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Evaluating Stop Loss Coverage: 5 Questions Self-Funded Health Plans Must Ask

By *Dave Barchet*

Why is evaluating stop loss coverage important?

- The Affordable Care Act (ACA) lifted all lifetime limits on specific stop loss coverage, so the reinsurers (those that provide stop loss insurance protection) are potentially responsible for unlimited risk.
- With healthcare costs rising at annual rates of 5-7%, a $100,000 claim back in 2010 would be >$165,000 in 2018. Depending on the specific stop loss limit, this places increasing pressure on the employer sponsor's budget.
- The rise in $1 million+ claimants in a given year has steadily increased.
- Specialty pharmaceutical drug prices continue to trend significantly higher than medical inflation and, in many cases, represent 45-50% of an employer's total pharmacy spend.

This pressure on costs impact the stop loss premiums for self-funded employer sponsors.

It is easy to think you can just shop this coverage each year for the lowest cost and move on, but before you consider that as a solution, consider these important provisions to evaluate:

1. Are the contract provisions the same?

   This seems simple enough, but when considering an RFP for stop loss, state very clearly the type of contract to be proposed (i.e., 24/12 – incurred in 24 months and paid in 12, or 15/12 or 12/15, incurred in 12 months and paid in 15). If this is not clearly spelled out, proposals may come back as 15/12 contracts or even 12/12 contracts, and these are NOT the same in terms of protection. Generally, the few months of incurred and paid liability, the less risk the reinsurer is taking on and the lower the premiums charged.

2. Contingent or firm offer?

   A "contingent" offer means the proposal is subject to more updated claim information, disclosures, or even case management notes. Depending on the timing of the RFP, some stop loss carriers will offer "firm" quotes (no additional information needed) with data no more than 90-120 days out from the effective date. The request for a firm quote allows you to evaluate quotes based on final terms. Regardless, know if you are comparing firm or contingent quotes.

3. Does the contract provide immediate cash flow protection?

   This is an important aspect to consider for all size groups, but especially those employers on the smaller end. Some stop loss contracts require the employer to pay up front the cost of the actual claim. The claim is then submitted for reimbursement and a review process takes place. How would paying a $500,000 claim and not get reimbursed for 60-90 days impact your cash flow?

4. Are there "run in limits?"

   Some quotes will look like everything is the same: for example, 24/12 contract, same stop loss level, and the same benefits protected. However, one contract may have quoted or placed a run in limit into their caveats that would limit their liability on the run in claims. You should avoid this practice and request a "no run in limit" contract.

5. Does the stop loss contract match the Summary Plan Description?

   Too many times we hear stories that the claim was an ***eligible*** claim under the plan from the viewpoint of the plan administrator, but the claim was denied as ***ineligible*** under the stop loss contract. It is important to review these two contracts to make sure that all claims processed under the administrative agreement are in fact eligible under the stop loss contract.

Stop loss coverage is meant to cover the unknown large claims of a self-funded plan. Going into any review process without sufficient knowledge is a risk your company cannot afford.

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