Brown & Brown

September 2022

2022 EDITION

Employer Stop Loss Report

State of the Market Report

Authored by: Conning, which is solely responsible for its content

Table of Contents

Executive Summary

Modest Market Growth.

Employer stop loss premium grew 7.9% in 2021 to $28.1 billion from $25.7 billion in 2020. Member months increased 3.2% to $731.1 million in 2021. The majority (59%) of the year-over-year premium increase is due to an increase in average member month rates rather than enrollment.

Premium Increases Trail Increase In Losses And Inflation.

This year, more than ever before, employers see investments in health and well-being as an essential part of workforce strategy, increasing from 36% in 2019 to 45% in 2020. This is spurred in part by the COVID-19 pandemic, shining a light on the connection between employee health and well-being and overall business performance.

Market Consolidation Continues.

The top 25 insurers accounted for 87% of all employers stop loss premium. The top ten accounted for 68%. Minimal membership growth and limited market movement (due to high persistency rates) will impede market competition, widen the gap between large and small insurers, and drive continued market mergers, acquisitions, and divestitures.

Use of commercial insurers increases.

The commercial stop loss sector continues to increase market share, although slowly. The commercial market sector offers substantially lower PMM (per member month) rates and has performed better than the health plan sector.

Large Claims Continue to Grow.

Underwriters are reporting increasing frequency and severity of high-cost claims and are increasing their use of "lasers" and exclusions to mitigate these costs; aggressive claim, enrollment, and eligibility adjudication; and the application of pharmacy rebates to offset stop loss recoveries.

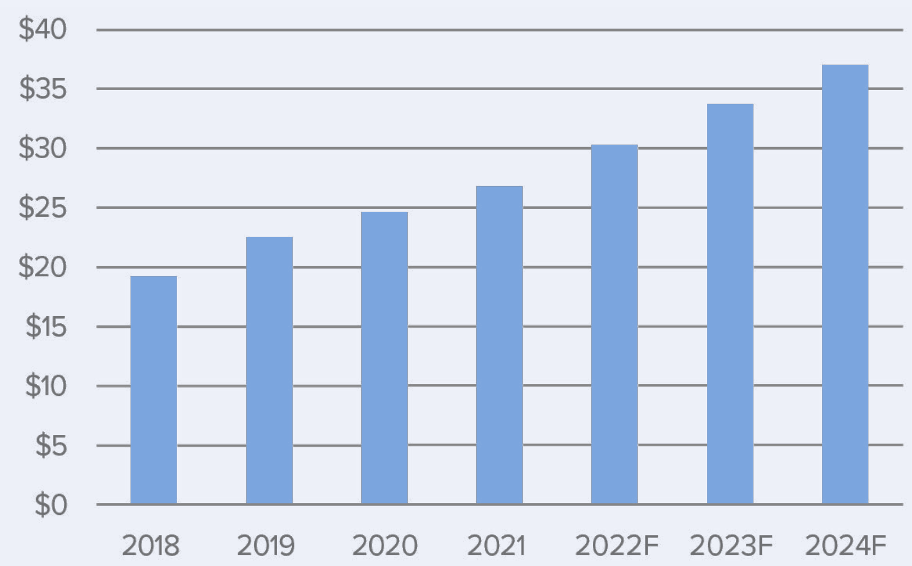
Inflation Assumptions May Need To Be Increased.

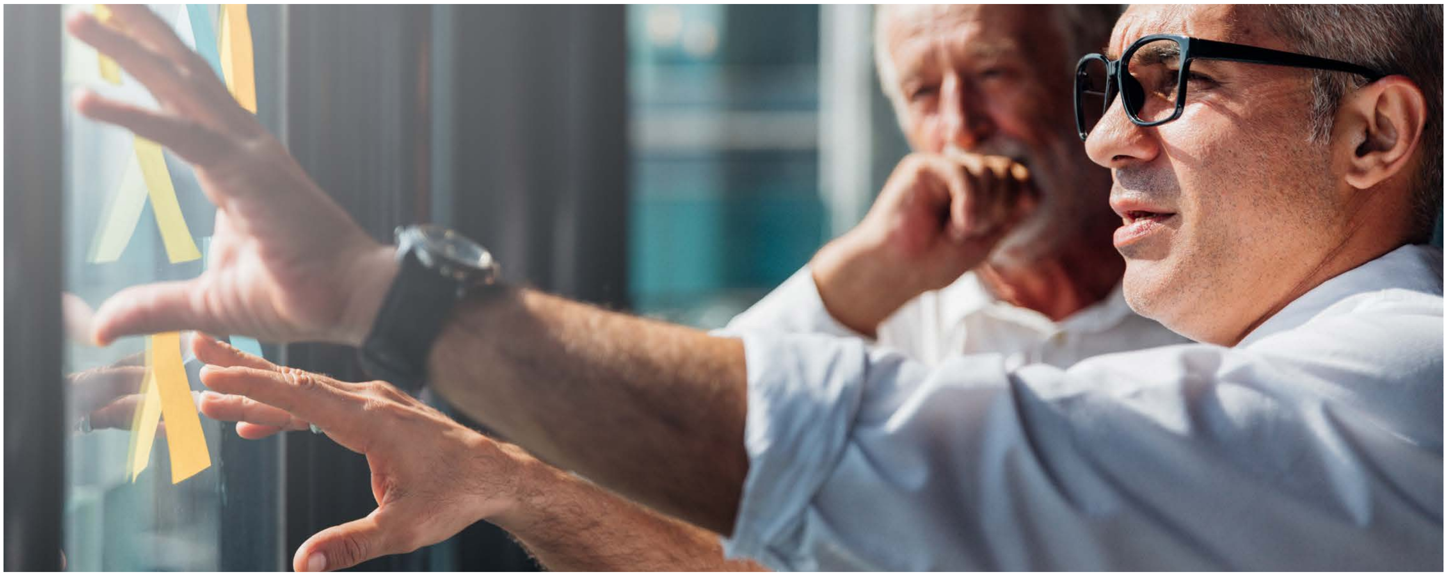
Health care CPI (consumer price index) increased an average of 3.2% in the first six months of 2022, compared to 1.2% for all of 2021. Health care spending was originally expected to grow at an average annual rate of 5.1%. Given recent inflation, these annual growth rates may be understated.

Stop Loss Excess Loss Premium

$ in billions

Prepared by Conning, Inc.
Source: ©2022 S&P Capital IQ Pro, Conning analysis and forecast





Leading Stop Loss Insurers

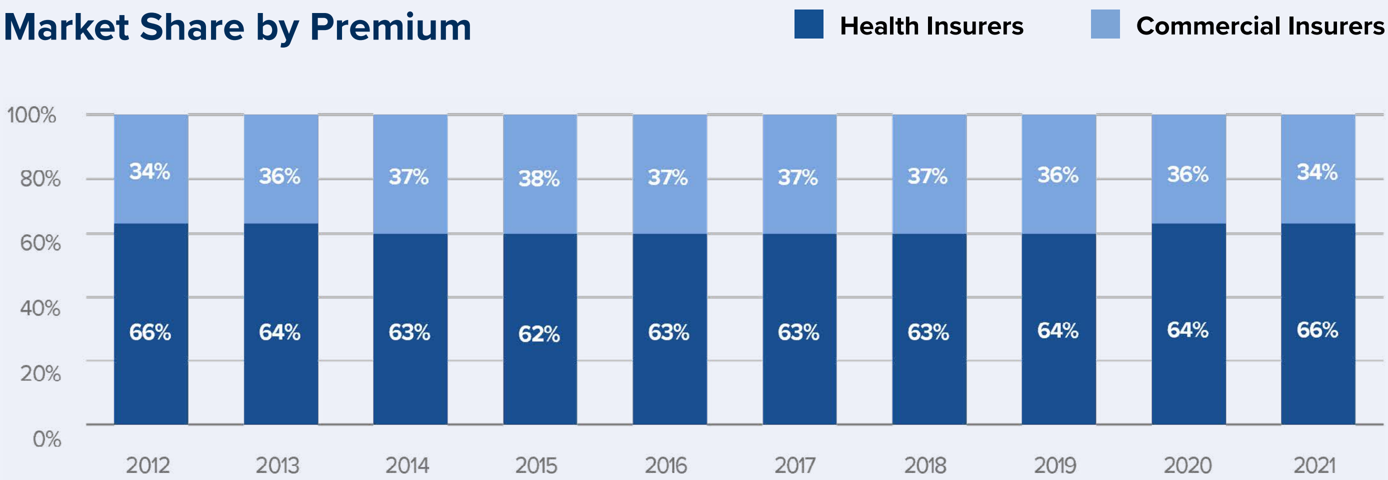
Key Takeaway

The top 25 stop loss insurers, based on 2021 premium, generated 87% of all stop loss premium, and the ten largest accounted for 68%.

Key Highlights

- The financial results reported are based on statutory data filed with the NAIC (National Association of Insurance Commissioners) and S&P Capital IQ Pro. This statutory data does not include employer stop loss premiums and reinsurance premiums related to the use of medical stop loss captive insurance.
- Industry premiums increased at a compounded annual growth rate ("CAGR") of 11.4% between 2018 and 2021. from $20.4 billion to $28.1 billion, respectively.
- The top 25 stop loss insurers, based on 2021 premium, generated 87% of all stop loss premium, up from 82% in 2016, and the ten largest accounted for 68%.
- Insurers ranked #26 to #50 generated 10% of the stop loss premium. No insurer within this group had more than 0.7% market share.
- Allstate saw the largest increase in stop loss premiums over the past three years. This was driven primarily by the acquisition of National General Life, which was completed on January 4, 2021. This increased the company's direct earned premium from
- $18.8 million in 2018 to $378.4 million in 2021, a 1,917% increase.
- Blue Cross Blue Shield of Kansas City has seen an increase in premium revenue. In the 2021 MD&A of Missouri Valley Life and Health Insurance Company, BCBS of Kansas City's subsidiary, the company noted that "the increase in premium revenue is primarily due to a shift from fully insured to self-insured arrangements and rate increase implemented to improve the loss ratio and overall profitability."

Market Share by Premium



Prepared by Conning, Inc. Source: ©2022 S&P Capital IQ Pro

Key Takeaway

The market consists of two segments of insurers: health plans—stop loss provided by health plans as part of a broader administrative services only relationship; and commercial insurers—stop loss provided by admitted commercial insurance companies to employers independently purchasing stop loss.

- Of the business written by the top 50 stop loss insurers, approximately 66% of it was written by health insurers that also offer individual comprehensive, group comprehensive health insurance, Medicaid, Medicare, or some combination of these products.
- Approximately 34% of the business is written by commercial insurance companies that offer no other significant health insurance product. Many of them are reinsurers or property-casualty insurers.
- The proportions of premium written by health insurers and commercial insurers have remained relatively stable in recent years, increasing just 4 percentage points since 2014.
- Health plans wrote 63.5% of the ESL (employer stop loss) premium in 2021, although insuring only 53% of the member month. GWP (gross written premium) has grown at a CAGR of 12.0% since 2018 while member months grew 2.7%. As a result, PMM rates have increased from $37.35 to $48.37. Loss ratios increased from 81.4% in 2018 to 89.1% in 2021.
- Commercial insurers wrote 36.5% of the ESL premium in 2021 but accounted for 47% of the member months. GWP grew at 10.3% CAGR and member months grew 1.1% CAGR since 2018. Reflecting market competition, rates were significantly lower than health plans, growing from $20.90 to $27.10 PMM. Meanwhile, the loss ratio in this sector dropped from 76% in 2018 to 71.7% in 2021.

Stop Loss, Excess Loss Earned Premium: Top Companies #1-#25*

$ in millions

Rank	Company/Group	H C*	2021 Direct Earned Premium	2018 Net Earned Premium	2018-2021 CAGR Premium Growth	Market Share 2021E	Market Share 2018
1	CIGNA	H	$4,138	$3,312	7.70%	14.70%	16.30%
2	UnitedHealth	H	2,954	1,555	23.80%	10.50%	7.60%
3	Sun Life Financial Inc	C	2,210	1,453	15.00%	7.90%	7.10%
4	Aetna (CVS Health)	H	2,049	1,615	8.30%	7.30%	7.90%
5	Elevance Health (Anthem)	H	1,835	1,245	13.80%	6.50%	6.10%
6	Reliance Standard (Tokio Marine)	C	1,750	1,303	10.30%	6.20%	6.40%
7	HCSC	H	1,365	810	19.00%	4.90%	4.00%
8	Voya Financial	C	1,164	934	7.60%	4.10%	4.60%
9	Highmark	C	899	752	6.20%	3.20%	3.70%
10	Symetra (Sumitomo)	C	774	702	3.30%	2.80%	3.40%
11	Humana	H	683	269	36.50%	2.40%	1.30%
12	Blue Cross Blue Shield of South Carolina	H	501	487	1.00%	1.80%	2.40%
13	QBE Insurance Group Ltd.	C	451	289	16.00%	1.60%	1.40%
14	WR Berkley	C	441	369	6.10%	1.60%	1.80%
15	Fairfax Financial Holdings Ltd.	C	412	238	20.00%	1.50%	1.20%
16	Swiss Re	C	389	366	2.00%	1.40%	1.80%
17	Allstate	H	378	19	172.20%	1.30%	0.10%
18	Western and Southern	C	351	0	N/M	1.20%	0.00%
19	Blue Cross Blue Shield of Michigan	H	349	345	0.30%	1.20%	1.70%
20	Nationwide	C	325	195	18.60%	1.20%	1.00%
21	Wellmark	H	276	201	11.10%	1.00%	1.00%
22	Medical Mutual of Ohio	H	232	171	10.60%	0.80%	0.80%
23	Blue Cross Blue Shield of Massachusetts	H	225	140	17.10%	0.80%	0.70%
24	Blue Cross Blue Shield of Minnesota	H	221	211	1.60%	0.80%	1.00%
25	Blue Cross & BS of NC	H	211	123	19.80%	0.70%	0.60%
	Total, Top 25		**$24,581**	**$17,102**	**12.90%**	**87.40%**	**84.00%**

**H = Health Insurance Company, C = Commercial Insurer*
***Direct premium was not reported on the statutory financial statements until 2021.*

Prepared by Conning, Inc. Source: ©2022 S&P Capital IQ Pro

Stop Loss, Excess Loss Revenue: Top Companies #26-#50*

$ in millions

Rank	Company/Group	H C*	2021 Direct Earned Premium	2018 Net Earned Premium	2018-2021 CAGR Premium Growth	Market Share 2021E	Market Share 2018
26	Pan American Life	H	$194	$80	34.70%	0.70%	0.40%
27	SiriusPoint Ltd.	C	193	159	6.70%	0.70%	0.80%
28	Regence	H	185	84	30.20%	0.70%	0.40%
29	Premera	H	181	121	14.40%	0.60%	0.60%
30	Fidelity Security Life Insurance Company	C	171	0	N/M	0.60%	0.00%
31	Berkshire Hathaway	C	135	117	4.80%	0.50%	0.60%
32	Capital Blue Cross	H	121	91	10.10%	0.40%	0.40%
33	American Fidelity (Cameron)	C	119	98	6.60%	0.40%	0.50%
34	HealthPartners	H	117	98	6.10%	0.40%	0.50%
35	Blue Cross Blue Shield of Arizona Inc	H	114	73	16.30%	0.40%	0.40%
36	The Westaim Corporation	C	112	82	10.80%	0.40%	0.40%
37	HealthyDakota Mutual Holdings	H	111	0	N/M	0.40%	0.00%
38	Trustmark Insurance Company	C	111	117	-1.70%	0.40%	0.60%
39	Blue Cross Blue Shield of Florida	H	105	73	12.90%	0.40%	0.40%
40	Blue Cross Blue Shield of Kansas City	H	102	36	41.60%	0.40%	0.20%
41	Medica	H	99	0	N/M	0.40%	0.00%
42	Blue Cross Blue Shield of Kansas	H	95	68	12.00%	0.30%	0.30%
43	Educators Mutual	C	95	60	16.70%	0.30%	0.30%
44	Blue Cross Blue Shield of Tennessee	H	71	68	1.50%	0.30%	0.30%
45	Unum	C	66	0	N/M	0.20%	0.00%
46	AXA SA	C	66	56	5.60%	0.20%	0.30%
47	Excellus	H	64	56	4.60%	0.20%	0.30%
48	CareFirst	H	64	47	11.00%	0.20%	0.20%
49	Horizon	H	63	27	32.00%	0.20%	0.10%
50	Liberty Mutual Holding Company Inc.	C	53	127	-25.10%	0.20%	0.60%
	Total, 26 through 50		**$2,810**	**$1,737**	**17.40%**	**10.00%**	**8.50%**
	Companies ranked 1-50		**$27,391**	**$18,839**	**13.30%**	**97.40%**	**92.60%**
	Industry		**$28,126**	**$20,352**	**11.40%**		

**H = Health Insurance Company, C = Commercial Insurer*
Prepared by Conning, Inc. Source: ©2022 S&P Capital IQ Pro

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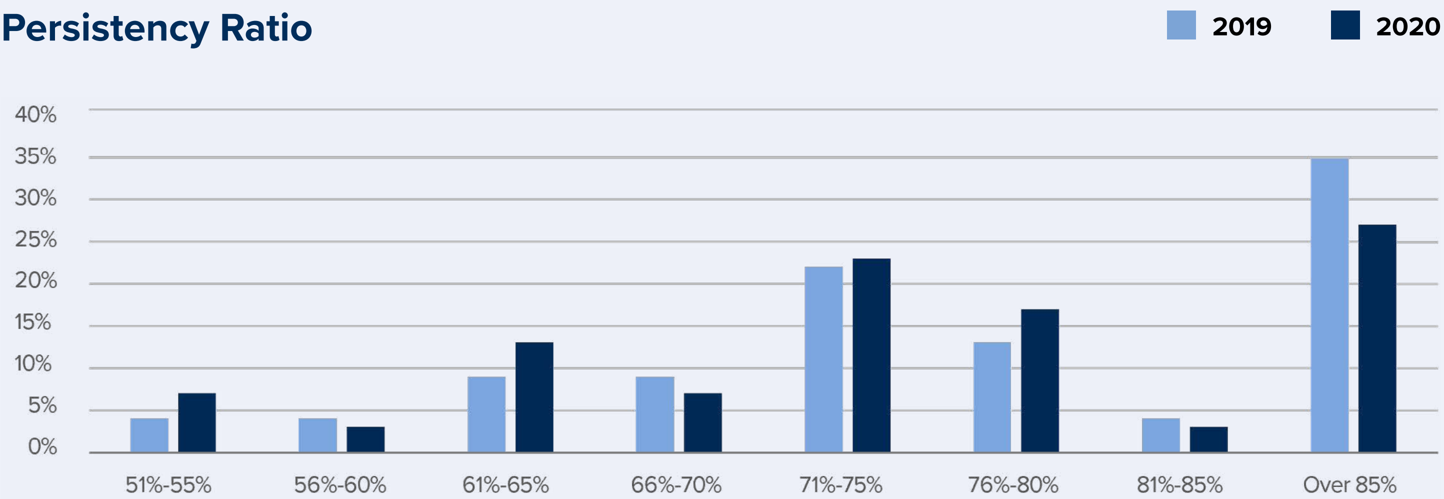
Key Takeaway

While the stop loss market is large and growing, the benefit of competition continues to be constrained by high persistency rates and limited movement from health plan to commercial stop loss insurers. Recent surveys suggest this movement may be increasing.

- Historically, employers do not tend to change stop loss insurers with any frequency, largely due to high switching costs and favorable incumbent renewal incentives.
- A 2021 survey by Milliman reported that 27% of stop loss insurers had a persistency rate exceeding 85% during 2020. This is a decrease from the 2019 results that reported 35% of stop loss insurers had that level of persistency, according to the 2020 edition of the survey.
- According to a 2020 survey by Segal Consulting, 86% of employers putting their stop loss coverage out to bid chose to remain with the incumbent insurer; only 14% chose a new insurer. In the 2019 survey, 89% of employers remained with the incumbent insurer and 11% chose a new insurer.
- Employers responding to the Aegis Risk 2021 Medical Stop Loss Premium Survey rank-ordered placement objectives when going to market:
  - » Place with a commercial underwriter external to the health plan/ASO.
  - » Placement with health plan/ASO for seamless integration even at a higher price.
  - » Placement with lowest rate with only a secondary focus on policy language and underwriter attributes.
- Carve-out stop loss and placement with underwriters using indexed deductibles were least attractive.

Persistency Ratio



Prepared by Conning, Inc. Source: Milliman, "Observations on the Employer Stop Loss Market, 2021 Survey"

Performance Analysis

The sections that follow discuss the financial results for the employee stop loss insurance business, using data filed with the NAIC (National Association of Insurance Commissioners) and S&P Capital IQ Pro. Where possible, we have tried to make observations and comparison on the performance for the total stop loss market as well as the health plan and commercial segments. Except where indicated, all information is reported per member month.

Gross Premium

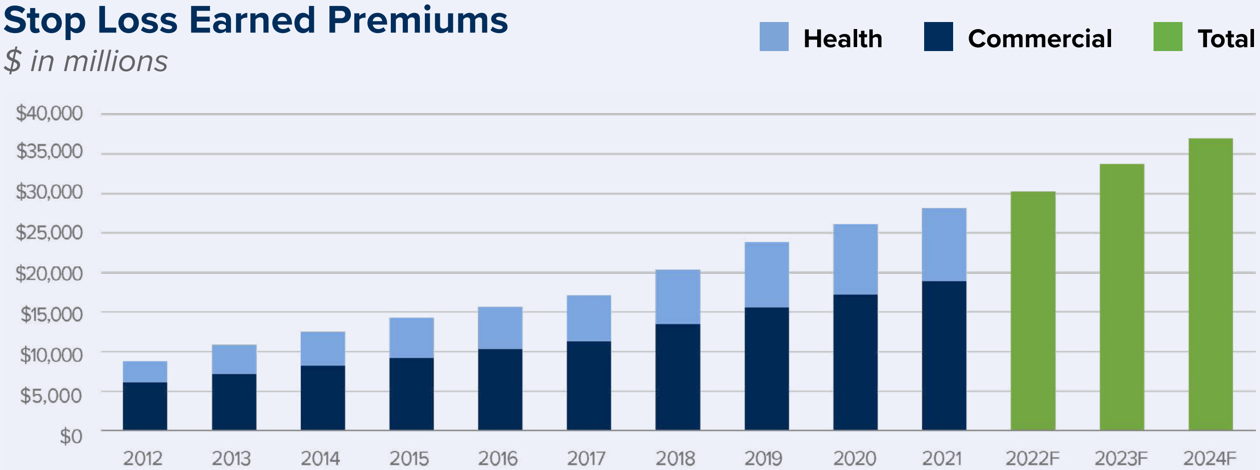
- According to the 2021 KFF Employer Survey, 155 million employees are covered by an employer-sponsored plans, and about 62% of these eligible employees are covered by a self-funded plan. These figures are roughly the same as the 2020 survey.
- Premium growth is solely due to rate increases, as member months have grown at a CAGR of only since 2018.
- Since 2018, ESL premiums have grown at a CAGR of 11.4%, significantly less than the 15% annual increase one would expect as leverage trend on a 5% first dollar inflation rate. Employers may be raising the individual deductibles and reducing coverage in order to minimize premium increases.
- PMM premium has increased 30.4% since 2018, significantly less than the 36.6% increase in losses.
- With an estimated industry-wide combined ratio of 93.5% and losses and inflation growing at a faster rate than premium, it is reasonable to expect that underwriters will continue to increase rate and/or coverage reductions to restore profitability.
- Overall stop loss earned premiums have increased more than 220% since 2012, from $8.8 billion to $28.1 billion in 2021.
- Since 2018, total premiums have increased by more than 38%. Conning projects stop loss earned premiums to increase an additional 38% between 2021 and 2024 to an industry total of $36.96 billion.
- Earned premium for health insurers represents approximately 68% of the total premium for the industry in 2021. This percentage has increased slightly over the past four years.

Key Takeaway

Annual employer stop loss premium has grown steadily since 2012 and the requirement to provide unlimited befits under ACA. Premium grew at a CAGR of 11.4% since 2018.

Stop Loss Earned Premiums

$ in millions



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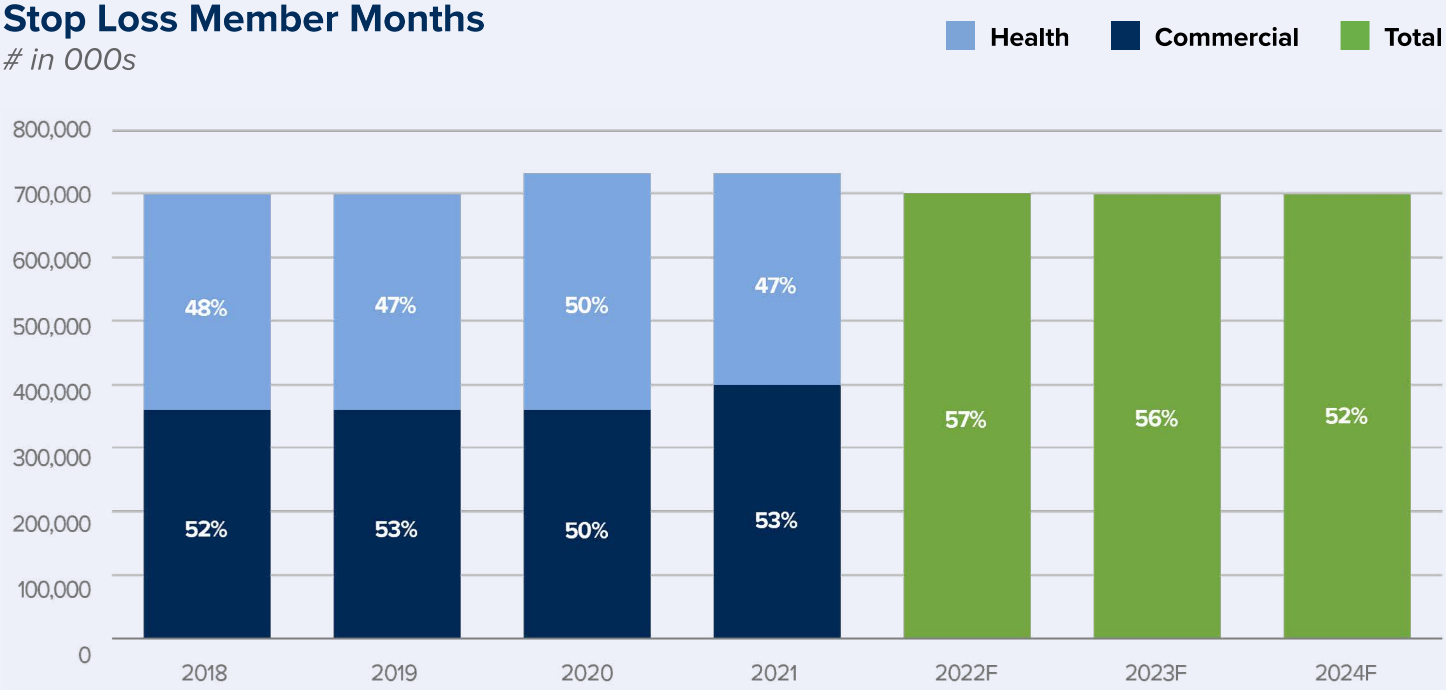
Member Months

- Health insurers have a much greater percentage of member months than commercial insurers hovering around 60% through 2016. Since then commercial insurer market has grown and market share is now split roughly 50/50
- Member month growth for health insurers, indexed to 2012, has been lower than the full industry beginning in 2016. Health insurer member growth has remained relatively flat between 2016 and 2021, averaging around 2% since 2012.
- Comparatively, commercial insurers have grown to 176% of their 2012 value through 2021.
- Since 2018, the total membership growth through 2021 was at a CAGR of 1.9% and is forecast to remain below 2% through 2024.
- Health and commercial insurers have reported varied year-over-year membership growth, with commercial insurers reporting a decrease in members in 2019 and health insurers reporting a decrease in members in 2020.
- As a point of comparison, total group comprehensive membership has decreased every year since 2018. The largest decrease in recent years was a 4.5% decrease in 2020 due to the effects of the pandemic.

Stop Loss Member Months

 # in 000s



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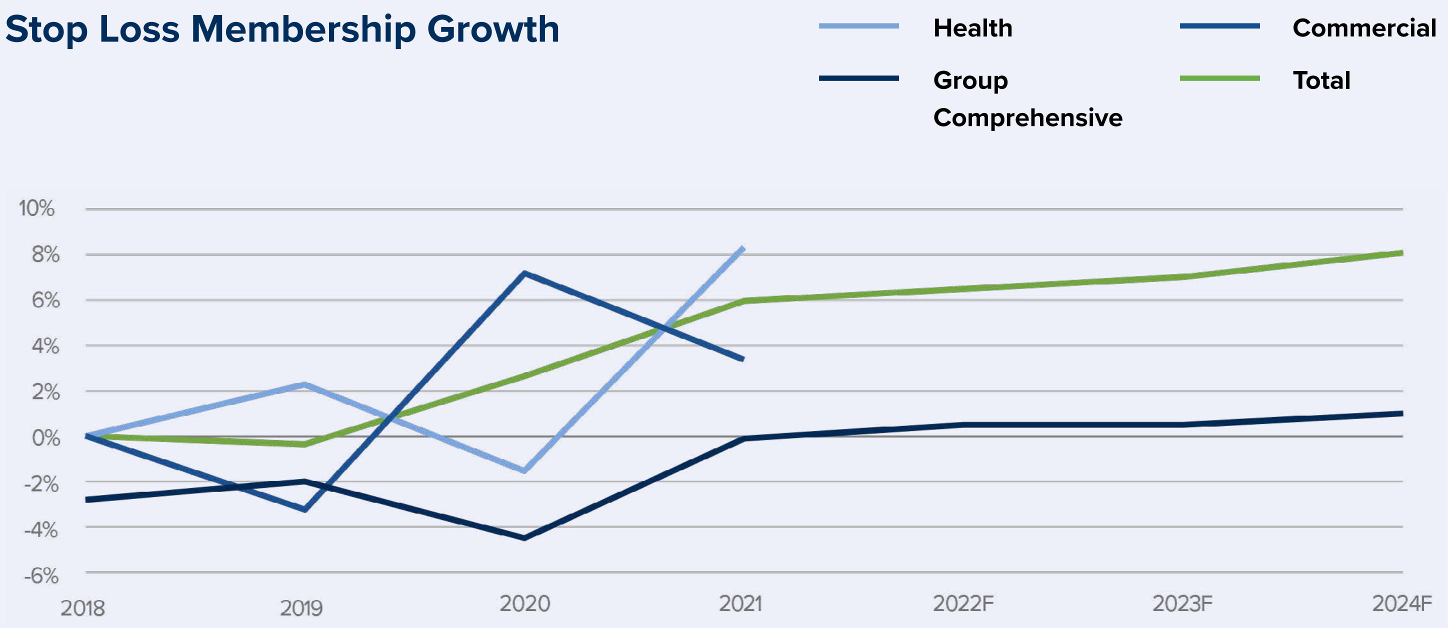
Stop Loss Membership Growth



Prepared by Conning, Inc. Historical data source: ©2022 S&P Capital IQ Pro, forecast source: Conning, Inc.

Key Takeaways

Member months increased 3.2% in 2021 to 731.8 million. Since 2012, commercial market share has grown from 28% to 47%.

- Perhaps due to the pandemic, member months in 2020 and 2021 were volatile. Health plans reversed their 2020 decline increasing their enrollment by 35.5 million in 2021 – a 10% increase. Correspondingly, commercial insurers gave back their 2020 increase losing 12.5-million-member months – a 3.5% decline.
- The volatility in recent years disrupted the steady growth in commercial member months between 2012 and 2018. During that six-year period, commercial insurers added 207-million-member months – a 167% increase and a CAGR of 17.7% – while health plans grew 15%, a CAGR of 2.4%, adding only 76.9-million-member months.

Premium Rates

Significant drivers of stop loss premium include the prevalence of high-cost claims and the customer's choice of attachment point. Some of the common high-cost claims are neonatal intensive care unit stays, organ transplants, hemophilia, and cancer.

Premiums

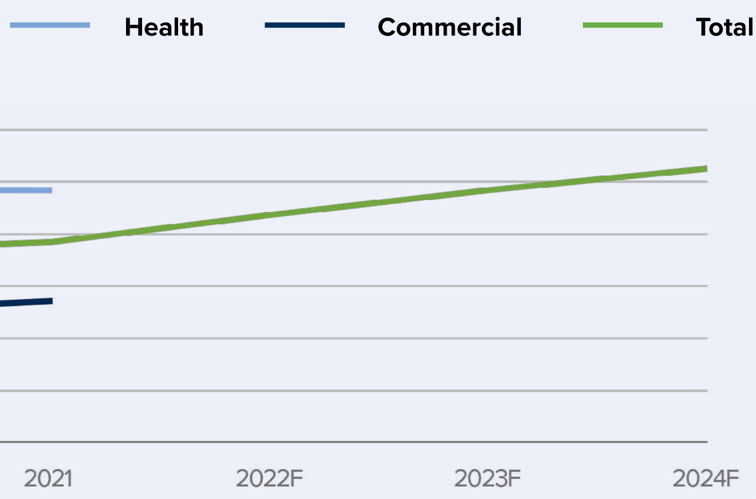
- Premiums for health insurers increased faster than the industry average, reaching $48.38 PMM in 2021.
- Premiums for commercial insurers increased modestly to only $27.10 PMM in 2021.
- By changing their aggregate and individual stop loss coverages and attachment points, customers have significant control over their premium rates. As a result, premiums for the industry do not always increase proportionately in response to medical cost inflation or group comprehensive premium rates.
- Commercial rates have averaged less than health plan rates, but with the wide variety of coverage levels and differences in the mix of business, it is not possible to determine whether this difference should create a competitive advantage.
- Premium per member per month varies significantly depending on the attachment point. A higher attachment point can significantly decrease the premium per member per month, and the existence of both aggregate and specific stop loss can also decrease premium for each of the coverages.

Key Takeaway

Given modest membership growth, 59% of the gross premium increases is attributable to PMM rate increases. Health insurer rates increased faster than the industry average, reaching $48.38 PMM in 2021. Premiums for commercial insurers increased modestly to only $27.10 PMM in 2021.

Premiums

per member per month



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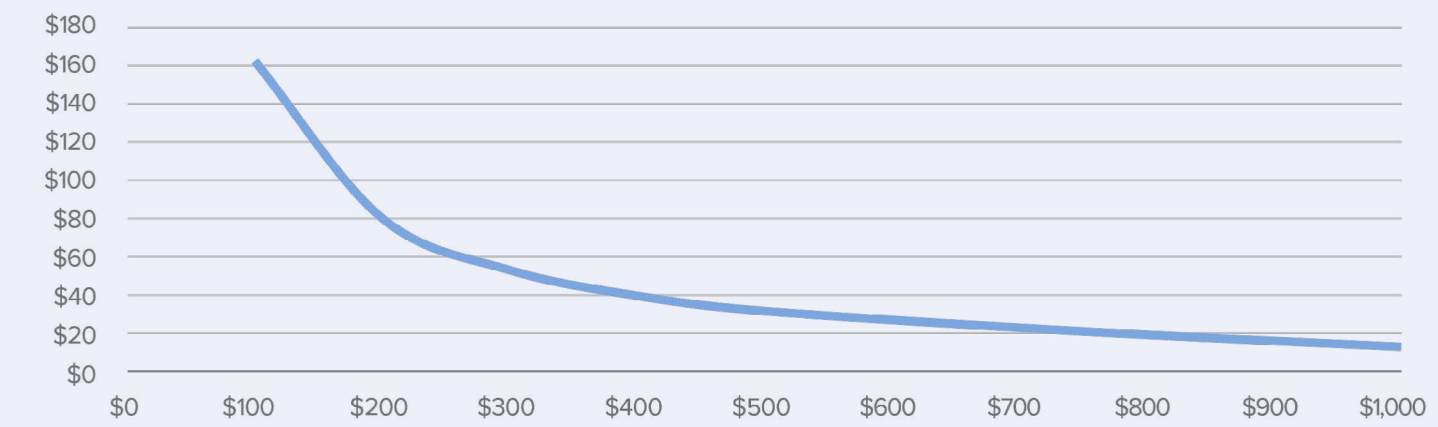
Premium by Stop Loss Attachment Point

The vertical axis is $ per member per month & the horizontal axis is attachment point $ in 000s



Prepared by Conning, Inc. Source: Aegis Risk "2021 Aegis Risk Medical Stop Loss Premium Survey"

Premium Increases and Leverage

Stop Loss PMM rates have increased only 2.2 and 3.3 percentage points more than medical CPI in 2020 and 2021, respectively. Given the highly leveraged nature of stop loss premium rates relative to medical CPI (described in the section that follows), these differences appear to be significantly smaller than normal. National Health Expenditures increased 9.4% in 2021, which was greater than the increase in stop loss premium rates. This could indicate that employers are changing their stop loss coverage to reduce their premiums, that stop loss insurers are under pressure to keep rate increases low, or both.

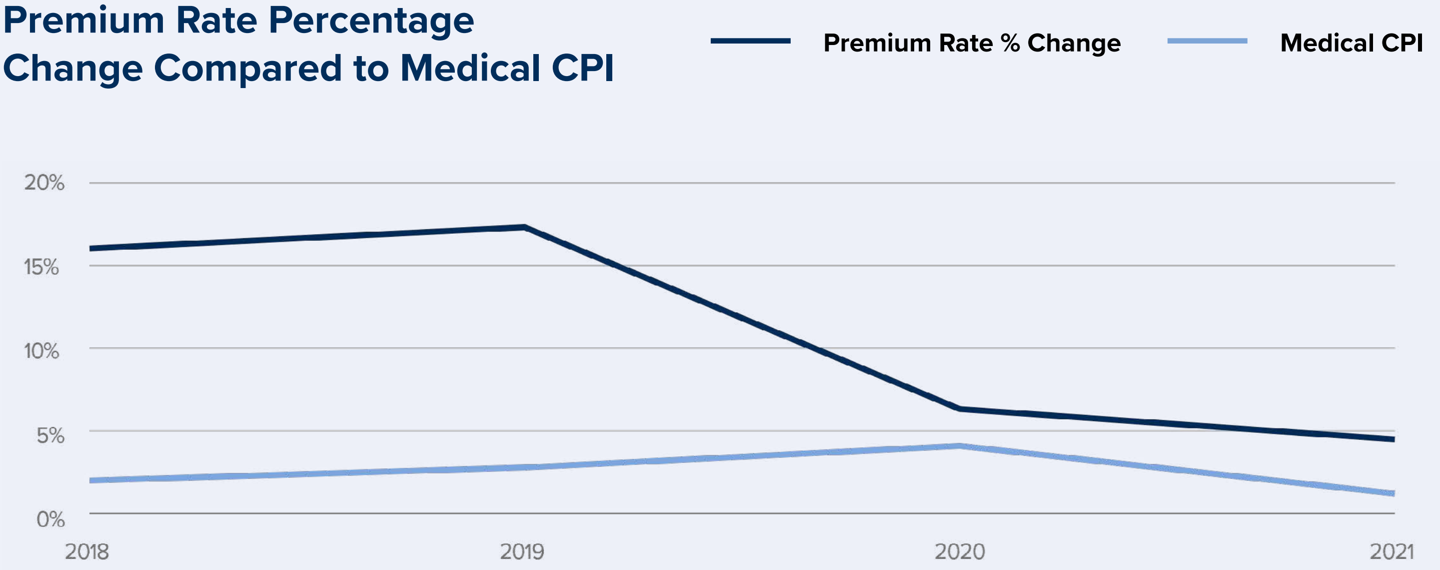
Neither of those actions can be sustained for lengthy periods of time. If an employer continues lowering its stop loss coverage, it will eventually become meaningless. If the insurance company does not increase rates enough, it will eventually sustain losses. Therefore, future rate increases are likely to accelerate.

Larger insurers and health insurers with more diversified revenue sources are likely to be able to keep rate increases lower for longer. This will give them a competitive advantage and the opportunity to increase their market share. Smaller companies, less able to compete, could become acquisition targets.

Key Takeaway

Rate increases have lagged the increase that would have been expected based on inflation and leveraged trend.

Premium Rate Percentage Change Compared to Medical CPI



** National Health Expenditure data are only available through 2020 as of 8/17/2022.*

Prepared by Conning, Inc. ©2022 S&P Capital IQ Pro; Bureau of Labor Statistics, U.S. Department of Labor (2022), Centers for Medicare and Medicaid Services, U.S. Department of Health & Human Services (2022)

Leverage

A slight increase in claims can result in a much larger increase in stop loss premium rates because of the leverage effect of the attachment point.

In the adjacent example, a 5% increase in the underlying Attachment Point claims results in a 15% increase in the claims covered by loss. As a result, stop loss premium rates typically increase more in a given year than the medical inflation rate, all other things being equal. Given the volatility in recent medical CPI and changes in average stop loss premium rates, however, there does not appear to be a predictable multiplier to project stop loss premiums based on the medical inflation rate. Possible reasons include changes in the mix of business and companies that change their attachment point to mitigate stop loss premium rate increases.

	Year 1	Year 2	% Increase
Aggregate Claims	1,500,000	1,575,000	5%
Attachment Point	1,000,000	1,000,000	
Stop Loss Claims	500,000	575,000	15%

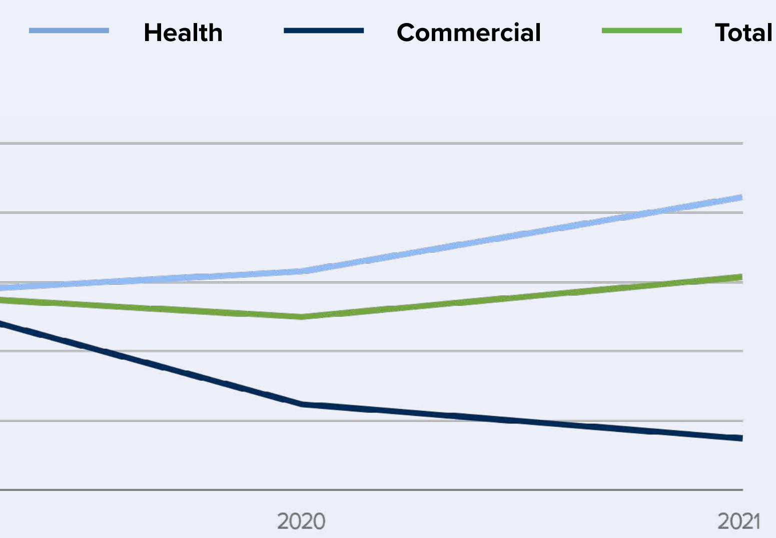
Loss Ratios

- The industry-wide loss ratio (losses divided by premium) has increase steadily from 73.6% in 2012 to 83.3% in 2021. Adding insurance company expense, combined ratios (total cost divided by premium) has increased to nearly 100%.
- Loss and combined ratios for health plan business reached 89.1% and 100.1% respectively in 2021 – a 9.4% and 8.3% increase respectively since 2018. This may be a misleading as health plans generally have lower insurance company loads than commercial carriers.
- Commercial insurers have performed better since 2018 with loss and combined ratios of 71.7% and 86.7% respectively – both representing declines since 2018.
- Health insurers often provide group comprehensive benefits to large employers as well as stop loss coverage. When providing both services, health insurers can be less concerned with the loss ratio on stop loss, instead focusing on the total revenue and expense for the combination of comprehensive benefits and stop loss.

Key Takeaway

Industrywide, stop loss insurance ratios and combined ratios are increasing faster than premium rate increases – converging trajectories that may soon drive prices up as underwriters look to restore profitability.

Stop Loss, Loss Ratio



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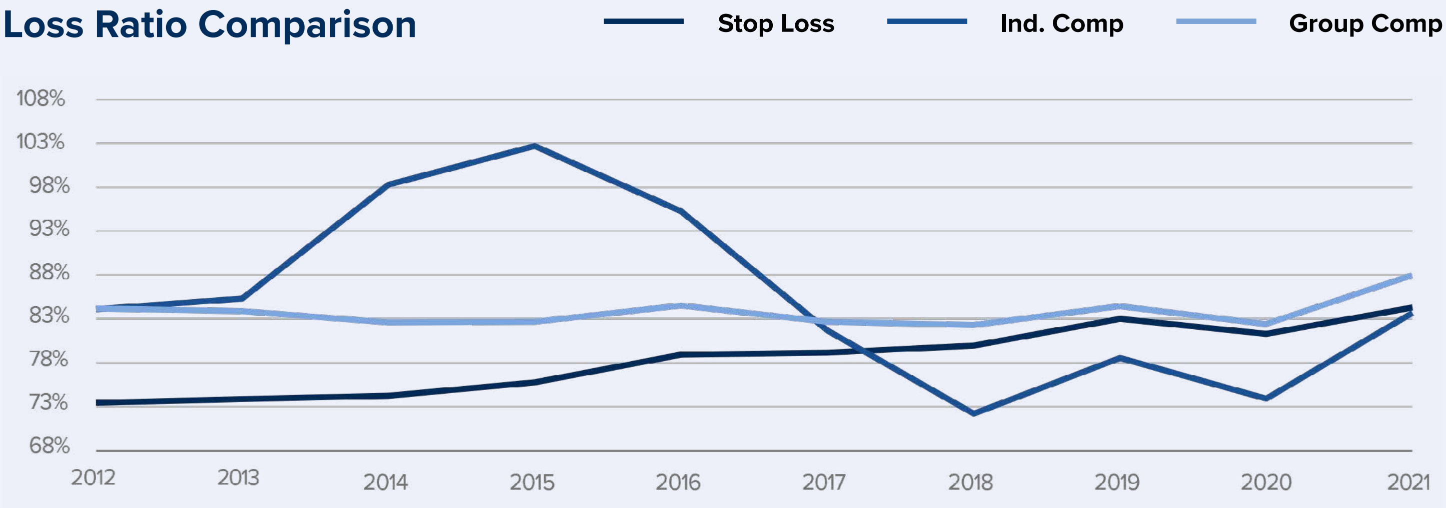
Loss Ratio Comparison



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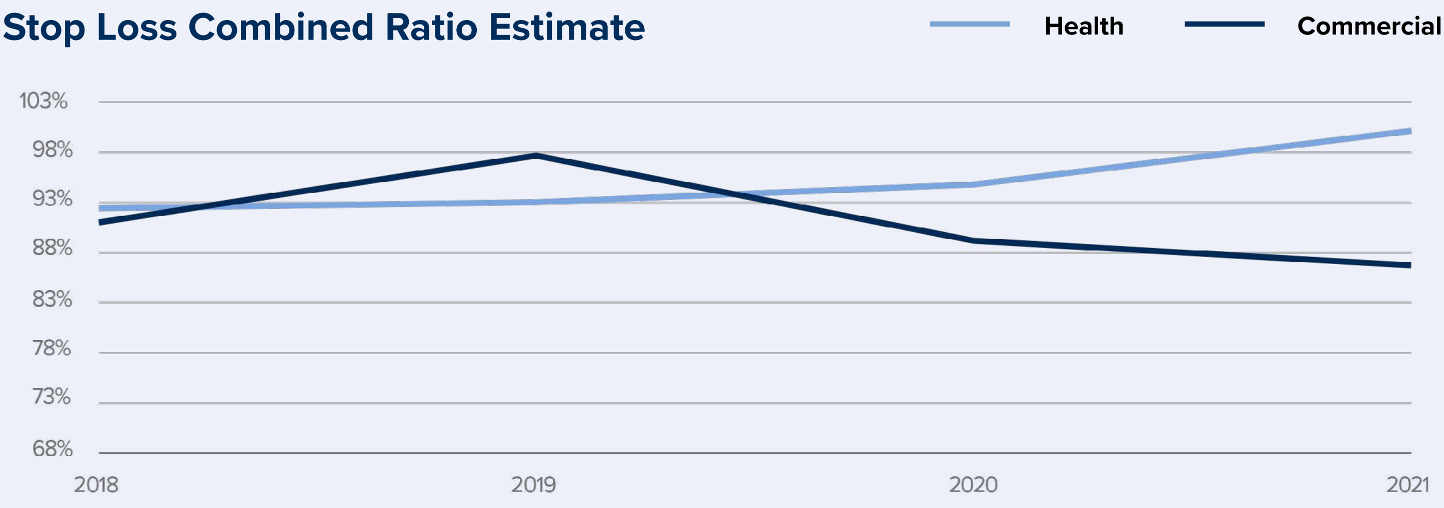
Stop Loss Combined Ratio Estimate



Prepared by Conning, Inc. Historical data source: ©2022 S&P Capital IQ Pro

- Combined ratio estimates for both health and commercial industries are based on estimates provided by Milliman. They do not include retail placement commissions or ancillary fees for data.
- Health insurers are less likely to be focused on the combined ratio for stop loss but are more likely to manage the overall relationship with each customer, including stop loss, group comprehensive, and any other product purchased by the customer. Commercial insurers are less likely to have multiple products with a stop loss customer, making the standalone combined ratio for stop loss more important.

Underwriting

Large Claims

Employers are facing increased risk of catastrophic claims due to the increasing frequency and the severity of large claims. After the ACA required insurers to assume unlimited claim liability in 2014, insurers saw an increase in both the frequency and severity of claims in excess of $1 million.

Sun Life reports that the number of $1 million claims per a million employees increased to 137—a 37% increase since 2018. TMHCC reports that the frequency of $2 million claims has grown twice as fast over the same period. Drivers of this increase include high-cost gene and cell therapies, specialty drugs, and behavioral health claims. These forces create pressure to increase stop loss premium rates.

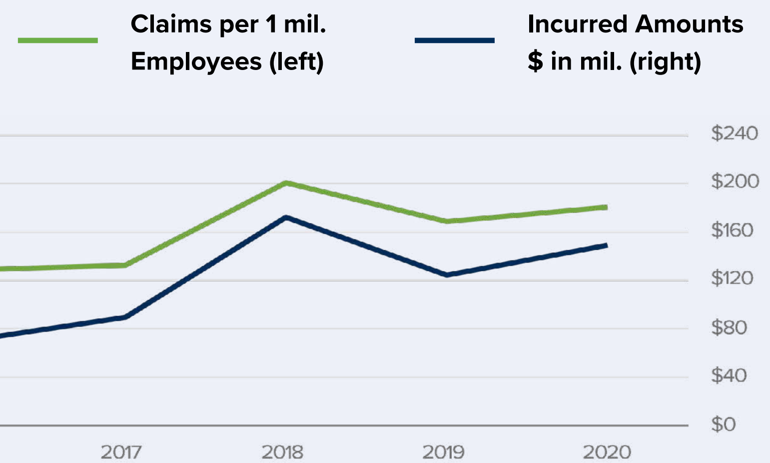
- In the 2022 edition of the Sun Life Stop Loss & Health Research Report, the company noted that, between 2017 and 2020, 21% of their employers had a member with more than $1 million in claims. These $1 million claims are up 19% between 2020 and 2021, and the number of claims per one million employees increased 21%. The company's highest-cost claim was for hemophilia/bleeding disorder at $6.23 million.
- In the 2021 Aegis Risk Medical Stop Loss Premium Survey, 60% of survey respondents had a claim in excess of $500,000 in the past two years, down from 70% in 2020. Of those surveyed, 29% saw claims in excess of$1 million in the past two years, and 8% of those claims exceeded $2 million. This is down slightly from the 2020 survey, which saw 31% with a claim in excess of $1 million and 9% with claims exceeding $2 million.
- In Tokio Marine's 2021 annual stop loss market report, the company noted the increase in incurred claims over $1 million. The graph below shows the number of million-dollar claims per one million employees as well as the incurred amounts. Since 2014, the average number of claims per one million employees has been 36 and the incurred amounts averaging $102 million.
- The frequency and severity of large claims is the primary driver of stop loss rate increases. Underwriters have identified a number of contributing factors.

Key Takeaway

Both the frequency and severity of large claims, particularly those excess of $1 million per beneficiary, continue to increase dramatically.

Tokio Marine Stop Loss Group Million Dollar Claims

Incurred Claims in Excess of $1 million



Prepared by Conning, Inc. Source: Tokio Marine HCC – Stop Loss Group 2021 Annual Market Report

Behavioral & Mental Health

Both Sun Life and QBE have commented on growth in mental and behavioral health claims. Sun Life noted increases of 21% over 2020. Total spend increased by 22%. Average cost remains stable at about $68,000, suggesting these claims will have more impact on aggregate than specific excess.

COVID-19

- TMHCC, QBE, and Sun Life have all reported that the frequency and severity of COVID-19 claims has increased since January 2020. TMHCC reports that the average COVID-19 claim grew from $151,456 in 2020 to $208,418 year-to-date in 2022. Sun Life reports that, in 2021, COVID-19 claims were the eighth-largest cause of reimbursement with a 276% increase in cost and 354% increase in frequency. The average cost was $231,000. Sun Life also reports concern about the impact of the Omicron variant on these trends.
- Most treatment does not require hospitalization, but the most severe COVID-19 cases are life-threatening and expensive. The average cost will likely decrease as more becomes known and treatments improve.

Large Claim Frequency

In the 2022 Edition of the Sun Life & Health Research Report, Sun Life reported on claim frequency and severity for the last four years.

Top Ten High-Cost Claims by Frequency

1. Malignant neoplasm (Average $170K)
2. Leukemia, Lymphoma, Myeloma (Average $258K)
3. Cardiovascular (Average $102K)
4. Orthopedics (Average 75K)
5. Newborn & Infant Care (Average $318K)
6. Respiratory Disorders (Average $80.8K)
7. Urinary & Renal Care (Average $114K)
8. Neurological (Average $75.2K)
9. Gastrointestinal (Average $76.3K
10. Sepsis (Average $179.6K)

Average Treatment Cost-Transplant

1. Heart (Average $1.664M)
2. Intestine (Average $1.24M)
3. Bone Marrow (Average $1.07M)
4. Lung (Average $929K)
5. Liver (Average $878K)
6. Kidney (Average $442K)
7. Pancreas (Average $409K)
8. Cornea (Average $33K)

Lasers

A “laser” is a claim liability limit that applies to one specific person with a known high-cost condition. A laser can also limit or exclude coverage for a specific condition, procedure, or drug, regardless of who that limit may apply to. Anecdotally, the use of lasers has been generally increasing in recent years.

- As part of Aegis Risk’s 2021 Medical Stop Loss Premium Survey, of total respondents, 19% reported at least one known lasered claimant. This is in line with prior years.
- Stealth Partner Group reported as part of its State of the Market June 2022 report that 44% of groups on Stealth’s book had a laser present. This is an increase from 34% of the block of business that had lasers applied to individuals.
- Stealth Partner Group also reported the number of new laser and renewal cap provisions increased to 68%in 2022, compared to 65% in 2021.
- RxPharmacy Assurance reported on its website that “21% of plans report at least one lasered claimant.”

Medical Inflation

Inflation has been a major economic topic over the past twelve months, with much of the focus on the 7% to 9% CPI levels breached in the first half of 2022. There have been multiple causes for the accelerating prices of goods and services, which have included supply disruptions, demand bursts, tight labor markets, low interest rates, as well as geopolitical instability. However, despite all these forces, medical care inflation has remained below overall inflation.

Historically, this has not been the case. Between January 2012 and February 2021, total CPI inflation averaged 1.6%, whereas total medical care CPI averaged 2.9% during the same period. Beginning March 2021, total CPI shifted and through June 2022 has averaged 6.4% compared to 1.9% for total medical care CPI.

This is not to say that medical inflation will not increase in the future. Inflation within the health care space typically takes time to be seen, as provider payments are determined by government programs or previously enacted contracts with health insurers. Providers have struggled recently with employment and wages, as well as supply issues, including both inflation and shortages.

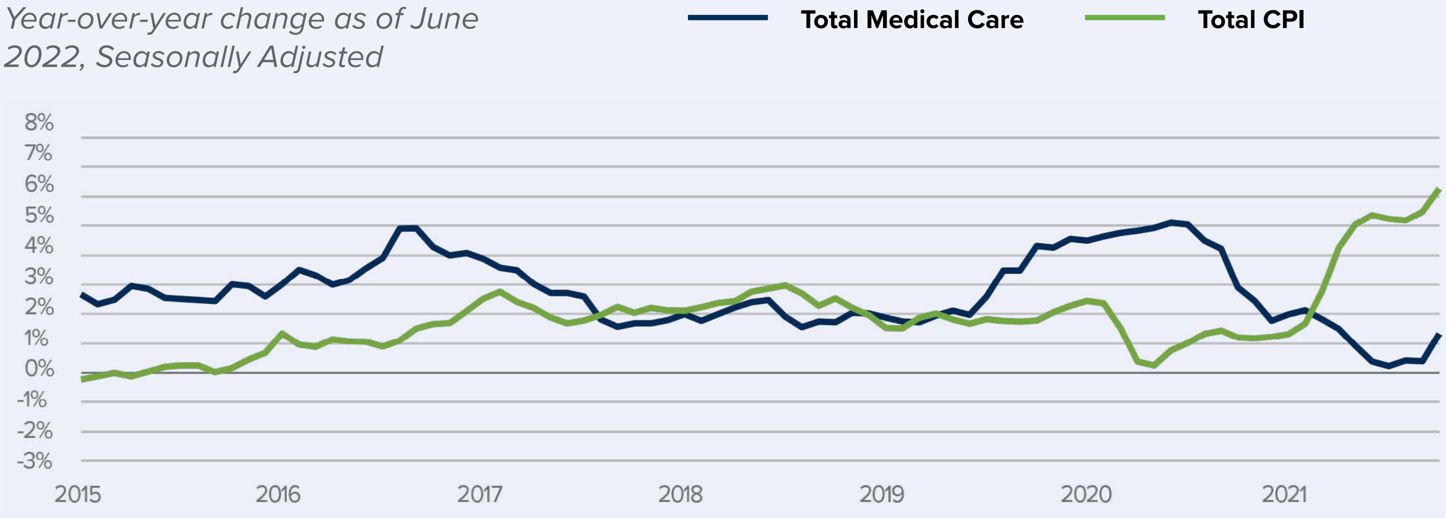
The medical care CPI captures only the increase in unit costs for health care products and services. Per capita national health expenditures, in contrast, also capture utilization changes.

Key Takeaway

Total health care CPI increased an average of 3.2% in the first six months of 2022. In 2021, total health care CPI increased an average of 1.2%.

Consumer Price Index Inflation

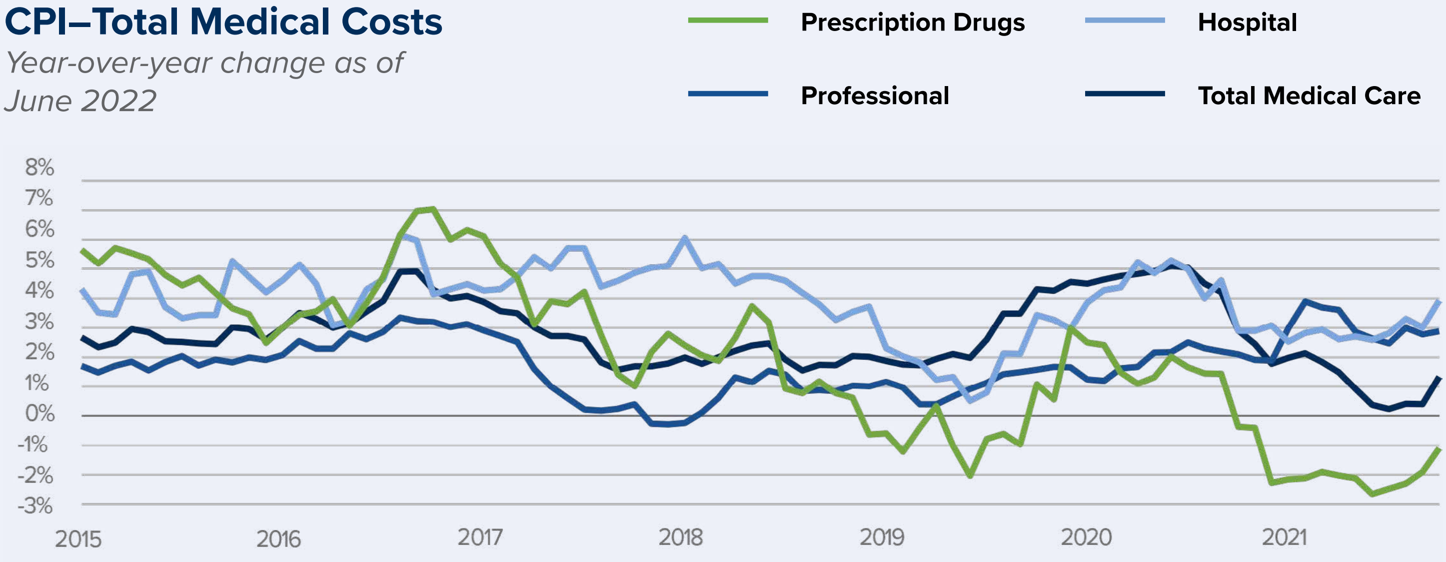
Year-over-year change as of June 2022, Seasonally Adjusted



Prepared by Conning, Inc. Source: Bureau of Labor Statistics, U.S. Department of Labor (2022)

CPI–Total Medical Costs

Year-over-year change as of June 2022



Prepared by Conning, Inc. Source: Bureau of Labor Statistics, U.S. Department of Labor (2022)

Medical CPI

- Total health care CPI increased an average of 3.2% in the first six months of 2022. In June 2021, total health care increased 4.5% year-over-year. This is up from 0.4% reported in June 2021. In 2021, total health care CPI increased an average of 1.2%.
- The hospital component increased an average of 3.6% year-to-date 2022, after increasing 3.0% during 2021.
- The prescription drug component returned to positive territory, increasing an average of 2.0% in the first half of 2022. This compared to an average year-over-year change of negative 1.8% in 2021.
- The professional services component is the only one of four CPI indicators to decrease in the first half of 2022 compared to 2021. Through June 2022, professional services increased 2.0% compared to an average of 3.1% in full-year 2021.

National Health Expenditures

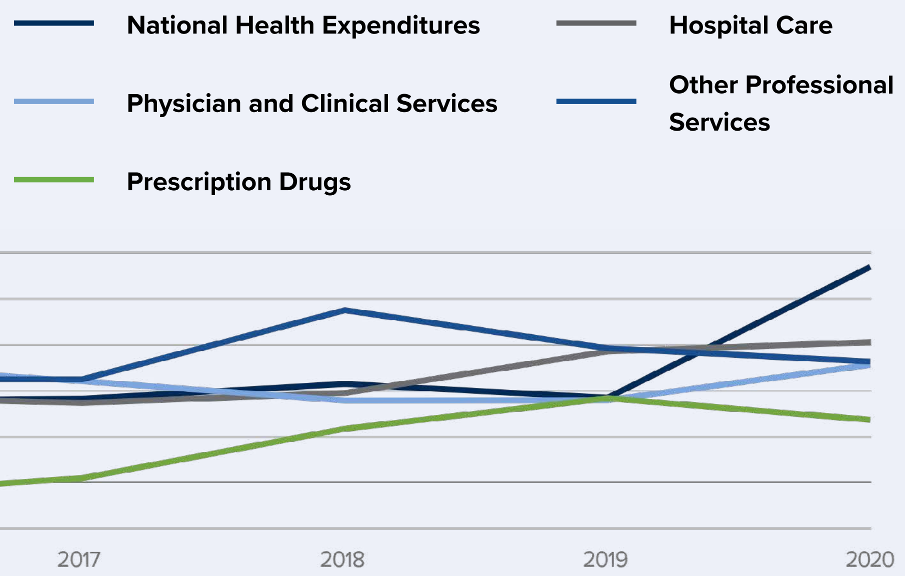
- Health spending is projected to grow at an annual average rate of 5.1% between 2021 and 2030.
- Per capita health spending growth for 2020 was 9.4%, the most recent data available.
- Health spending is projected to be 19.6% of gross domestic product by 2030.

Health Care Costs per Employee Increase Modestly in 2021

- Nationally, companies spent an average of $22,221 per employee annually for family coverage and $7,739 for single coverage in 2021, according to the Kaiser Family Foundation and HRET (Health Research & Education Trust).
- This is a 3.6% increase for family coverage and a 4.1% increase for single coverage from 2020.

Per Capita National Health Expenditures

Year-over-year change



Prepared by Conning, Inc. Source: Bureau of Labor Statistics, U.S. Department of Labor (2022); Centers for Medicare and Medicaid Services, U.S. Department of Health and Human Services (2022)

Annual Increase in U.S. Companies' Health Care Costs per Employee

Prepared by Conning, Inc. Source: ©2021 KFF Employer Health Benefits Survey, 2021

Prescription Drug Prices

- The skyrocketing cost of prescription and specialty drugs is a major cost driver. According to the Millman 2021 Medical Cost Index, prescription drugs account for 22% of medical expense and continue to grow.
- In its research, GoodRx has identified the 20 most expensive based on monthly cost of each prescription and average length of therapy. Below is a table of the top 20 prescriptions.

Top 20 Most Expensive Prescriptions

Rank	Prescription	Condition	Length of Therapy
1	Zokinvy	Hutchinson-Gilford progeria syndrome	$89,480
2	Myalept	Generalized lipodystrophy	77,496
3	Mavenclad	Multiple Sclerosis	63,993
4	Ravicti	Urea cycle disorders	57,998
5	Actimmune	Osteopetrosis, chronic granulomatous	55,310
6	Oxervate	Neurotrophic keratitis	50,874
7	Takhzyro	Hereditary angioedema	48,233
8	Juxtapid	Homozygous familial hypercholesterolemia	47,897
9	Gattex	Short bowel syndrome	42,913
10	Chenodal	Gallstones	42,570
11	Acthar Gel	Lupus, rheumatoid arthritis, multiple sclerosis, infantile spasms, ophthalmic conditions, and psoriatic arthritis	41,459
12	Orladeyo	Hereditary angioedema	38,427
13	Tegsedi	Hereditary transthyretin amyloidosis	36,707
14	Ayvakit	Gastrointestinal stromal tumors	35,213
15	Qinlock	Gastrointestinal tumors	35,199
16	Korlym	Hypocortisolism (Cushing’s syndrome)	34,620
17	Vitrakvi	Tumors	33,784
18	Recorlev	Endogenous Cushing’s syndrome	32,400
19	Cortrophin Gel	Rheumatic disorders, collagen diseases,	31,851
20	Tibsovo	Acute myeloid leukemia	30,083

Prepared by Conning, Inc. Source: GoodRx “The 20 Most Expensive Drugs in the U.S., Period” published June 6, 2022

Specialty Drug Cost

- According to Sun Life, 11 of the top 20 costliest injectables were used to treat cancer. These include: Keytruda, Opdivo, Neulasta, Perjeta, Hercetpin, Avastin, Tecentriq, Adcentis, and Yervoy.
- Specialty drugs are the largest cost component in treating the following conditions: hemophilia (84%); malnutrition (70%); immune system disorders (70%); blood and blood forming organs (37%); cancer & leukemia (32%).

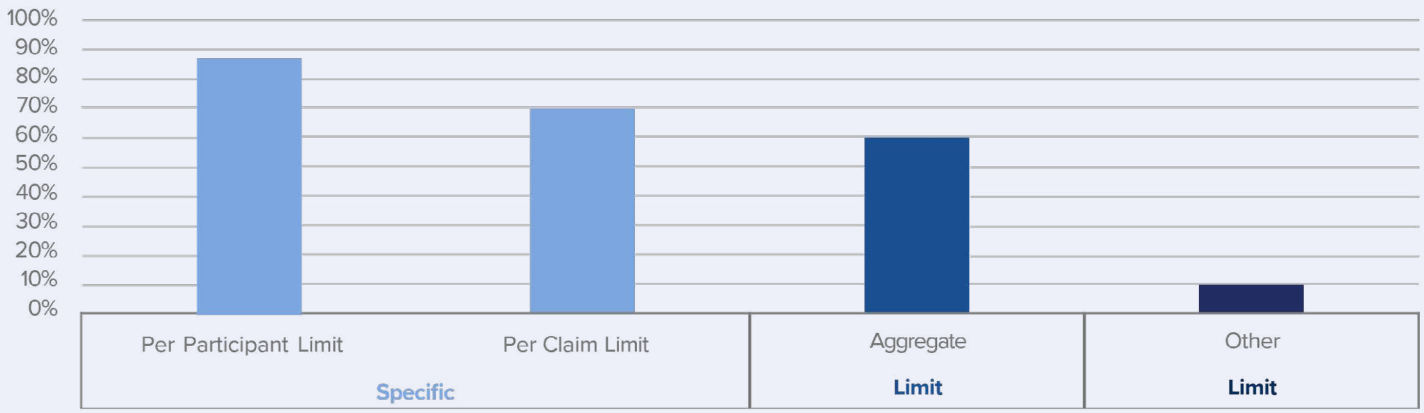
Pharmacy Rebates

Pharmaceutical firms pay drug rebates to PBMs (pharmacy benefit managers) for preferred formulary placement. The PBMs increasingly are sharing a portion of these rebates with health plans and employer clients to reduce the cost of health care benefits. According to Milliman, these rebates represented 20% to 25% of drug costs in 2021, roughly 5% of overall cost. Using the subrogation provision int the ESL policy. Stop loss underwriters are using rebates received by the employer to offset stop loss claim reimbursements. As the rebate agreements are treated as proprietary information, rebates are paid in bulk absent member attribution and quarterly rebates change. It is difficult to forecast the impact of rebates on stop loss recoveries.

Medical Expense Management

- With the disruptive impact of Covid-19 on medical expense management improvement now in the past, many self-funded employers are again focused on implementing better funding, access, and provider networking solutions in an effort to improve beneficiary engagement and cost reduction.
- In a recent Pulse Survey, Milliman found that nearly 70% of employers are considering initiatives such as changes in provider networks, the use of Centers of Excellence, reference-based pricing, direct provider contracting, and ACOs and joint ventures. Given that the use of broad plan mirroring language in the stop loss policy has declined, it is increasingly important to maintain up-to-date benefit plans with stop loss underwriters.
- Specific stop loss is more prevalent among stop loss coverage purchased by self-funded plans. Among covered workers in self-funded plans with 50 or more workers that have stop loss, 87% are in plans where the stop loss insurance limits the amount the plan must spend on each worker or enrollee; 70% are in plans where the stop loss insurance limits the amounts that the plans must pay for high claims or episodes.
- Aggregate stop loss limits are in effect for 57% of the plans.
- Other types of limits are in effect for 10% of the plans.
- Many plans have two types of limits or more in effect, as evidenced by the above percentages totaling 224%.

Coverage Prevalence



Prepared by Conning, Inc. Source: ©2020 KFF Employer Health Benefits Survey, 2020

Deductibles

The specific deductible is the amount of cost the employer is comfortable assuming for each individual beneficiary. This level varies depending on employer size, free cash flow, access to capital, and risk tolerance.

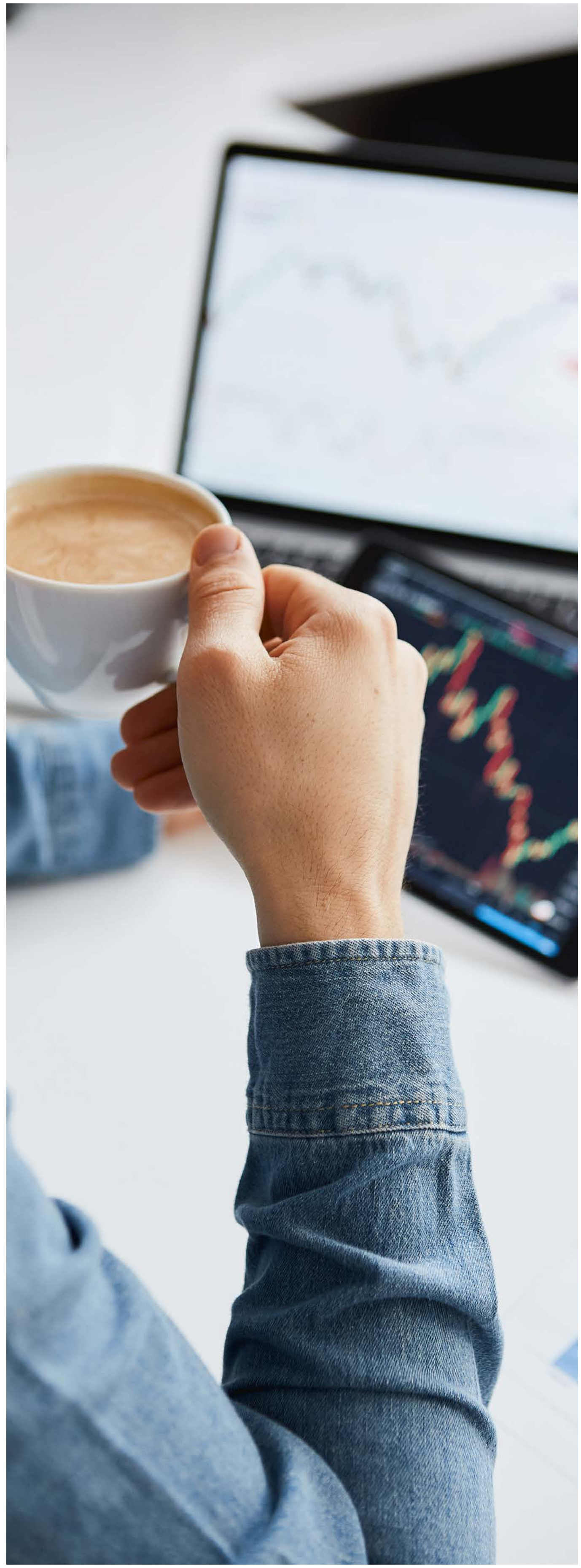
Selecting deductibles too low results in higher premiums and more dollar-swapping on expected claims costs. Setting deductibles too high exposes the employer to greater cost volatility underlying the deductible attachment point.

Sun Life reports that based on its book of business for 2018-2021:

- $300K is the most common deductible for employers with more than 1,000 employees, with 82% of employers selecting a deductible between $100K and $500K annually per person.
- $200K is the most common deductible for employers with 500-999 employees, with 77% of employers selecting a deductible between $100K and $250K annually per person.
- $100K is the most common deductible for employers with 200 to 499 employees, with 94% of employers selecting a deductible between $50K and $250K annually per person.
- For employers with fewer than 200 employees, 88% select a deductible less than $100K annually per person.

Coverage Trends

- Aegis Risk reports that its 2021 Medical Stop Loss Premium Survey showed that 56% of policies contain no new lasers and renewal and 40% also included a renewal rate cap increase. These results declined from the prior survey reporting of 60% and 46%, respectively.
- The survey also showed that the use of “plan mirroring” stop loss contracts declined to 37% in 2021, down from 59% in 2020. Only 10% of policies contain dividends, experience refunds, or bonuses for favorable claim experience.



Leading Insurer Announcements

Key Takeaway

Swiss Re announced in April 2022 that it had closed a $1.15 billion multiyear stop loss transaction with financing through J.P. Morgan and other institutional investors. The company also announced the acquisition of TMS Re in January 2022.

Tokio Marine HCC Stop Loss announced its acquisition of Reliance Standard Life Insurance Company on September 8, 2021. Reliance Standard Life and Tokio Marine HCC are subsidiaries of Tokio Marine, but effective October 1, 2021, all medical stop-lo ss policies from RSL will be issued by HCC Life Insurance Company.

UnitedHealth announced on July 15, 2021, the launch of new Level Funded plans effective November 1, 2021. The plans expand coverage to AR, AZ, CA, CO, FL, ID, IN, MA, MD, ME, MN, NM, OR, PA, TX, UT, VA, WA, WV, and WY. Existing coverage includes AL, DE, ND, and SD under UnitedHealthcare as well as CT and NJ under Oxford. The Level Funded plans increase stop loss for large groups, provides individual stop loss up to $100,000, and extends aggregate stop loss of 110%, 115%, 120%, and 125%, varying by state.

Swiss Re announced on January 6, 2022, the acquisition of TMS Re, a top independent stop loss underwriter, through its subsidiary Swiss Re Corporate Solutions. The acquisition broadens Swiss Re's employer stop loss capabilities in the self-funded healthcare benefits segment. Additional information on the transaction can be found in the mergers and acquisitions section below.

On April 14, 2022, **Swiss Re** announced that it had closed a $1.15 billion multiyear stop loss transaction with financing through J.P. Morgan and other institutional investors. Combining both bank financing and insurance-linked securities, the transaction provides protection for severe underwriting-related losses. J.P. Morgan provided $1 billion in financing through a senior loan and $150 million from institutional investors investing in junior insurance-linked notes. The deal provides Swiss Re protection from severe underwriting losses from 2022 to 2026.

On September 15, 2021, **Berkshire Hathaway Specialty Insurance (BHSI)** named Beth Freeman and Ken Gumbiner Senior Vice Presidents of A&H Underwriting and A&H Sales, respectively. Following the announcement, Phil Gardham, SVP of A&H and Head of Medical Stop Loss said, "As we grow our product portfolio, we are continuing to expand our Medical Stop Loss appetite, recently forged a new partnership to provide A&H programs for international students, and we will be launching new A&H products soon."

Markel and Xchange Benefits, an MGU owned by Ambac Financial, announced on June 9, 2022, that they have signed a program manager agreement. Under the agreement, Xchange will underwrite medical stop loss coverage on behalf of Markel, as well as provide claim and premium support. This agreement is Markel's entry into the stop loss segment. In the press release, Je˜ Lamb, Executive Director, Program and Alliances from Markel said, "Our collaboration with Xchange Benefits helps establish us in the stop loss marketplace to leverage Xchange's underwriting and claims expertise along with Markel's capital and strong distribution partnerships. Markel is excited to work with Peter McGuire and team to build our presence in the medical stop loss industry."

Mergers & Acquisitions

Key Takeaway

Year-to-date 2022 has seen the announcement of three transactions by Swiss Re, Jencap Group, and NFP Corp.

Customers do not frequently move their stop loss insurance from one insurer to another. As a result, mergers and acquisitions are one of the few ways for a company to increase its market share.

Employer Stop Loss Mergers & Acquisitions Announced

Through 6/30/2022, $ in millions

Buyer	Target Company	Approximate Transaction Value
2022 Transactions		
Jencap Group LLC	International Assurance of Tennessee	NA
Swiss Re	TMS Re	NA
NFP Corp.	East Coast Underwriters LLC and Blue Ridge Captive Solutions PCC, Inc.	NA
2021 Transactions		
Sun Life Financial	PinnacleCare	$85
2020 Transactions		
One80 Intermediaries	Vista Underwriting Partners	NA
One80 Intermediaries	National Underwriting Services	NA
BCS Financial Corp.	Medical Risk Managers	NA
2019 Transactions		
ELMC Risk Solutions	Rockport Benefits	NA
AmWINS Group	Stealth Partner Group	NA
AccuRisk Solutions	M-D Underwriting Services	NA
2018 Transactions		
The Westaim Corporation	Creative Risk Underwriters, LLC	NA
TMS Re Inc.	Munich Re Stop Loss, Inc.	NA
2017 Transactions		
Liberty Mutual Insurance	TRU Services, LLC	NA

ND = not disclosed

Prepared by Conning, Inc. Source: Conning proprietary M&A database

2022 Transactions

- **Jencap Group** announced on January 3, 2022, that it has agreed to acquire International Assurance of Tennessee, an MGU that specializes in employer and medical stop loss insurance. IAT will operate under the auspices of the Jencap Program Administrators LLC division. Terms of the transaction were not disclosed.
- **Swiss Re** announced on January 6, 2022, the acquisition of TMS Re, a top independent stop loss underwriter, through its subsidiary Swiss Re Corporate Solutions. The acquisition broadens Swiss Re's employer stop loss capabilities in the self-funded health care benefits segment. Swiss Re's goal is to have all employer stop loss business produced through TMS Re written through Swiss Re Corporate Solutions' U.S. insurer, North American Specialty Insurance Company. Financial details about the transaction were not disclosed.
- **NFP Corp.**, a leading insurance broker and consultant, announced on February 8, 2022, that it had acquired East Coast Underwriters, LLC and Blue Ridge Captive Solutions PCC, Inc. East Coast Underwriters is an MGA based in South Carolina and provides medical stop loss to midsized, self-insured employers. Blue Ridge Captive Solutions is a captive program underwritten by East Coast Underwriters. Also announced, Aaron Wilkie, president of East Coast Underwriters and Blue Ridge Captive Solutions, will join NFP as a managing director. The transaction increases NFP's medical stop loss and self-funded group captive business and closed on December 31, 2021.
- **Sun Life Financial** announced on April 23, 2021, that it would acquire PinnacleCare for $85 million. As part of the transaction, PinnacleCare will become part of Sun Life's U.S. Stop Loss & Health business.
  Per the company's press release, "The acquisition will expand Stop Loss & Health beyond the traditional model that reimburses employers for the costs of serious health conditions after an employee's care has occurred. Through PinnacleCare, Stop Loss & Health will engage with the employee at diagnosis to help improve the entire spectrum of the care experience and outcomes for both the employee and employer. The transaction will create an integrated offering unique in the stop loss market."
  The transaction closed in July 2021.

2020 M&A Transactions

- **One80 Intermediaries** announced it acquired Vista Underwriting Partners in January 2020. Vista Underwriting is a full-service MGU of medical stop loss insurance. One80 Intermediaries CEO, Matthew Power, noted "Vista's stop loss specialists are among the most experienced in the country with deep expertise in underwriting, policy issuance and claims management."
- **One80 Intermediaries** acquired National Underwriting Services, a full-service MGU of medical stop loss insurance, in August 2020.
- **BCS Financial Corporation** announced in October 2020 that it acquired Medical Risk Managers. The company provides stop loss pricing and underwriting services. As part of the transaction, BCS Financial and its customers immediately gain access to stop loss pricing, underwriting, and case management capabilities.

2019 M&A Transactions

- **ELMC Risk Solutions** acquired Rockport Benefits, an MGU company that offers stop loss, in June 2019. This acquisition adds to ELMC's portfolio of MGUs across the country that specialize in underwriting stop loss insurance.
- **AmWINS Group** announced in October 2019 that it acquired Stealth Partner Group, an Arizona-based full-service general agent that specializes in medical stop loss insurance. The company was then combined into an AmWINS subsidiary, Stop Loss Insurance Services.
- **AccuRisk Solutions** completed its acquisition of M-D Underwriting Services in October 2019. The company is a Tennessee-based medical stop loss MGU.

2018 M&A Transactions

- **The Westaim Corporation** announced in September 2018 that it was acquiring the remaining 55.4% stake of Creative Risk Underwriters that it did not previously own. The company is now integrated into Westaim Corporation. Creative Risk Underwriters is a full-service MGU that provides medical stop loss insurance to employer groups.
- **TMS Re** announced it acquired Munich Re Stop Loss through a management buyout in July 2018. TMS Re is an independent stop loss MGU.

2017 M&A Transactions

- **Liberty Mutual Insurance** acquired the assets of TRU Services, LLC, an MGA that specialized in providing medical stop loss products to midsized and large medical plan sponsors, in March 2017. The company underwrites both specific and aggregate stop loss coverage.

Regulation

- States may regulate stop loss provided that the regulation does not affect the underlying self-insured plan and the stop loss policy does not become the primary health insurance policy. State regulation of stop loss insurance typically takes one of three forms:
  - Setting minimum attachment points to ensure that stop loss policies are only used for excess coverage and not as a replacement for health insurance (e.g., as in the National Association of Insurance Commissioner's (NAIC) Stop-Loss Insurance Model Act);
  - Prohibiting stop loss insurance for small groups, thus requiring small groups to have more funding available in order to self-insure (e.g., Delaware and New York); or
  - Regulating stop loss insurance as if it were health insurance, including setting minimum coverage requirements
- The NAIC Stop Loss Insurance Model Act establishes minimum attachment points and prohibits stop loss policies from directly covering individual health care expenses – either the plan or the employer must be the policy beneficiary. Under the act, an insurer may not issue a stop loss policy with an attachment point lower than:
  - 20,000 per individual.
  - For groups of 50 or fewer, the lower than the greater of (1) $4,000 times the number of members, 120% of expected claims, or (3) $20,000 or
  - For groups of 51 or more, lower than 110% of expected claims.
- According to the NAIC, as of summer 2020, 27 states and the District of Columbia have adopted some form of statute, regulation, or administrative rulings regarding stop loss. The remaining 23 states have either repealed or have yet to adopt legislation regarding stop loss. Below is a list of those states.

State Stop Loss Legislative Activity

Legislative Activity				No Activity			
AK	FL	NV	PA	AL	KY	NM	WI
AR	IA	NH	RI	AZ	ME	NY	WY
CA	KS	NJ	SD	GA	MA	NC	
CO	LA	ND	TN	HI	MI	SC	
CT	MD	OH	UT	ID	MS	TX	
DE	MN	OK	VT	IL	MO	VA	
DC	NE	OR	WA	IN	MT	WV	

Prepared by Conning, Inc. Source: National Association of Insurance Commissioners "Stop-Loss Insurance Model Act" State Pages

Key Takeaway

ERISA preempts states from regulating an employer's self-insured benefit plan. The federal Department of Labor (DOL) does allow states to regulate stop loss policies that protect self-funded plans or employers.

Health Care Regulation

Inflation Reduction Act of 2022

- The Inflation Reduction Act of 2022 was signed by President Biden on August 16, 2022. The Act focuses on multiple things, including climate change and health care. As part of the Act, one of the major aspects is the ability for Medicare to negotiate cheaper prescription drug prices for certain medications. The ability to negotiate will be limited to certain high-priced drugs and only a small number per year. The Act prioritizes generic or biosimilar competition as a way to help lower drug prices when compared to negotiations.

Surprise Billing

- On December 27, 2020, President Trump signed the Consolidated Appropriations Act, 2021. Included in this 5,000+-page legislation is the No Surprises Act. The purpose of this legislation is to protect individuals from balance billing practices, also known as surprise billing. Balance billing is the process in which individuals are billed by a hospital or health care provider for the balance remaining after deductibles and copays have been paid and the insurer has paid its obligation. This typically occurs when a patient receives care from an out-of-network physician at an emergency facility or when an out-of-network ancillary physician, such as anesthesiologists or radiologists, are assigned to a procedure in which the patient does not have a role in selecting, even if the hospital and surgeon are in-network. After going through the insurer, patients are then billed directly from these out-of-network physicians.
- The No Surprises Act looks to accomplish two things. The first is to protect patients. Under this Act, any individual covered by a group health plan or health insurer providing group or individual coverage is protected from almost all out-of-network billing that may occur. This includes when individuals receive emergency services from either a nonparticipating provider or facility or, in some select instances, receiving non-emergency services from nonparticipating providers in a participating facility. For these out-of-network services, an individual will not have to pay an amount greater than the cost-sharing requirements under an in-network plan. Other provisions under the Act include similar protections for surprise air ambulance bills, a requirement for providers to provide patients with cost estimates for procedures, as well as the ability for patients to challenge a high bill.
- The No Surprises Act also works to solve how health plans and providers resolve payments for out-of-network services. A health plan has 30 days after receiving a bill for services to either pay or issue a notice of denial to a provider. From here, rates for services are determined by one of three things: current state balance billing laws, state all-payer rate models, or through agreements between a health plan and provider. In the third scenario, should a health plan and provider not agree to an amount, they will then need to perform an independent dispute resolution, also known as arbitration.
- The No Surprises Act becomes effective on January 1, 2022, and will require a combined effort from state and federal regulators as they begin to enforce this Act.

Employer & Industry Trends

Employer Trends

Self-Funded Plans Using Stop Loss by Employer Size

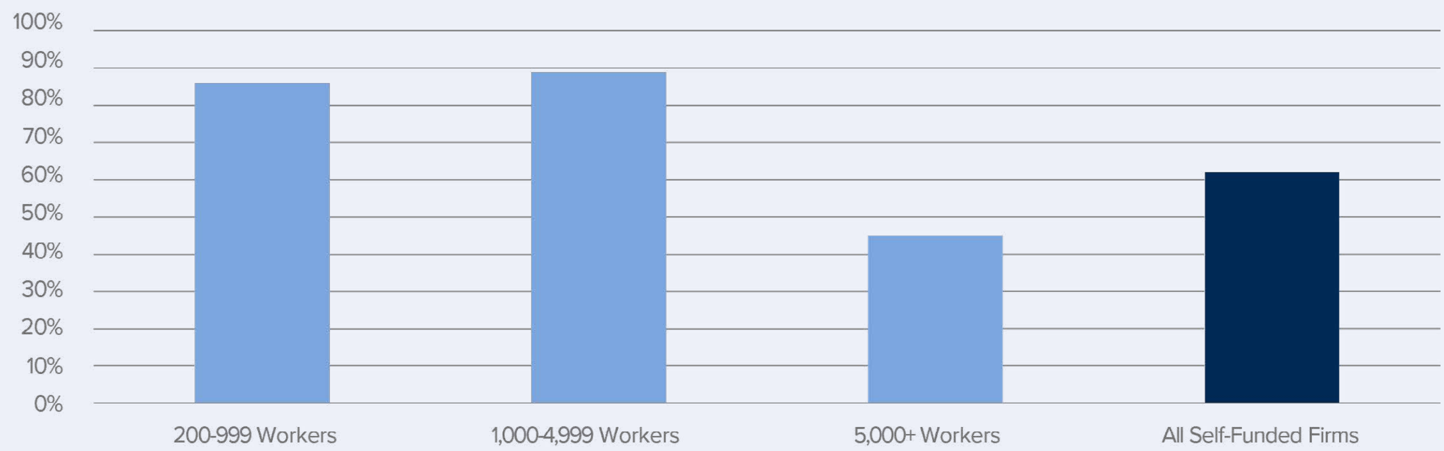
- The number of employers with workers enrolled in a self-funded plan covered by stop loss insurance depends on the size of the firm. In 2021, the percentage of covered workers from firms with 200 to 999 workers was 86% and firms with 1,000 to 4,999 workers was 89%. However, firms with 5,000 or more workers saw only 45% of enrollees covered by stop loss insurance.

Employer Size and Over Time

- According to KFF's (Kaiser Family Foundation) 2021 Employer Health Benefits Annual Survey, 87% of employers with 5,000 or more employees have workers enrolled in self-funded plans. This number decreases as the number of workers in a firm also decreases. Employers with 1,000 to 4,999 workers reported 86% enrolled in self-funded plans, 63% for those firms with 200 to 999 workers, and 27% for those companies with 50 to 199 workers.
- Over the past 20 years, the percentage of covered workers enrolled in self-funded plans has increased, especially for those firms with 1,000 plus workers. Since 2000, this group has increased 16 percentage points, from 71% in 2000 to 87% in 2021. This compares to the 6% increases for 3 to 199 worker employers and the 10% increase for 200 to 999 worker employers during the same period.

Percentage of Covered Workers Enrolled In a Self-Funded Plan Covered by Stop-Loss Insurance

By firm size, 2021



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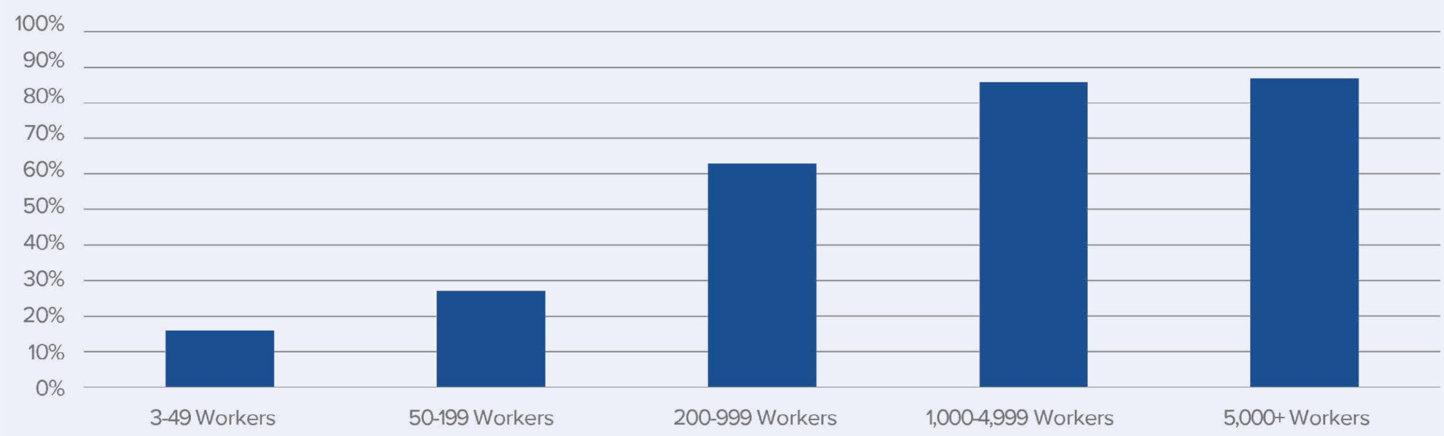
Percentage of Covered Workers Enrolled in Self-Funded Plans

By industry, 2020 and 2021



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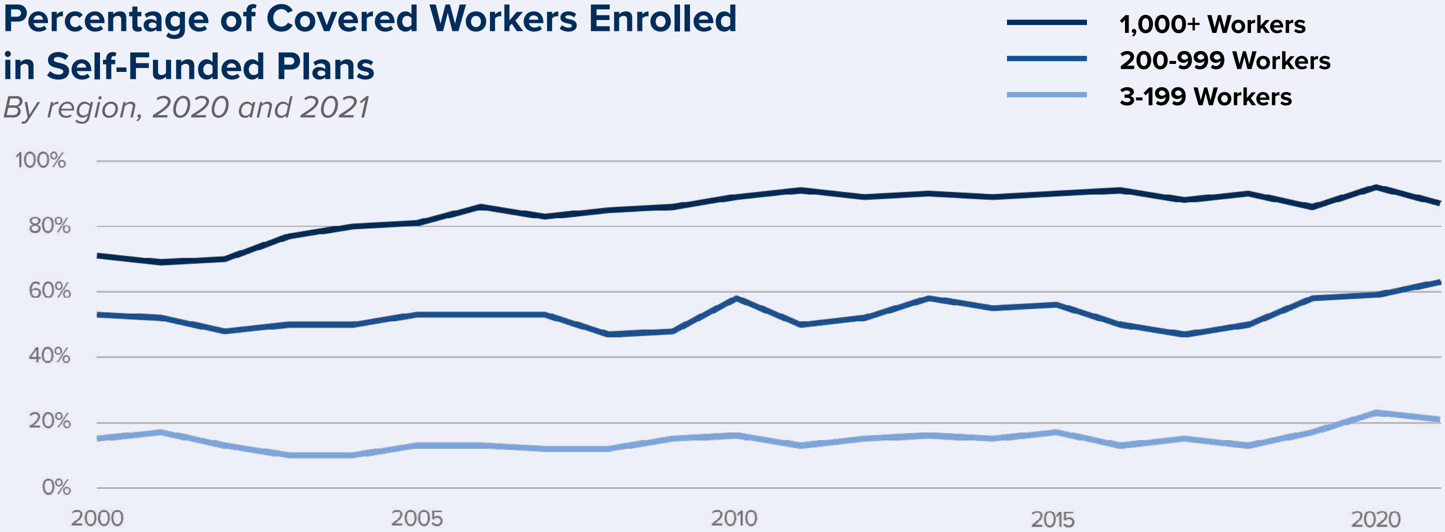
Percentage of Covered Workers Enrolled in Self-Funded Plans

By region, 2020 and 2021



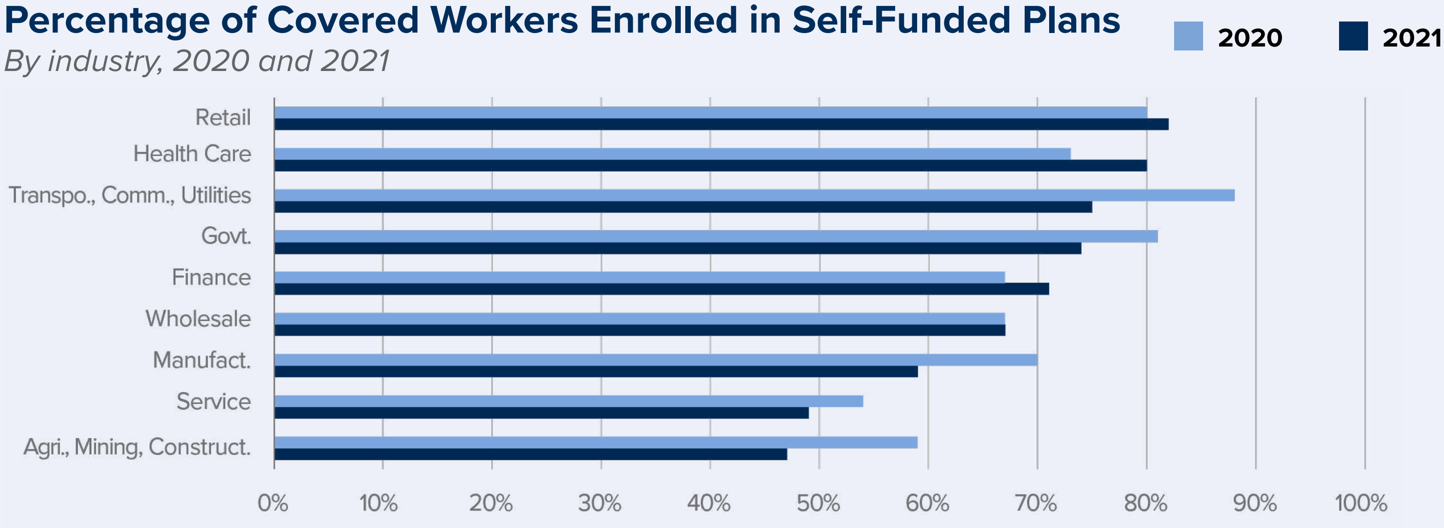
Prepared by Conning, Inc. Source: ©2021 Kaiser Family Foundation Employer Health Benefits 2021 Annual Survey

Industry and Region

- Certain industries have larger percentages of workers enrolled in self-funded plans in 2021. According to KFF's 2021 annual survey, retail had the largest percentage at 82%. This was followed by health care at 80% and transportation/ communications/ utilities at 80%. The smallest percentage industries are agriculture/mining/ construction at 47% and the service sector at 49%.
- Comparing the 2021 survey results against the 2020 results, the health care industry saw the largest increase at 4 percentage points year-over-year, followed by finance at 4 percentage points and retail at 2 percentage points.
- The industries with the largest decrease between 2020 and 2021's survey results were transportation/ communication/utilities, which decreased 13 percentage points, as well as agriculture/mining/construction at –12 percentage points and manufacturing at –11 percentage points.
- When looking by region, the northeast and Midwest saw the highest percentage of covered workers at 70%. This is 21 percentage points higher than the west region, which was the lowest percentage at 49%.

Percentage of Covered Workers Enrolled in Self-Funded Plans

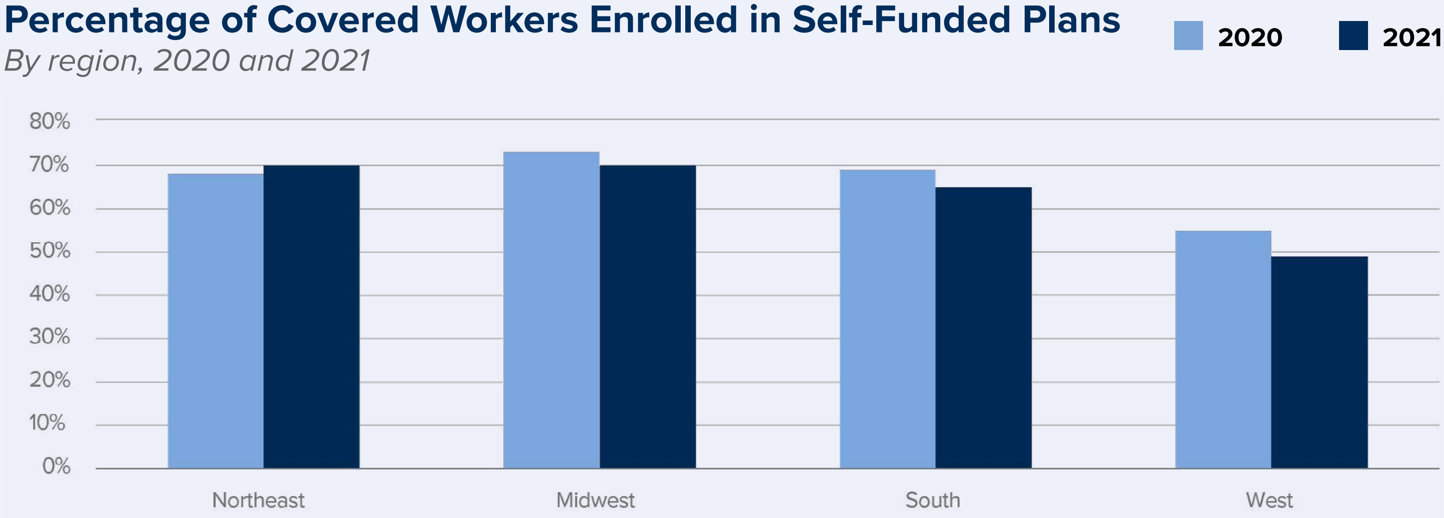
By industry, 2020 and 2021



Prepared by Conning, Inc. Source: ©2021 Kaiser Family Foundation Employer Health Benefits 2021 Annual Survey

Percentage of Covered Workers Enrolled in Self-Funded Plans

By region, 2020 and 2021



Prepared by Conning, Inc. Source: ©2021 Kaiser Family Foundation Employer Health Benefits 2021 Annual Survey

Employment by Size of Company

The U.S. Department of Labor produces an annual report to Congress regarding self-insured group health plans as required by the Patient Protection and Affordable Care Act, also known as the ACA. The report uses data based on the Form 5500 database, which self-insured health plans are required to file annually. The data from the most current report, submitted to Congress in March 2022, uses data as of 2019.

The report breaks out fully insured, self-insured, and mixed-insured group health plans. The report defines self-insured health plans as one that the sponsor generally assumes the financial risks associated with covering the benefits of the plan's participants. Mixed-insured plans contain both fully insured and self-insured components.

In summary, in 2019, around 65,800 group health plans filed a Form 5500. Of those plans, approximately 30,200 were self-insured and 4,200 were mixed self-insurance with insurance. That is a total of 52.3% of all group health plans that are either self-insured or mixed. A total of 36 million participants were covered by self-insured group health plans in 2019, and 28 million participants were covered by mixed-insured health plans. The tables that follow are a breakdown of the self-funded and mixed-insured plans.

Plan Characteristics by Plan Type

Data as of 2019 (Most current available), $ in millions; participants in thousands

	# of Plans	Total Participants	Active Participants	Total Assets	Total Contributions	Total Benefits
Self-Funded	30,181	35,678	31,856	$102,241	$63,107	$59,536
Mixed Insured	4,189	28,361	25,021	$145,243	$75,808	$77,069

Prepared by Conning, Inc. Source: U.S. Department of Labor Annual Report on Self-Insured Group Health Plans, March 2022, Appendix A

Total Plans by Employer Size

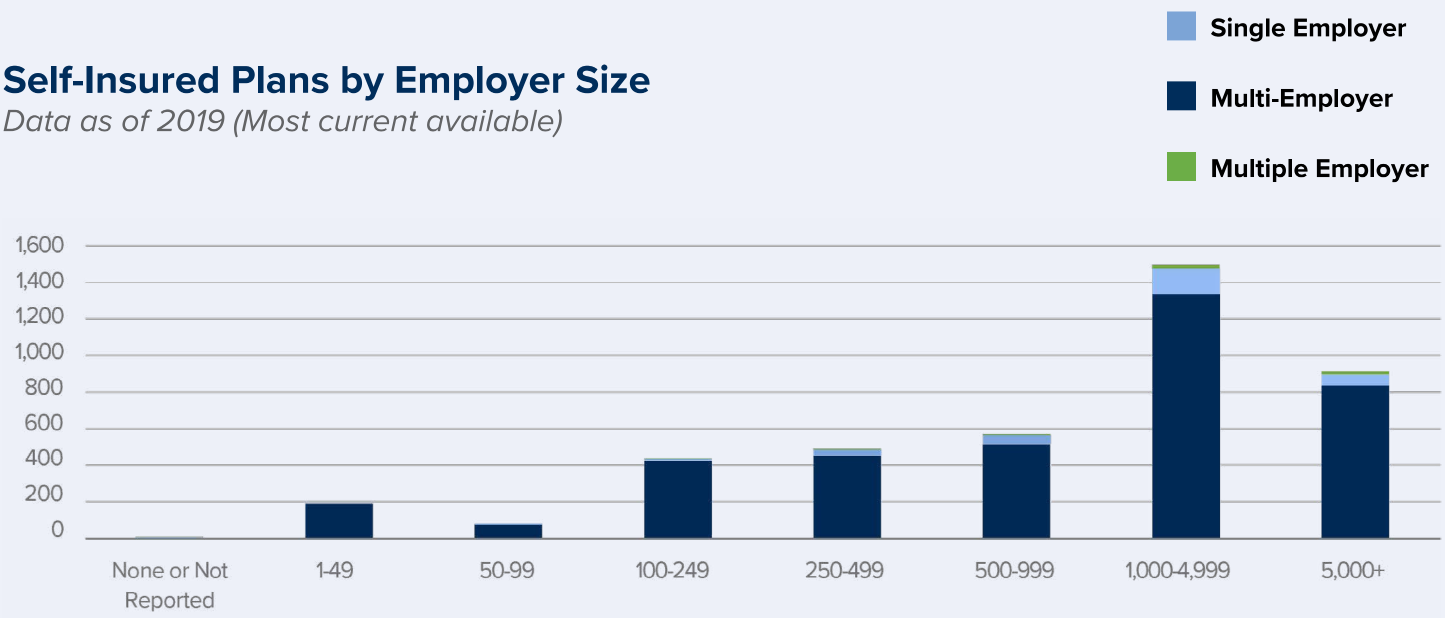
- Of the 30,181 self-insured plans, half of all plans are for employers with 100 to 999 employees. This accounts for 50.7% of the total number of plans.
- Single employers accounted for around 96% of total self-insured plans in 2018.

Total Participants by Employer Size

- While more than half of the self-insured plans are for companies with 100 to 999 employee size, far more participants are in plans with more than 5,000 employees.
- Of the 35.7 million participants, 21.7 million, or 61%, are in plans covering more than 5,000 employees.
- Overall, the number of participants increases with each increase in employer size.

Self-Insured Plans by Employer Size

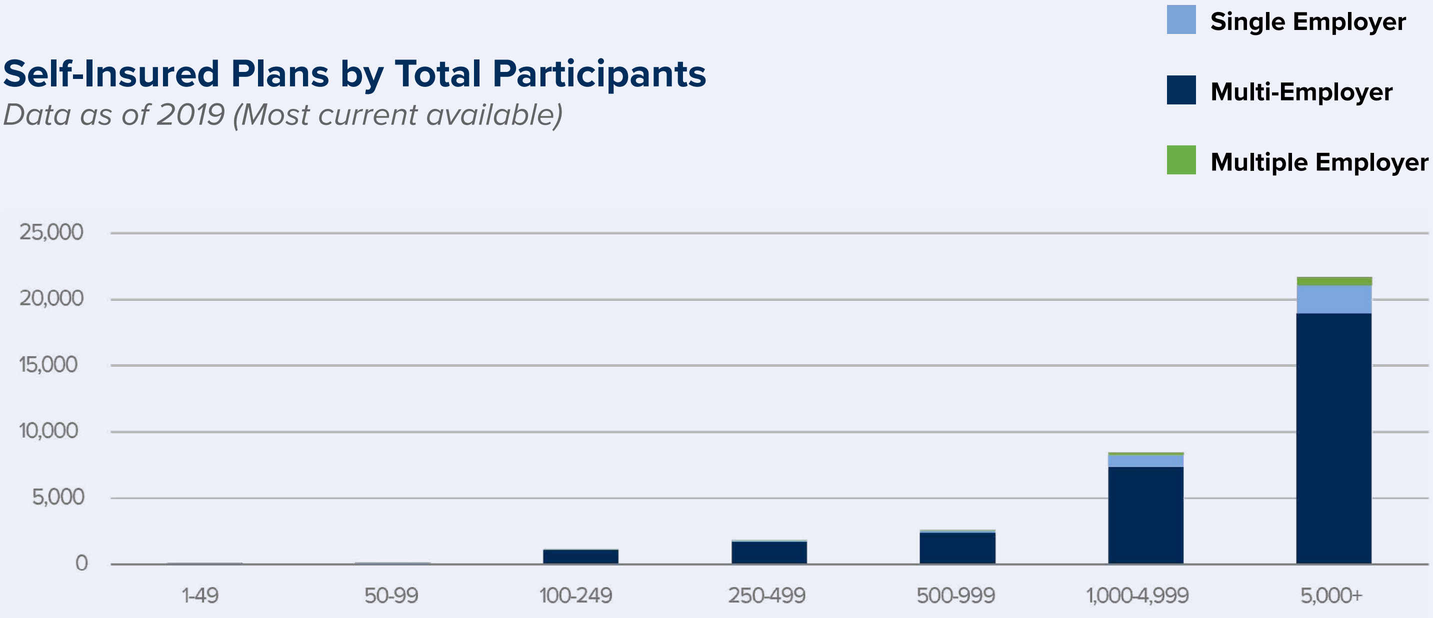
Data as of 2019 (Most current available)



Prepared by Conning, Inc. Source: U.S. Department of Labor Annual Report on Self-Insured Group Health Plans, March 2022, Appendix A

Self-Insured Plans by Total Participants

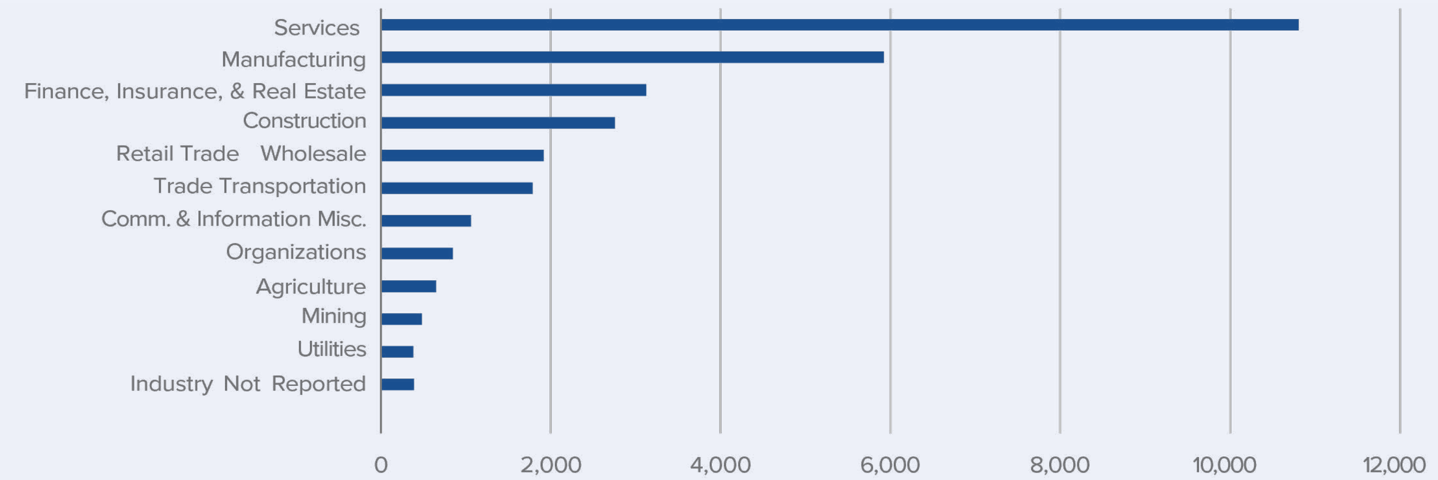
Data as of 2019 (Most current available)



Prepared by Conning, Inc. Source: U.S. Department of Labor Annual Report on Self-Insured Group Health Plans, March 2022, Appendix A

Self-Insured Plans by Industry

Data as of 2019 (Most current available)



Prepared by Conning, Inc. Source: U.S. Department of Labor Annual Report on Self-Insured Group Health Plans, March 2022, Appendix A

Total Plans by Industry

- The industry with the most self-insured plans is the services industry, with 10,812 plans. This industry accounts for 36% of all self-insured plans.
- The next largest industry is manufacturing, which accounts for 5,929 plans, or 20%.

Product Descriptions

Aggregate Stop Loss

Aggregate stop loss puts a cap on the amount that a self-insured employer has to pay across an entire plan year. Having an aggregate stop loss policy helps the employer budget for its health care costs with some accuracy, because this policy lets the employer put a dollar figure on its maximum potential liability for the plan year..

Specific (or individual) Stop Loss

Specific stop loss puts a cap on the amount that the employer will pay for any one individual claim or episode. This type of protection shields the employer from greater risk if any plan member incurs catastrophic claims.

Level Funded Plans

“Level funding” is a way for smaller employers to self-fund their employee health plan but retain a more predictable cash flow that typically comes with a fully insured plan. The employer pays the expected claim amount every month, regardless of the actual amount of claims, plus a stop loss premium, plus an administrative fee. If claims are lower than expected, the amount is kept by the insurer as a buffer for months when the actual claims exceed the expected amount. If claims exceed the expected amount and exhausts any accumulated buffer, the insurer pays the excess claims and recoups the amount from future months when claims are lower than expected. At the end of the plan year, any remaining buffer is refunded to the employer. If there is an accumulated deficit, the insurer adjusts the premium for the stop loss insurance for the following plan year. The administrative fee pays for the cost of claim administration and the cash flow buffering function just described.

Stop Loss coverage is an essential part of this arrangement because it limits an employer’s financial responsibility for claims over a certain amount, either on a per-employee basis or for the entire covered population.

Stop Loss Through a Captive Reinsurer

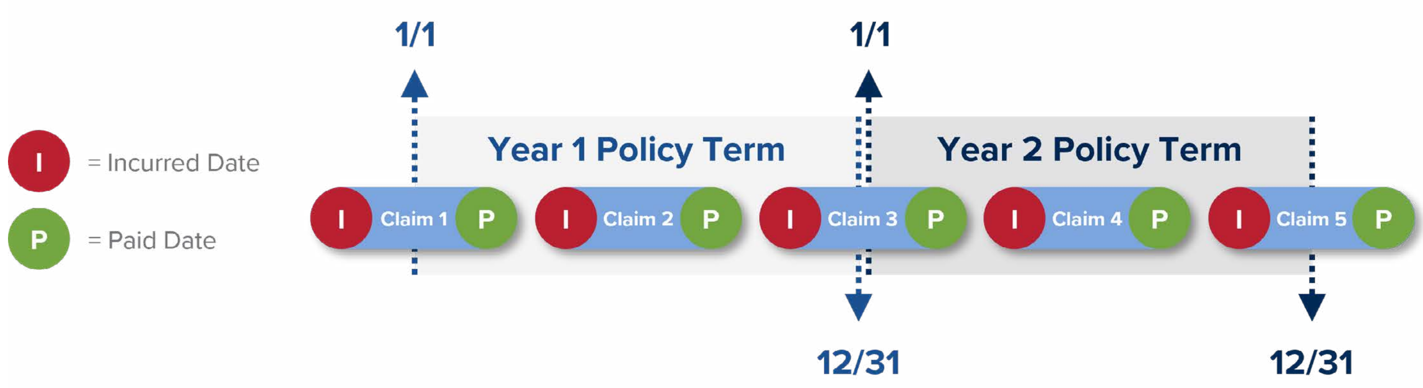
Aggregate stop loss puts a cap on the amount that a self-insured employer has to pay across an entire plan year. Having an aggregate stop loss policy helps the employer budget for its health care costs with some accuracy, because this policy lets the employer put a dollar figure on its maximum potential liability for the plan year..

Single-Parent Captives

Specific stop loss puts a cap on the amount that the employer will pay for any one individual claim or episode. This type of protection shields the employer from greater risk if any plan member incurs catastrophic claims.

Key Takeaway

Placing stop loss in a captive reinsurer has become more prevalent in recent years as regulations have been clarified.



Group Captives

Employers can form a group captive to fund their medical stop loss. Such an arrangement provides companies in the group with the financial benefits of captive funding while sharing the overall administrative burden associated with forming an insurance company. Each company in the group can purchase stop loss insurance from the captive at whatever levels are appropriate for their risks. Companies forming the group captive do not have to have anything in common with each other, but often they are in the same industry or are located in the same region. A group captive typically becomes cost-effective once total premium reaches approximately $2.5″million per year.

Protected Cell Captives

For companies that do not have an existing captive, are not large enough for a standalone captive to be efficient, and do not want to join a group captive, a protected cell captive may be viable option.

A protected cell company (PCC) is a legal entity, set up by a sponsor, which is divided into individually protected cells that are "rented" by the sponsor to companies or groups that want to use a captive cell to fund their medical stop loss needs. The sponsor manages the PCC's day-to-day activities, and the company using the protected cell benefits from pooled administration costs. However, insurance risk for each cell is kept separate and is borne by the company using the protected cell.

Run-In Claims, Run-Out Claims, and Policy Terms

A "run-in claim" is a claim incurred before the policy term and paid during the policy term. In the adjacent diagram, Claim 1 is a run-in claim for Year 1. A "run-out claim" is a claim incurred during the policy term but paid after the policy term has expired. In the diagram, Claim 5 is a run out claim for Year 2. Claim 3 is a run-out claim for Year 1 and a run-in claim for Year 2.

Policy terms are often described using a pair of numbers such as "24/12." In the diagram, if Year 2 was covered by a "24/12" contract, the "24" means that claims must be incurred during the 24 months from January 1 of Year 1 until December 31 of Year 2 in order to be covered by the policy. The "12" means claims must also be paid during the 12 months from January 1 Year 2 to December 31 Year 2. Only claims meeting both conditions are eligible for reimbursement under the policy. In the diagram, Claim 3 and Claim 4 would be covered by Year 2's "24/12" contract.

It is common for the first stop loss contract to be a "12/12" contract, meaning claims are covered only if they are incurred and paid during the policy term. In the diagram, only Claim 2 would be covered by the Year 1 "12/12" contract. If a company intends to discontinue using stop loss, the final contract may be a "24/15" contract, which would pay a run-out claim if it is paid within three months of the end of the policy term.

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