# NiiS 25th Annual Medical Excess Claims Conference

## Catastrophic Claims

May 8, 2014

Speaker: Alison J. Saifer, FSA, MAAA

We were pleased to welcome Alison Saifer to the 25th annual Medical Excess Claims Conference.

Ms. Saifer is the president of AMS an actuarial and management consulting firm specializing in healthcare. Her expertise includes first dollar products, HSA compatible products, excess products (employer stop loss, provider excess, HMO Re), reinsurance as well as other financial alternatives. Ms. Saifer has extensive experience consulting for HMOs, IPAs, Insurance Companies, and MGUs. Key consulting projects include product development, pricing, actuarial filings, reserving, feasibility studies, strategic planning and insolvency analysis and protection.

Ms. Saifer presented an overview of the annual surge of catastrophic claims and their affect on the Stop Loss Industry. She led us through her presentation explaining how we can identify, underwrite, laser and set reserves on medical claims.

Ms. Saifer explained that catastrophic claims are on the rise. Healthcare reform will continue to escalate both frequency and severity of these claims by removing maximums; therefore – no limits. The probability of a claim over $1 million in 2002 was less than .00002 while in 2008 it is almost .00007; a 100% increase. Catastrophic claims are the new "normal" as survey indicates that 14% of sponsors covering 450,000 employees have had at least one or more claims over $1 million. The top three catastrophic conditions were identified as being 1.) Malignant Neoplasm (cancer), 2.) Chronic/End Stage Renal Disease (kidneys), and 3.) Leukemia/Lymphoma, and /or Multiple Myeloma (cancer). The top three represent 33% or one third of all stop loss payments made by one carrier from 2008 – 2011 with $1.7 billion in total claims. She also offered information that liver-kidney transplants increased by 90% in 4 years, that 1 in 10 newborns spend some time in a NICU and in regards to high cost drugs "there are 10 drugs that cost more than the price of a new car".

Ms. Saifer began the session with a focus on BCBS in Stop Loss by pointing out that Specific Blues Discounts make claims costs lower than most competitors with the ability to offer lower cost coverage on a National Basis by obtaining huge national discounts. The network being utilized makes a difference. To be competitive in the marketplace laser situations may be utilized as it may be harder to compete with a stronger more deeply discounted network. In a recent survey, the information obtained prompts Ms. Saifer to ask how accurate large clam predictions are and continues to discuss the use of lasers. Very few underwriters track laser setting at a level that impacts sales or underwriting decisions. The results may be surprising; 50% of lasers did not need to be;

while in 20% of lasers the claim experience was worse than the laser. She recommends when setting lasers have someone retrospectively review results to determine if lasers were appropriate, to take the network that the group is with into consideration (it makes a big difference which PPO group they are with) and to use tools or models to set lasers. She offers suggestions for internet resources such as Redbook, Predict DX, Milliman Data, NCCN or tools such as large claim reports, case management notes, historical data and transplant vendor rates.

Next, Ms. Saifer conferred that in today's market underwriting is too aggressive. No laser or no laser at renewal policies are becoming common (the Blues can do it for less). Large PPO discounts plus underwriting discretion are necessary to compete with BUCAs which have an increasing share of the market. There is competition on aggregate attachment points which have been coming down, and early "Lock-In" of rates makes lasering more difficult. Many companies are trying to figure out how Health Care Reform will impact Stop Loss and in doing so are creating new, innovative solutions to attract market share.

Survey results were also obtained in connection with the next subject, known case reserves. Very important – when setting reserves a person should be as accurate as possible. What resources are used in setting known case reserves? Survey results indicate that 53% use their own judgment and 17% say they use specific tools or modeling that is available. It was also revealed that 39% have no knowledge if the known case reserve levels were accurate. If you feel that the reserves are too conservative, always go higher.

Ms. Saifer concluded her presentation touching on the subjects of other potential changes to the market. Pressure on providers for transparency in cost may reduce the differential by network (consumer driven) and some companies are creating risk pools where employers are banding together and sharing risk at high levels in captive arrangements. Smaller employers are joining forces to get themselves into the Self-Funding market. PPO Discounts – savings achieved by PPOs can vary greatly sometimes a difference of 25% to 40% from the same provider. Be aware that just because the PPO has a significant discount off the billed charges, it does not mean that the discounted fee is *reasonable*. PPO pricing – Medicare plus pricing, the government has already done the hard work for us by creating a pricing scheme that drives down the cost of care for the majority of eligible services (as in the case of Provider Excess). Most providers have accepted this reimbursement model as the price for treating Medicare patients. Medicare fee schedules used in re-pricing should be modified to include pediatrics and OB/GYN. At the close of her presentation Ms. Saifer reiterates how to get new groups or keep existing groups? DISCOUNT, DISCOUNT, DISCOUNT without low claims costs you will be unable to compete.

The Group had no questions at the end of this presentation.