Shopping for Stop-loss

How self-funded employers can get better rates for reinsurance coverage

Stop-loss or reinsurance is a "backup" policy designed to limit claim coverage or losses to a specific amount. This type of coverage ensures catastrophic (specific stop-loss) claims or numerous (aggregate stop-loss) claims don't deplete your reserves in a self-funded arrangement.

"There are a lot of companies in this stop-loss space, and there are more and more getting into it because the health care law eliminated lifetime limits, and health care costs are driving employers into self-funding," says Mark Haegele, director, sales and account management at HealthLink.

What should employers know about the fixed cost of reinsurance?

The main components of a partially self-funded model are the third-party administrator (TPA) that pays claims; pharmacy benefit manager (PBM) network that contracts with doctors and hospitals for discounts; and the reinsurance carrier, which has the highest cost.

Stop-loss represents a disproportionate amount of the fixed costs for an employer. The smaller the employer, the less risk they're willing to take, the more stop-loss they'll need to buy and the more expensive it is. For smaller employers, the reinsurance purchasing decision becomes more relative and important. For example, a self-funded employer with a 500-life health policy might purchase specific stop-loss, paying $200,000 in claims for every member before the insurance kicks in. However, if a 20-life employer purchases $10,000 specific stop-loss, the stop-loss cost will be higher.

How can employers and brokers negotiate with stop-loss carriers?

In the eyes of the reinsurance carriers, there is no perfect model of self-funding components. This opens the door for the employer and broker to play a vital role in controlling the premium and overall stop-loss cost. If you can sell the reinsurance carrier on your vendor alignment — your TPA, network and PBM — you can decrease the premium.

Don't go to the stop-loss carrier and say 'I'm a 300-life employer and I want to buy $125,000 specific stop-loss,' while providing your claims experience. Instead, demonstrate, in a refined and focused way, how you are working to lower the impact of large claims. Your premium might have been X, but you could now get X minus 20 percent. Employers and brokers don't realize how much negotiation room is available.

How can you demonstrate your management of large claims?

Some ways to control large claim costs are having a dialysis or transplant carve out. You pay a small premium for a transplant insurance policy where any transplant will be completely covered, and then the reinsurance carrier gives you a credit, which often pays for the transplant policy premium.

Another option is working with your PBM. For one reinsurance carrier, more than 25 percent of all of the large claims is represented by prescription drugs. For instance, J-codes — high-cost injectable drugs used for hormone therapy or to treat cancer — often run through the medical plan. Finding a PBM that will further negotiate these J-codes while having a focused managed program can reduce that expense by upward of 30 percent.

When you follow these practices, it helps you when you're paying your premium upfront with the stop loss carrier and downstream by controlling your overall claims.

How should employers and brokers examine stop-loss carriers to find the best price?

It's important to know how reinsurance carriers have networks rated. If your network is that stop-loss carrier's best-rated network, the premium will be lower. Reinsurance carriers evaluate networks with different levels of intensity, and therefore get wide ranging results.

Also, carriers give networks different levels of credibility with respect to discounts. For example, if your network gets a 52 percent discount in metro St. Louis, but the carrier only gives 60 percent credibility to that, that's only a 31 percent discount. Some carriers give 100 percent credibility to the network.