The Role of Stop Loss Coverage

What is Stop Loss coverage?
Stop Loss coverage is an insurance product that provides protection against catastrophic or unpredictable losses. It is purchased by employers who self-fund their employee benefit plans, but do not want to assume 100% of the liability for losses that exceed certain limits called deductibles.

Types of stop Loss coverage
- **Specific Stop Loss** - Provides protection for the employer against a high claim for any one individual. This is protection against abnormal severity of a single claim rather than abnormal frequency of claims in total. Specific Stop Loss is also referred to as Individual Stop Loss.
- **Aggregate Stop Loss** - Provides protection in the form of a ceiling on the dollar amount of eligible expenses than an employer would pay in total during a contract period. The carrier reimburses the employer after the end of the contract period for Aggregate claims.

What is Specific Stop Loss coverage?
- **Specific Stop Loss** is provided to limit the employer's cost for eligible medical expenses for each covered individual. This coverage addresses the organization's exposure to high expenses on a given individual, as opposed to an accumulation of expenses on all covered individuals. Generally, medical expenses are covered, though many companies opt to cover prescription expenses as well.
- **The "per person" deductible** is determined before the start of the contract period, subject to certain minimums and maximums. If eligible medical expenses on a covered individual exceed the selected amount, the deductible is satisfied. The employer does not need to wait until the end of the contract period to submit a Specific claim for reimbursement.
- **The premium charge** is expressed as a rate per covered employee per month and a rate per covered dependent unit per month.
- **The lifetime maximum benefit** per person is generally $1,000,000, but higher amounts are often available depending upon the reinsurance carrier.
- **A new deductible amount and new rate** are established at each contact renewal.

What is Aggregate Stop Loss coverage?
- **Aggregate Stop Loss** is provided to limit an employer's overall annual cost for a self-funded plan. This coverage addresses the accumulation of expenses on all individuals, as opposed to high expenses for particular individuals.
- **Any health benefit** can be included under the Aggregate Stop Loss, such as medical, dental, vision, prescription drugs, and short-term disability. When eligible expenses paid during a contract period exceed the Annual Aggregate Deductible, the group is reimbursed as specified in the contract, after the close of the contract period.
- **The premium charge** is expressed as a rate per month.
- **New monthly deductible factors**, a new minimum Aggregate Deductible and new rates are established at each contract renewal.

What is the role of the employer's plan document?
The plan document defines the benefits offered to the employees and is critical in determining liability under the Stop Loss coverage. Because the employer has freedom in designing the plan, there may be

elements in the document that are not included under the Stop Loss coverage. The covered portions of the plan document must be approved by the underwriter in order to go into effect under the Stop Loss coverage. Changes in the plan document after its initial approval must be approved before their inclusion in the Stop Loss coverage by an addendum to the plan document.

How is loss defined?

Expenses are determined to be eligible for reimbursement under the Stop Loss coverage based upon two criteria:

1. The expenses must be eligible under the employer's benefit plan as approved; and
2. The loss must be covered under the loss definition in the Stop Loss coverage.

When are claims paid?

Stop Loss coverage is provided on a reimbursement basis. The group is responsible for payment of all losses under a self-funded plan. With the purchase of Stop Loss coverage, the group is still responsible for all losses including those that exceed the deductible. After the losses have been paid, the employer will be reimbursed for the amount of the loss that exceeds the deductible. All reimbursements are paid directly to the employer, never to an employee or to a provider of services or supplies.

When and how are reimbursements paid?

Specific claims are generally submitted and processed as soon as the deductible is met. Aggregate claims are usually processed only after the close of the contract period. Occasionally, there are requests for a "monthly accommodation" on the Aggregate. This means the year-to-date Aggregate claims are compared to the year-to-date Aggregate Deductible to determine if any amount is payable. Funds could change hands during the year. The ultimate amount of the claim should remain the same. There is a business risk in this situation rather than an insurance risk as the employer may have to pay back advances if it turns out that claims in a later month would not have been reimbursed.

Summary

Self-funding and Stop Loss coverage provide an effective strategy to protect employers against catastrophic losses, while maintaining plan design flexibility and maximizing cost savings in comparison to the traditional fully-insured model.