

Leveraged Trend

As first-dollar medical costs continue to increase, the escalation can have a significant impact on Stop Loss claims, driving up the premium for Stop Loss coverage. If a self-funded group's deductible is not raised as well, the cost of Stop Loss insurance will increase at a faster rate than the first-dollar medical trend because the insurance company is taking on accelerated risk. This phenomenon is known as "deductible leveraging," and the leveraged trend is a major factor in projecting Stop Loss rates.

To understand the effect of leveraged trend on Stop Loss insurance, first consider that a claim is incurred that exceeds the Specific deductible. Then, in the following year, the Specific deductible is unchanged, and the same claim is incurred again. Due to an increase in medical costs in the second year, that same claim results in a higher cost and further exceeds the deductible level that was unchanged from the first year. This increase in claim cost creates a greater financial impact on the Stop Loss carrier.

Cost Impact Example

A group has an individual Spec deductible of \$100,000. A claim is submitted for \$150,000, which creates a \$50,000 liability for the Stop Loss carrier. If the same charge occurs the following year, it could be impacted by an underlying/first-dollar trend of 10 percent, which would have the claim cost \$150,000 x 1.1, equaling \$165,000. Without an increase to the Stop Loss deductible, the Stop Loss carrier's liability would then move from \$50,000 to \$65,000 on the Spec claim, a 30 percent increase over the previous year.

The post-deductible increase is why leveraged trend is higher than first-dollar trend. The Stop Loss carrier's liability goes up significantly since the liability starts after the deductible has been met.

To reduce the effect of leveraged trend, clients can assume more risk by increasing their Specific Stop Loss deductible. By taking on a little more risk, Stop Loss premiums can be reduced or remain at a level acceptable to the group.

Same Deductible			
	Year 1	Year 2	Trend
Catastrophic Claim	\$150,000	\$165,000	10%
Stop Loss Deductible	\$100,000	\$100,000	–
Cost to Stop Loss Carrier	\$50,000	\$65,000	30%

Deductible Increase			
	Year 1	Year 2	Trend
Catastrophic Claim	\$150,000	\$165,000	10%
Stop Loss Deductible	\$100,000	\$110,000	–
Cost to Stop Loss Carrier	\$50,000	\$55,000	10%

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