

# What is Stop Loss Insurance?

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Provides protection against catastrophic or unpredictable losses

- Purchased by Employers who self-fund/self-insure employee health care plans
- Covers Employer or Employer Plan
- Does not directly insure employees or health plan participants
- Facilitates self-funded health plans

# Coverage Terms

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Specific (individual) excess: provides coverage for large dollar claims of an individual

- Addresses severity concerns
- Covers large claims such as major surgery, cancer treatments, severe accident, etc.

Aggregate excess: provides protection for an accumulation of claims

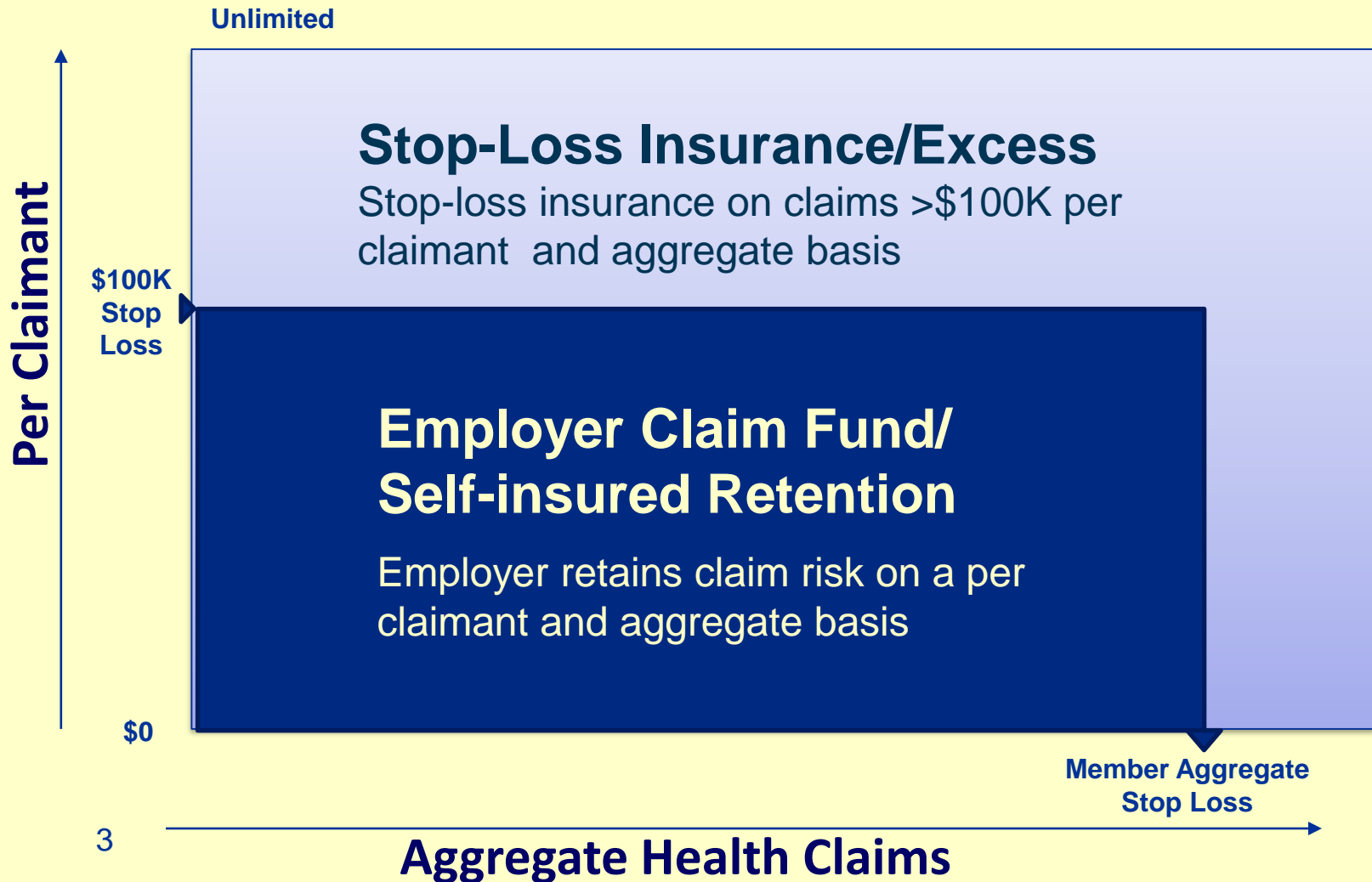
- Protects against greater than expected claim frequency as might occur in a flu pandemic

# Typical Stop-loss Structure

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- Employer(s) provide health care benefits to employees via a self-insured plan
- Employer and employees pay into plan via a trust
- Employer contracts with Third Party Administrator (often a regulated insurer) to manage the plan and gain access to provider networks
- Trust arranges for stop-loss insurance, from traditional or Captive insurer

# Traditional Self-Insurance

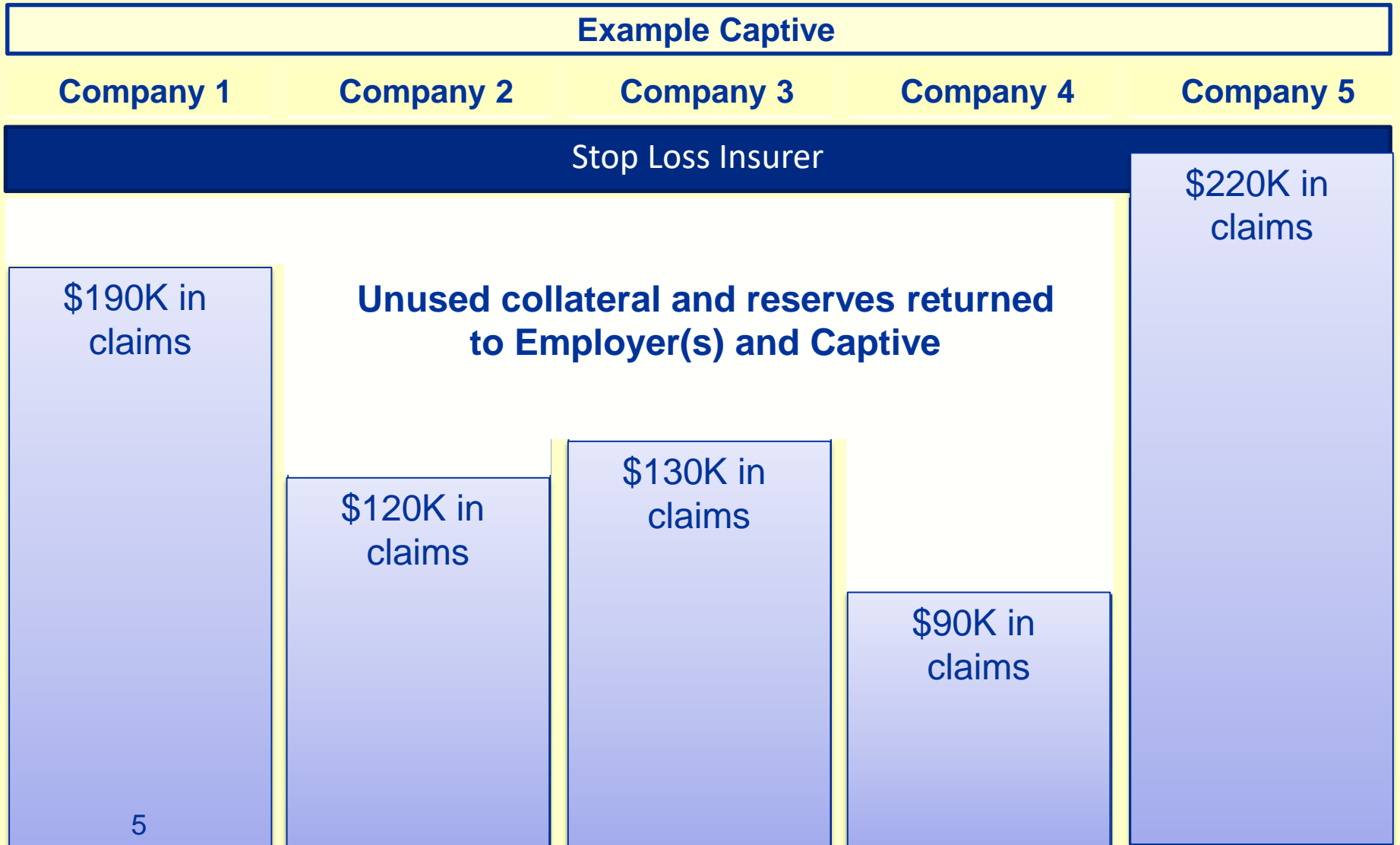


# Benefits of Group Captive

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- Group Captive structures allow a group to:
  - Share risk of loss for large claims that no single member could afford on its own, and
  - Leverage group economies of scale to purchase higher (therefore less expensive) levels of stop-loss insurance

# Typical Group Captive Stop Loss



# Regulatory Issues & Concerns

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Regulators at many levels have concerns about stop loss insurance

- Is it stop-loss or just a high deductible?
- Cash flow
- Small employers' resources
- “Lasering”
- Adverse selection
- Appearance of insurance when TPA is state-regulated insurer
- Avoidance of state-mandated health benefits

# Stop Loss Regulation

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The NAIC developed a Stop Loss Insurance Model Act in 1995, amended in 1999. The act:

- Establishes minimum attachment points
- Prevents insurers from avoiding regulation by selling at very low attachment points (gaming the system)
- Makes self-insured plans retain significant risk



# Stop Loss Regulation

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Per VT Stop Loss Insurance Regulations, insurer may not issue a stop loss policy to a small group (50 or fewer employees) that attaches at less than:

- \$28,700 per individual (indexed);
- Has an aggregate attachment point of the greater of:
  - 120% of expected claims or
  - \$28,700

# Stop Loss Regulation

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For large groups (51 or more employees), the policy may not attach at less than:

- \$28,700 per individual per year; or
- 110% of expected claims in the aggregate