MILLIMAN WHITE PAPER

Observations on the employer stop-loss market

2024 survey

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Introduction

In March 2024, Milliman sent survey participation requests to a wide range of employer stop-loss market participants. Of those receiving a request, 32 provided survey responses. Characteristics of the carriers that responded include:

- By carrier type:
  - Third-party or direct carriers (12)
  - Administrative services only (ASO) providers/health plans offering stop-loss products (12)
  - Managing general underwriters (MGUs) and fronting carriers that offer coverage through MGU channels, collectively referred to as MGUs or the MGU market throughout this paper (8)
- Eight of the 10 largest carriers by 2023 premium[1]
- Organizations for which stop-loss is a core business, defined as 15% or more of total premium (17), and those for which it is not a core business (15)

The survey asked questions about various topics, including:

- Portfolio characteristics, such as employer size and stop-loss purchased
- Underwriting measures, such as persistency and close ratios
- Pricing measures, including target loss ratios
- Historical results, both loss ratio and growth
- Product terms offered, such as no new laser
- Sales and distribution structures and cost
- Impact of high-cost pharmacy and gene therapies

This survey is the 2024 version of Milliman's annual employer stop-loss market survey.

Background

Stop-loss coverage provides protection from higher-than-expected medical and pharmacy costs. It is purchased by employers that self-insure their employee and/or retiree health benefits. Based on the most recent data available from S&P Global Market Intelligence, the stop-loss market stands at just over $35 billion in annual premium.

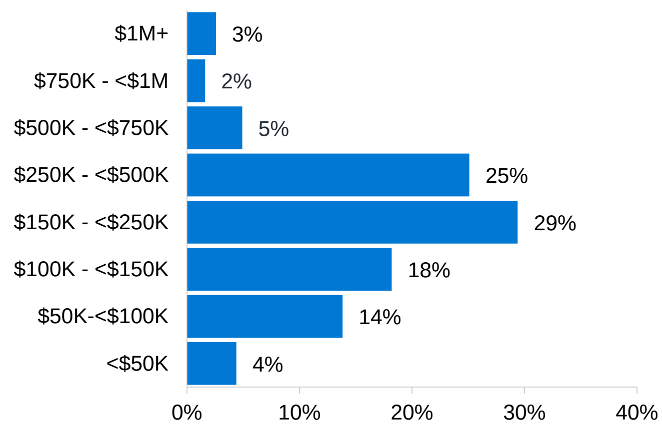
Employers generally purchase stop-loss coverage from one of two sources. If the employer contracts with a health insurer to administer its health benefits, the employer may be able to purchase stop-loss directly from that health insurer. If the employer doesn't purchase coverage from its administrator, it can purchase coverage from a stop-loss carrier, either directly or through an MGU. We believe health insurers represent at least half of reported stop-loss premium in the market.

Portfolio characteristics

DISTRIBUTION OF PREMIUM BY STOP-LOSS DEDUCTIBLE

Employers can purchase specific (or individual) stop-loss policies with deductibles from $25,000 or lower to as high as $1 million (occasionally even higher). The minimum allowed deductible varies by state. Figure 1 shows the share of premium attributable to various ranges of specific stop-loss deductibles.

FIGURE 1: DISTRIBUTION OF PREMIUM BY SPECIFIC DEDUCTIBLE



1. References to ranking by premium volume throughout the survey are based on "Medical Stop-Loss Providers Ranked by Annual Premium for the Years 2016 through 2023," published in MyHealthGuide (July 24, 2024). See https://www.myhealthguide.com/articles/MyHealthGuideNewsletter-Stop-Loss-Ranking-2016-2023.html.

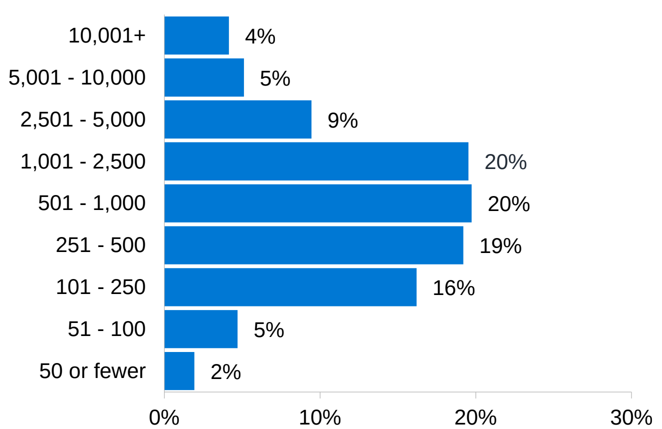
From this graph we see that premium is concentrated in deductibles between $50,000 and $500,000. Over half of premium came from policies with individual deductibles in the $150,000 to $500,000 range.

Over 70% of specific stop-loss premium in 2023 in our survey can be attributed to policies with deductibles between $100,000 and $500,000.

DISTRIBUTION BY EMPLOYER GROUP SIZE

Self-funded employers purchasing stop-loss can vary in size from 50 employees (or less in some states) up to the tens of thousands. Figure 2 shows the share of premium attributable to various ranges of group size.

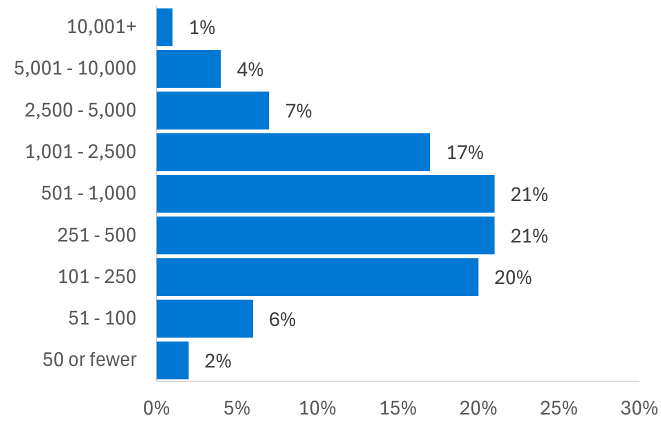
FIGURE 2: DISTRIBUTION OF PREMIUM BY EMPLOYER SIZE—2023



The graph shows that the vast majority of premium comes from employers with 101–2,500 employees. The very largest groups (over 10,000 employees) and the very smallest (fewer than 50 employees) collectively account for approximately 6% of total premium.

When we compare this chart against last year's chart showing the same data, we seem to see a shift in premium toward larger groups, as the share of premium coming from groups of over 5,000 employees has increased from 5% to 9%.

FIGURE 3: DISTRIBUTION OF PREMIUM BY EMPLOYER SIZE—2022



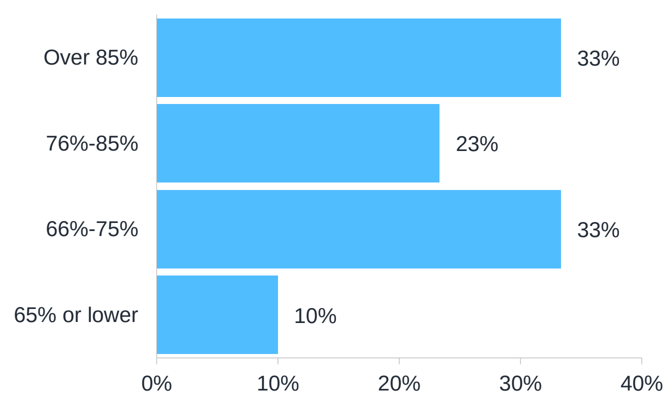
It is worth noting that figures 1 through 3 would look different if they showed the distribution of lives rather than premium, as a higher percentage of covered lives would be attributable to larger groups. However, larger groups that purchase stop-loss tend to purchase policies with higher deductibles (if they purchase coverage at all), resulting in less premium per life.

Underwriting results

PERSISTENCY RATIO

Generally, the stop-loss industry defines persistency as the percentage of premium in year *x* that was renewed in year *x + 1*. Figure 4 summarizes each respondent's persistency during 2023. There was significant variation in responses, with three distinct persistency ranges having similar response rates.

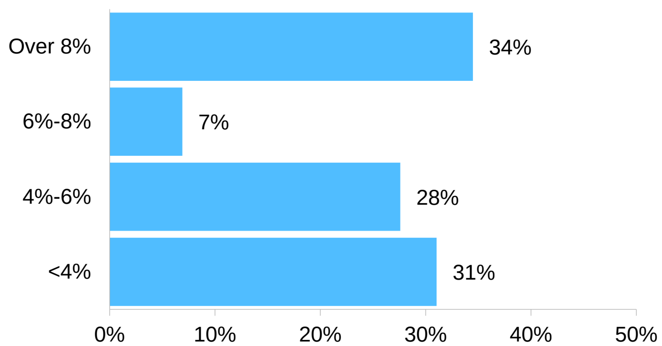
FIGURE 4: PERSISTENCY RATIO



CLOSE RATIO

Close ratio is defined as the percentage of stop-loss rate quotes on prospective new business that turn into issued policies. Figure 5 summarizes the distribution of respondents' close ratios during 2023.

FIGURE 5: CLOSE RATIO

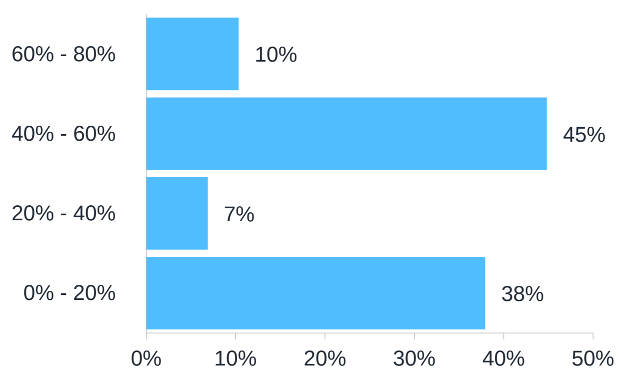


As with Figure 4, we see quite a bit of variation in responses. Over one-third of respondents reported close ratios of 8% or more. It is worth noting that this group consisted mostly (though not entirely) of ASO carriers.

DECLINE RATIO

Decline ratio is typically defined as the percentage of requests for proposal (RFPs) on prospective business where the stop-loss underwriter declines to provide a quote. A higher decline ratio may indicate the carrier is more selective in its underwriting.

FIGURE 6: DECLINE RATIO—2023



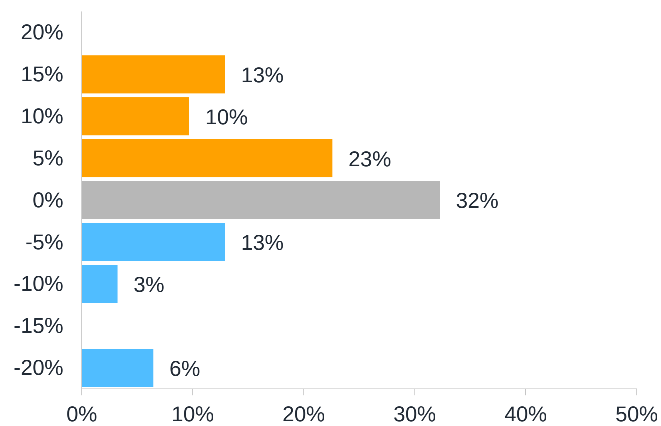
PROFITABILITY

The survey asked each respondent for its target, or desired, loss ratio for specific stop-loss coverage and the actual loss ratios for 2023 policies. Figure 7 summarizes the difference between target and actual loss ratios, shown as actual loss ratio minus expected loss ratio. Therefore, positive numbers (orange bars) indicate an actual loss ratio above target, or results worse than expected. Negative numbers (blue bars) indicate a loss ratio below the target, or results better than expected.

This graph shows that, in 2023, more carriers had unfavorable results (positive deviations, or the orange bars), with nearly half of carriers having a loss ratio estimated to be above target by at least 5%.

It should be noted that respondents reported both their target loss ratios and actual loss ratios as ranges, meaning the differences reported here are only approximations. For example, a carrier whose target and actual loss ratios were reported to be in the same range (e.g., 75% to 80%) would be shown in Figure 7 as having a 0% difference but could have experienced a loss ratio that was as much as 5% higher or lower than its target.

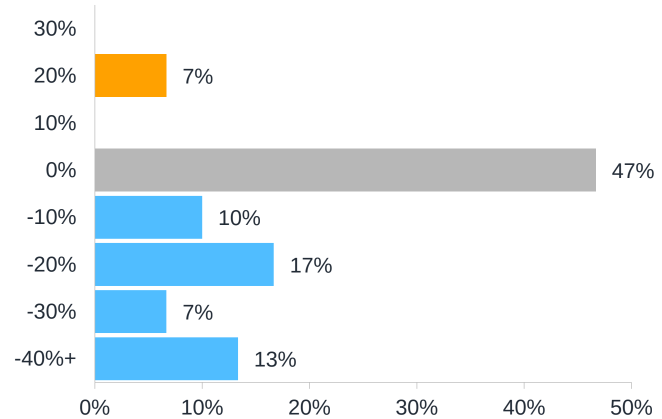
FIGURE 7: ACTUAL VS. TARGET LOSS RATIO—2023 SPECIFIC STOP-LOSS



In 2023, nearly half of respondents experienced loss ratios on their specific stop-loss business that were higher than target.

Figure 8 shows deviations from target observed in respondents' aggregate stop-loss loss ratios for 2023. Interestingly, aggregate loss ratio results were much more favorable than specific stop-loss results. However, given that the aggregate coverage typically represents a small share of total premium, this significant deviation does not have a dramatic impact on a carrier's overall loss ratio.

FIGURE 8: ACTUAL VS. TARGET LOSS RATIO—2023 AGGREGATE STOP-LOSS



PORTFOLIO GROWTH

Figure 9 shows actual premium growth from 2023 to 2024 for business with January effective dates, as well as carrier expectations for premium growth over the full-year periods 2023 and 2024. Premium growth, as defined here, is total annual premium for new business sold and existing business renewed in the current period, relative to business sold and renewed in the prior period. For example, January 2024 growth is the total premium for new policies sold and existing policies renewed in January 2024, divided by the total premium for policies sold and renewed in January 2023.

FIGURE 9: ANNUAL PREMIUM GROWTH—2024-2025

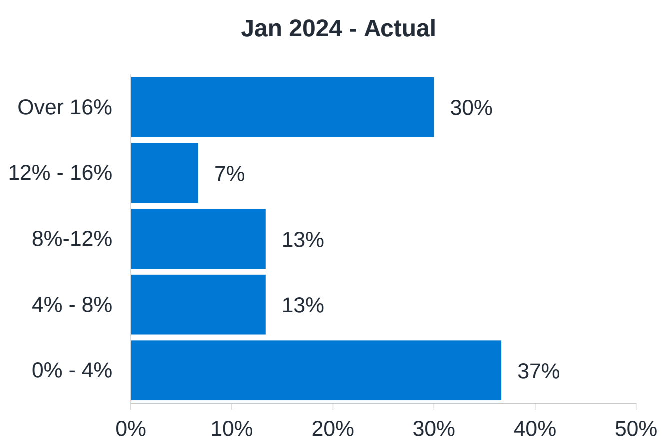
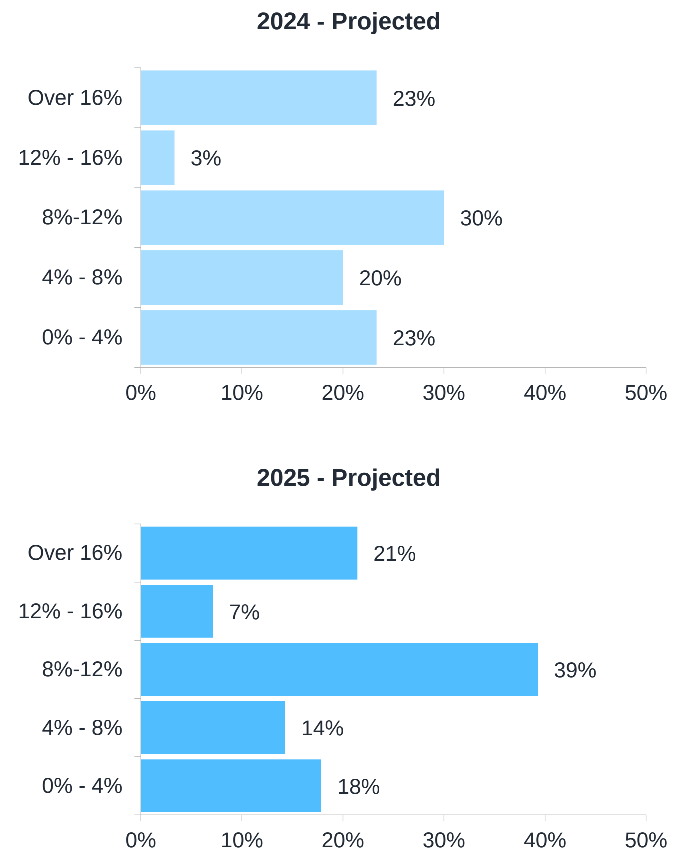


FIGURE 9: ANNUAL PREMIUM GROWTH—2024-2025 (CONTINUED)



Limitations and data reliance

This white paper is intended to summarize the findings from Milliman's 2024 stop-loss survey. This information may not be appropriate, and should not be used, for other purposes.

In preparing this white paper we relied upon data collected from survey participants. Milliman estimated certain statistics, such as persistency, carrier premium, and loss ratios, based on the ranges submitted by participants. Survey data was collected, without audit, though we did review it for reasonability. Results will vary based on actual carrier performance.

To ensure confidentiality of carrier-specific responses, numeric responses generally required ranges rather than precise values. As a result, certain market-wide values cited in this report should be considered estimates rather than precise calculations.

This report is intended for informational purposes only. Milliman makes no representation or warranties regarding the contents of this report. Likewise, readers of this report are instructed that they are to place no reliance upon this report that would result in the creation of any duty or liability under any theory of law by Milliman or its employees.

Survey inquiries

The carriers that participated in this survey will receive a detailed report including responses to all, or nearly all, survey questions. In the detailed report, many of the questions will be summarized separately for third-party and health plan carriers and, in some cases, by carriers for which stop-loss is (or is not) a "core" business. For more information or to participate in the next update to Milliman's stop-loss survey, please contact Rob Bachler (+1 206 504 5946 or rob.bachler@milliman.com) or Jakob Finney (+1 206 613 8196 or jakob.finney@milliman.com).

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