain a level of reassurance in their decision to take control of their group health benefits through the self-funded option.

A strong Stop Loss carrier will keep close watch of the impact of market changes, including claim trends, to make prudent pricing decisions that can help to ensure its self-funded clients have the protection they need. Groups interested in finding the right carrier for their Stop Loss coverage should talk to their broker about working with a direct writer that is financially sound – one that demonstrates stability through long tenue in the market – and provides a solid contract for better protection. When the right partner is chosen, employers can feel confident that they will gain solutions to the challenges of today's market.

ABOUT HM INSIGHTS

HM developed InSights to provide producers and their clients with information about industry trends that impact Stop Loss insurance. The information is intended to empower readers with market knowledge that can help them to better make coverage decisions in the changing health care environment.

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