Underwriting Panelists

- Roberta Jackson  
  AIG Benefit Solutions  
  Senior Underwriter
- Kristine Lange  
  ING Employee Benefits  
  Director of Stop Loss Underwriting,
- Travis Micucci  
  Sun Life Financial  
  AVP, Stop Loss Underwriting,
- Lawrence J. Stewart  
  HCC Life Insurance Company  
  Chief Underwriting Officer
- Joseph T. Zimmerman  
  HM Insurance Group  
  Director, Stop Loss Underwriting

Snorkeling the Stop Loss Waters  
Rating Fundamentals Agenda

- Introduction
- Manual Rating Basics
- Panelist Questions
Stop Loss Pricing Basics

Rating

Excess Risk is initially priced using manual rates
- Sources of Manual Raters - home grown or purchased from consulting firm
- Most premium is Individual Stop Loss and is usually not considered credible.
- Sold to Manual should be a strong indicator of future profitability

Underwriting will use professional judgment in setting final rates
- Group demographics
- Ongoing large claims
- Incidence of large claims
- Historical claims experience
- Plan design

Common Stop Loss Rating Factors

Excess Risk Rating Components
- Base Rate
- Trend Factor
- Area Factor
- Deductible Level
- Annual Maximum
- Transplant Carve Out
- Coinsurance Adjustment
- Age/Gender Factor
- Managed Care Network
- Cost Containment Programs
- Claim Basis
- Coverage (Medical, Rx)
- Commissions
- Industry Factor
- Experience Factor
Gap between top 3 and bottom 3 companies exceeds 140% in some areas.

Gap between average and bottom 3 companies can exceed 60% in some areas.

Survey represents approximately 15 respondents.

2012 Towers Watson Stop Loss Rate Survey
Illustrated Rate Volatility

Percentage Exceeding Lowest (1st Quintile)
Spec Deduct 350k

What is an appropriate deductible level for various group sizes?
Recommended Individual Stop Loss Deductibles

Setting of the deductible is a function of the company's size, risk tolerance, location, plan of benefits and claims experience

<table>
<thead>
<tr>
<th>Group Size</th>
<th>Total Expected Claims</th>
<th>Suggested Deductible</th>
<th>1%</th>
<th>2%</th>
<th>3%</th>
<th>5%</th>
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</thead>
<tbody>
<tr>
<td>500</td>
<td>$4.5M</td>
<td>$75-125K</td>
<td>$45K</td>
<td>$90K</td>
<td>$135K</td>
<td>$225K</td>
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<tr>
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<td>$100-250K</td>
<td>$90K</td>
<td>$180K</td>
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<td>$450K</td>
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<td>$1,125K</td>
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<tr>
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<td>$45.0M</td>
<td>$300K+</td>
<td>$450K</td>
<td>$900K</td>
<td>$1,350K</td>
<td>$2,250K</td>
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</table>

How does an underwriter evaluate the network?
How does the underlying medical plan design affect the IER and Aggregate ECR

How credible is Individual Stop Loss Experience?
How credible is Aggregate Stop Loss Experience?

Leveraged Trend......
is this for real or an actuarial fable?
Leveraged Trend

**Trend** – Inflation, Unhealthy Lifestyles, Medical Technology & New Treatments

**Leveraged Trend** – The effect of first-dollar medical inflation on Stop Loss reimbursements

**Examples**

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific Ded.</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Claim -</td>
<td>$192,000</td>
<td>$211,200 (10% first dollar trend)</td>
</tr>
<tr>
<td>Group Pays</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Stop Loss carrier pays -</td>
<td>$92,000</td>
<td>$111,200 (20.87% increase)</td>
</tr>
</tbody>
</table>

**Increased Specific Deductible**

<table>
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<th>2012</th>
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<tbody>
<tr>
<td>Specific Ded.</td>
<td>$100,000</td>
<td>$115,000</td>
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<tr>
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<tr>
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<td>$115,000</td>
</tr>
<tr>
<td>Stop Loss carrier pays -</td>
<td>$92,000</td>
<td>$96,200 (4.57% increase)</td>
</tr>
</tbody>
</table>

Does the type of industry matter in setting the rates?
Do underwriters look at hospital groups differently?

How do you determine at what amount to laser someone?
When is the best time to do an aggregating specific.

What type of underwriting data do I need to help fully insured groups move to self-funding?