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For Needed Leverage

Carve Out That Rx Program From That Specific Stop-Loss Policy

By Renny V. Thomas, Sr.

No doubt about it, Third Party Administrators (TPAs) would be well-advised to consider carving out their client's outpatient prescription drug program from the Specific Stop-Loss policy, and by so doing, make them a lot more attractive.

Consider - Outpatient prescription costs currently run from 13 to 17 percent of medical expenses. However, if you delete outpatient prescription drug costs as a covered expense under the Specific, you eliminate up to 17 percent of your claim costs. As a result, you should be able to either reduce the Specific Stop-Loss premium or, alternatively, you should be able to reduce the Specific Stop-Loss deductible amount. There's a direct correlation there.

For example, if your Stop-Loss carrier says that the renewal premium for your client's $50,000 Specific Stop-Loss policy will be $250,000 next year and, if we assume that 15 percent of expected claims are for outpatient prescription drug expenses—and you advise the carrier that these expenses are now to be excluded from coverage under the Specific but that the deductible amount is to remain unchanged—then you should expect the carrier to adjust the Stop-Loss renewal premium proportionately. Alternatively, by removing this same portion of covered expenses, you could expect the carrier to be able to lower the Specific deductible amount for the same premium dollar.

Leverage Cited

See the leverage? That leverage is going to drive down either the premium or the deductible amount for the Specific Stop-Loss insurance. And, in view of how tight the market is for Medical Specific Stop-Loss insurance, anything you can do to favorably influence the price of your Stop-Loss coverage is going to give you a marketing advantage!

TPAs, of course, know that if you take that risk, outpatient prescription drug costs, and remove same as a covered expense under the Specific, the TPA can limit the Employer's financial responsibility for this risk by purchasing a separate Aggregate Stop-Loss policy for these same claims, but few actually do so - amazing.
In today's market it's tough to find carriers that will write both Medical Specific as well as Medical Aggregate Stop-Loss insurance. Most will offer only Specific Stop-Loss coverage. And, it's equally difficult to find a carrier that will offer Aggregate Stop-Loss insurance on a "carve-out" benefit such as outpatient prescription drugs even though the market for this coverage is readily available. So here's the point:

An enlightened TPA probably wants to position himself apart from the herd and to aggressively expand his market. In order to accomplish this objective, the TPA may need to get out of the box. One easy method to accommodate this objective is to eliminate outpatient prescription drug expenses from his client's Specific Stop-Loss coverage, and then write this exposure under a separate Aggregate Stop-Loss policy. In so doing, the TPA should expect to be able to reduce his client's total Stop-Loss premiums significantly.

The premium for an Aggregate Stop-Loss policy that covers outpatient prescription drug costs, with an annual attachment point equal to 120 percent of expected claims, should cost less than 2 percent of expected claims. So, if the client is saving up to 15 percent on a large premium, the Medical Specific Stop-Loss, and paying 2 percent for the less expensive prescription Aggregate, then the client is probably going to save some substantial money.

So, to reiterate for emphasis and because of the importance of the message, in reviewing the total financial bundle, if the TPA eliminates outpatient prescription claim costs as a covered expense under the Specific Stop-Loss insurance, and writes this risk under a separate Aggregate Stop-Loss policy, the Third Party Administrator is probably going to, at a minimum, save his client 10 percent or more over the client's current or renewal Specific Stop-Loss premium costs.

TPA's Situation

Granted, most TPAs know about what's been cited, but it's also a truism that they generally don't think about it. Let's face it, they have had to adapt and innovate over the years. And, needless to say, a major problem faced by most TPAs is that of finding a market for competitive, reliable and consistent Medical Stop-Loss insurance. Compound this market issue with the Specific Stop-Loss carrier's requirement that today a self-funded medical plan must include both managed care provisions as well as large claim and special risk management vendors, all of which incur an added layer of cost, it's understandable why the self-funded arena has not grown significantly in the last decade.

But again, a lot of TPAs don't stop to think about these "underwriting requirements" and the cost for same, as they struggle to expand their client base. And, more often than not, these same TPAs ignore or forget the fact that by carving out those prescription claims, they can either reduce those Specific Stop-Loss premiums or they can reduce those Specific Stop-Loss deductible amounts. And, stunningly, many TPAs erroneously believe that eliminating prescription claim costs from the Specific and covering same under an Aggregate creates an added layer of cost when, in fact, *<u>it's a reduction!</u>*

Now consider this:

- Active employee groups typically have outpatient prescription drug costs in excess of $100 per member per month, and

- Groups with retirees can expect outpatient prescription claim costs for these folks to be in excess of $300 per member per month.

The message therein is quite clear - when prescription drugs costs are excluded as a covered expense under a Specific Stop-Loss insurance policy, the TPA has significant leverage when dealing with his Specific Stop-Loss carrier.

Perhaps, as the TPA, you need to back away, get out of the box for a moment and consider something to the effect that: "If I carve out these prescription drug costs from my Specific, I'm going to save 13-17 percent of claim costs, and that translates into either a reduction in the Specific premium or the amount of the Specific deductible. Either way, the client wins!"

Next, appreciate that if your Specific Stop-Loss carrier is agreeable to a 15 percent reduction in your client's $250,000 Specific Stop-Loss premium, and the premium for a separate Aggregate that covers this risk is approximately 2 percent of expected claims, than you have the potential to save your client some real money … now, all of a sudden, if you analyze your entire book of business, you're probably looking at some significant large numbers!

Pricing Complaints

As mentioned, most TPAs are struggling to get new business and they're complaining about underwriting practices and the pricing for Specific Stop-Loss insurance. Related, their market share is probably declining because they can't get themselves strategically positioned to be really price competitive with fully insured benefit plans.

So what I'm saying to TPAs is this - Get out of the box!

Explore the option of carving out from the Employer's Specific those outpatient prescription drugs that, again, probably represent 13 to 17 percent of your client's health care costs. And that should translate to either a significant reduction in price of your Specific Stop-Loss premium, or as an alternative, a reduction in the Specific Stop-Loss deductible amount. Add an Aggregate to cover the outpatient prescription risk, it costs a fraction of the Specific premium, and in the process save your client some $$$$ without materially altering the client's total financial exposure.

Point-blank, that's going to give any TPA a tremendous advantage … and, well, you do the math. It's basic. If your claims go down, your premiums go down. So, work smarter, not harder:

Carve it out!

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