INDUSTRY INSIGHTS FOR IGNITING CONVERSATIONS

HM Sparks: Rising Claim Costs & the Importance of Stop Loss

The ACA and Market Trends Maintain Influence

Years after the Affordable Care Act (ACA) removed lifetime maximums, permitted dependent coverage until age 26 and eliminated pre-existing condition exclusions, claim costs continue to trend upward. Health plans, insurers and employers also continue to feel the legislation’s impact, coupled with a rise in medical and pharmaceutical expenses. By closely monitoring the claim trends that influence the self-funded industry, proactive Stop Loss carriers gain the insight they need to manage increasing levels of catastrophic claims by working diligently with third-party administrators and employers to better contain and manage the costs.

Significant Growth Seen in High-Dollar Claims

According to HM Insurance Group’s internal analysis and projections from 2012 to 2016, claims incidence has increased significantly between the $500,000 level and the $1.5 million mark. In fact, the percentage increase in claims incidence per 100,000 employees in those years was 76 percent at $500,000; 62 percent at $1 million; and 67 percent at $1.5 million.

Rising Claims Emphasize the Need for Stop Loss

Such startling figures help to emphasize the importance of Stop Loss coverage for self-funded plans. Without this protection in place, self-funded employers could have to pay significantly more out-of-pocket to cover a growth in catastrophic claims than they would in paying the proportionately lesser premium cost of Stop Loss coverage – particularly in light of the growing expenses tied to the unlimited maximum provision.

However, to continue providing the protection these groups need – and to maintain the financial strength to do so – prudent adjustments to rates must be considered by Stop Loss carriers to ensure that claim obligations can be met as their costs continue to rise.

At this point, industry leaders can only assume that hospitals’ billed charges will maintain a pattern of increase due to new treatment options, break-through medications, emerging medical technology and record-keeping requirements, adding to an already high-cost situation – something that only reinforces the importance of added protection.

Neonatal, Cancer Lead Claim Categories

HM continues to see increases in large claims for neonatal care and cancer. Neonatal has represented the highest percentage of first-dollar claims exceeding $1 million in four of the past five years, with cancer taking the top spot one year. In fact, in 2016, combined claim expenses for neonatal and cancer accounted for more than 50 percent of all claims exceeding $1 million yearly. Following were blood diseases (11 percent), infectious diseases (11 percent) and heart disease (9 percent).

Monitoring Claim Trends Can Help Determine Risk Tolerance

Brokers, employers and carriers need to work together to ensure self-funded plans have solid financial protection from catastrophic financial loss. By evaluating each individual group’s risk tolerance level and taking into consideration such things as claims experience, plan design, industry norms and commitment to cost containment efforts and programs, the right deductibles and riders can be selected. And by keeping a close watch on the impact of market changes on claim costs, Stop Loss carriers can make prudent pricing decisions that help to ensure self-funded clients are protected at the level they need.

Energize your approach to business with HM Sparks

HM Sparks are designed to give you valuable information about industry trends and empower you with knowledge that ignites conversations with your clients.

source: HM Insurance Group internal analysis; data as of December 31, 2016; underwriting years 2015-2016 are immature and projected.

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