

Demystifying Medical Stop Loss Lasers

Phillip C. Giles, CEBS
Vice President - Sales & Marketing
QBE North America - Accident & Health

Made possible



“There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don’t know. But there are also unknown unknowns. There are things we don’t know we don’t know.”

Donald Rumsfeld

One of the basic principles of any alternative risk program is being able to assume predictable (known) segments of risk while transferring more unpredictable (unknown) risks to insurers. The premise being that a known or “expected” risk can be budgeted and held more efficiently as retained risk by the employer rather than transferring it, redundantly, to an insurer at a higher-cost fixed premium.

Many things become controversial when they are not fully understood. Lasering has always been a provocative topic; however, for most self-funded employers it is a long-accepted practice within the self-funded structure. The concept of lasering has a tendency to become more controversial as the size of self-funded employers becomes smaller. The Affordable Care Act (ACA) has fueled an expansion of self-funding with much of this market growth coming from employers with less than 250 employees. Considered “small” by self-funding standards, many employers in this size category don’t have the financial agility to comfortably absorb a significant stop loss laser.

What is lasering?

Within self-funded medical programs, individuals having serious ongoing medical conditions that are likely to incur large expenses related to those conditions, are “known” risks that are frequently isolated by a stop loss carrier to receive a higher specific deductible in relation to the rest of the insured population. Isolating specific individuals for a higher stop loss deductible is known as “lasering” and has always been a common practice in the medical stop loss industry.

Here’s an over-simplified illustration: Assume that a 500-life employer group has a \$100,000 specific stop loss deductible. An individual in the group is currently being treated for cancer with an expected treatment cost of \$500,000 during the plan year. Medical stop loss coverage with a \$100,000 specific deductible is issued to the employer for each covered individual except for the cancer patient who will be “lasered” with a \$500,000 specific deductible. In short, a laser is a direct reflection of an underwriter’s estimation of what a specific ongoing medical condition will cost based on the individual diagnosis, prognosis, and prescribed treatment plan.

What’s known is known (except when it isn’t)

Medical stop loss is actually a form of excess of loss coverage rather than primary coverage. The intent of excess coverage is to protect against larger, more unpredictable risks, whereas primary coverage secures the ground-up “working layers” of risk. In theory, when a known condition can be identified, thus becoming expected, placing a higher specific deductible on the anticipated financial liability is a prudent expectation of a stop loss carrier by a self-funded employer. The practice of lasering aligns with the self-funding principal of retaining known (or expected) risk and only purchasing insurance for unknown (unpredictable) risk.



It is also important to understand that medical stop loss is not a “pooled” product. This means that large claims are not spread across a multitude of other insureds within the insurance carrier’s coverage portfolio as they typically would be under primary (fully-insured) coverage. Large losses are charged directly to each employer’s self-funded plan without any pooling-related credits to offset it. It’s worth noting that some medical stop loss group captives will seek to absorb lasers by spreading them across all group captive members on a pooled basis. This is more common within the large “open-market” group captive programs that specifically target smaller employers. These programs, if large enough, can be effective in enhancing the stability of self-funding to some smaller employers.

Strategic imperatives for combating lasers:

Some stop loss carriers will offer No New Laser (NNL) contract options. These options are typically written on new (as opposed to renewal) accounts to the stop loss carrier. At the inception of a new contract, the stop loss carrier may establish initial lasers. However, upon renewal the carrier will not add any new lasers to existing insureds within the plan. The NNL contract will also typically come with a renewal rate cap which specifies the maximum rate increase that can be charged upon renewal. The premium rate load for a NNL contract option will range from 5% to 15% with rate cap maximums ranging anywhere from 40% to nearly 100%. Generally, a 10% load for a 50% rate cap is considered to be fairly standard.

Many lasers are attributable to issues such as cancers, kidney failure, premature births, severe injuries, and conditions requiring organ transplants. Having a network of recognized Centers of Excellence (COEs) that specialize in these types of conditions as part of the plan requirements should be helpful in negotiating lasers with underwriters. At the very least, COEs will be helpful in mitigating the ultimate cost of claims incurred within the self-funded plan and paid by the employer.

A few stop loss carriers also offer stand-alone organ transplant “carve-out” coverage which provides first-dollar coverage for transplants. Since this coverage effectively “carves out” the transplant exposure of the self-funded plan, the need for lasers attributable to transplants is effectively nullified. This coverage is economically priced, and premiums can be efficiently offset through corresponding rate discounts provided by stop loss carriers.

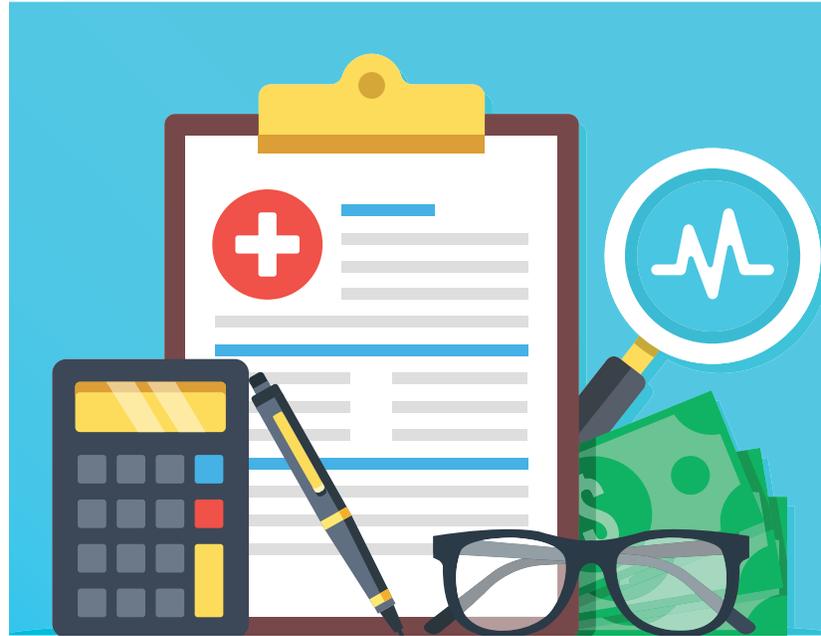
The use of captives can also be effective in absorbing stop loss lasers. Single-parent captives can retain the “soft cost” of lasers as increased retention or converted to an appropriate premium charge for increased insurance provided by the captive to cover the laser.

The use of captives can also be effective in absorbing stop loss lasers. Single-parent captives can retain the “soft cost” of lasers as increased retention or converted to an appropriate premium charge for increased insurance provided by the captive to cover the laser. As mentioned earlier, some group captives will seek to reduce or absorb lasers by pooling them across all group captive members.

Each of these options has proven to be fairly effective for reducing or eliminating an employer’s susceptibility to increased self-funded retention in the form of lasers.

Setting to stun

Lasers will always be a part of most self-funded plans, especially as the cost of large, potentially catastrophic claims continues to increase. Since ACA, the cost of large claims has increased dramatically. Many claims that used to cost \$100,000 or \$200,000 are now regularly eclipsing \$500,000 or more, and the frequency of \$1M+ claims has risen to unsettling levels. With the growth and increased frequency of large claims, it is safe to assume that the application of lasers by stop loss carriers will also continue to increase. As mentioned earlier, employer perspectives of the theoretical and practical applications of lasering continue to differ according to the employer's size and financial agility.



About the Author

Phillip C. Giles, CEBS, is Vice President of Sales and Marketing for QBE North America's Accident & Health business, overseeing sales and strategic marketing initiatives, and medical stop loss captive production. He has 30 years of experience in Accident & Health and Property & Casualty Alternative Risk. He was named to Captive Review's 2016 "Power 50" list of most influential individuals in the Captive Insurance Industry.

The QBE Solution

QBE's North American-based Accident & Health Division provides exemplary coverage and services to support the specialized needs of self-insured employers as a leading direct-writing provider of medical stop loss, including single-parent and group captive programs requiring stop loss insurance.

About QBE North America - Accident & Health

QBE North America is part of QBE Insurance Group Limited, one of the largest insurers and reinsurers worldwide. Headquartered in Sydney, Australia, QBE operates out of 37 countries around the globe, with a presence in every key insurance market. The North America division, headquartered in New York, conducts business through its property and casualty insurance subsidiaries. QBE insurance companies are rated "A" (Excellent) by A.M. Best and "A+" by Standard & Poor's. Additional information can be found at www.qbena.com, or follow QBE North America on Twitter.

Originally published in Captive Insurance Times, Issue 117, March 2017.



* Learn more about ratings guidelines at standardandpoors.com and ambest.com.
QBE and the links logo are registered service marks of QBE Insurance Group Limited.
© 2017 QBE Holdings, Inc. 71354-MISC (3-17)