

Complex Claims Market Update

September 2021

Our Complex Claims Specialty Practice (CCSP) resources help you navigate the complex claims market from a purchasing, clinical and claims management perspective. The September 2021 CCSP State of the Market Update provides insight into the 2022 stop-loss renewal landscape, high-cost claimant trends and how our carrier partners are approaching the upcoming January 2022 renewal season.

Employer Talking Points: What You Need to Know For 2022 Renewals

Employers with unfavorable high-cost claimant risk can expect a challenging renewal market, while employers with a favorable risk and loss history can expect increased competition from stop-loss carriers:

- Carrier loss ratios continue to exceed historical norms and carrier targets by about 70% to 75%. Industry-wide carrier claim-loss ratios exceeded 80% for the first time in 2019 at 80.8%, but came down slightly in 2020 to end the year at an 80.5% loss ratio*
- Carriers will continue to be more selective in issuing proposals, resulting in longer timelines to finalize placements and a more thorough medical review process

The pandemic has not impacted the 2022 stop-loss carrier premium trend projections of 16% to 21%:

- CCSP's stop-loss renewal placeholder projections were in alignment with prior year projections
- Most stop-loss carriers are not adjusting their underwriting manuals due to COVID-19 claims, but will continue to monitor COVID-19 "long-haulers" and the COVID-19 variants' impact on younger members more likely to be covered by an employer-sponsored health plan
- CCSP anticipates a continued increase in the frequency and severity of catastrophic claims due to the decrease in people seeking preventive and condition management care during the pandemic

Overall, high-cost claim prevalence is up. The percentage of InfoLock members with claims exceeding \$100k increased by 20% in 2020 vs. 2019:

- The growing pipeline of gene/cell therapy treatments represents the greatest financial concern for stop-loss carriers going forward
- There are a growing number of options for employers to transfer gene/cell therapy risks and costs using third-party programs; however, most employers use their traditional stop-loss policy to minimize cost volatility resulting from gene/cell therapy costs

CCSP Stop-Loss Carrier Summit

Recently, CCSP hosted a stop-loss carrier summit to prepare for the upcoming renewal season as well as gain insight into the carrier process post-COVID-19. We discussed topics such as carrier claim and underwriting outlooks, market dynamics and the impacts of COVID-19.

Key takeaways

Carrier outlook

- The gene/cell therapy pipeline is the largest financial concern looking forward, expect costs to increase as more therapies gain FDA approval
- There is concern from third-party, stop-loss carriers receiving sufficient claims data from major administrative service organization partners that offer bundled stop-loss coverage

Market dynamics

- There continues to be an increase in bundled carriers aggressively underwriting stop loss to grow the market share, resulting in the potential for greater rate volatility year-over-year for the upcoming renewal season

COVID-19 impacts

- COVID-19 is now ranked 22 on the list of top stop-loss claim reimbursement**
- Future claim costs due to COVID-19 are being accounted for in general 2022 cost trends for carriers, rather than premiums being loaded to account for potential COVID-19 costs
- COVID-19 moved transplants down to the 21st spot on the list of top stop-loss claim reimbursement — a significant drop from the top 10

*Source: NAIC data

**Ranking provided by Sun Life

Catastrophic Claims and Cost Trends

While the long-term claims impact on the pandemic is not yet fully known, the trajectory for people with catastrophic claim costs didn't significantly change from 2019 to 2020. However, we anticipate catastrophic claims will increase in 2022 due to decreases in preventive care, poor condition management and an increase in mental health needs due to COVID-19's impact.

As part of our renewal process best practices, our CCSP clinicians review each employer's top claimants and any proposed lasers to enhance our negotiations with carriers and assist employers in finding the optimal stop-loss risk transfer thresholds.

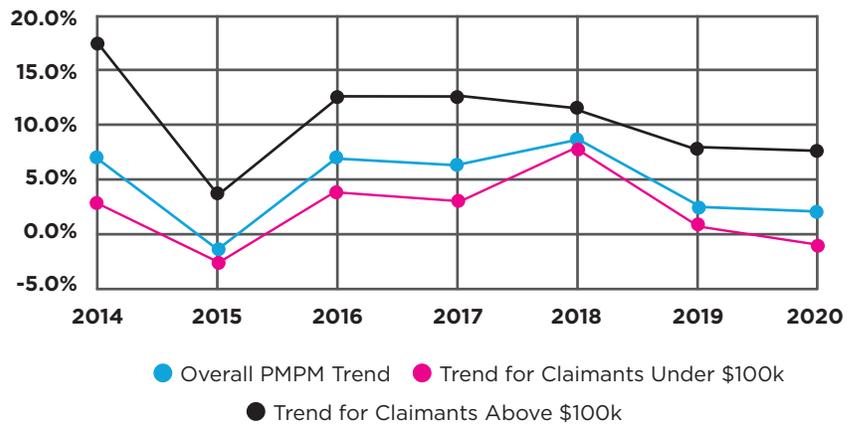
Lockton's InfoLock data warehouse, with claims data on over three million members, highlighted the following trends:

Total medical cost

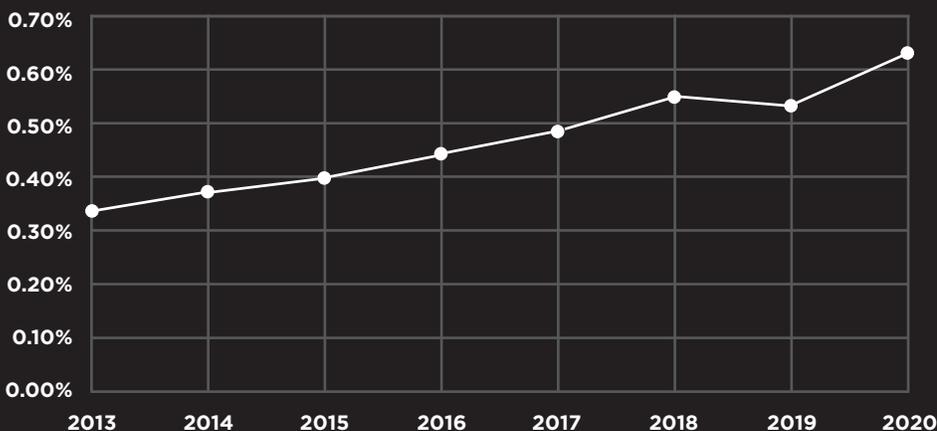
Overall, medical and pharmacy costs increased 2.1% per member per month (PMPM) from 2019 to 2020

- Claimants with under \$100k in claim costs decreased by 1% PMPM
- Cost trends for claimants with over \$100k in claim costs increased by 9% PMPM, in line with the 2019 trend

PMPM Annual Cost Trends



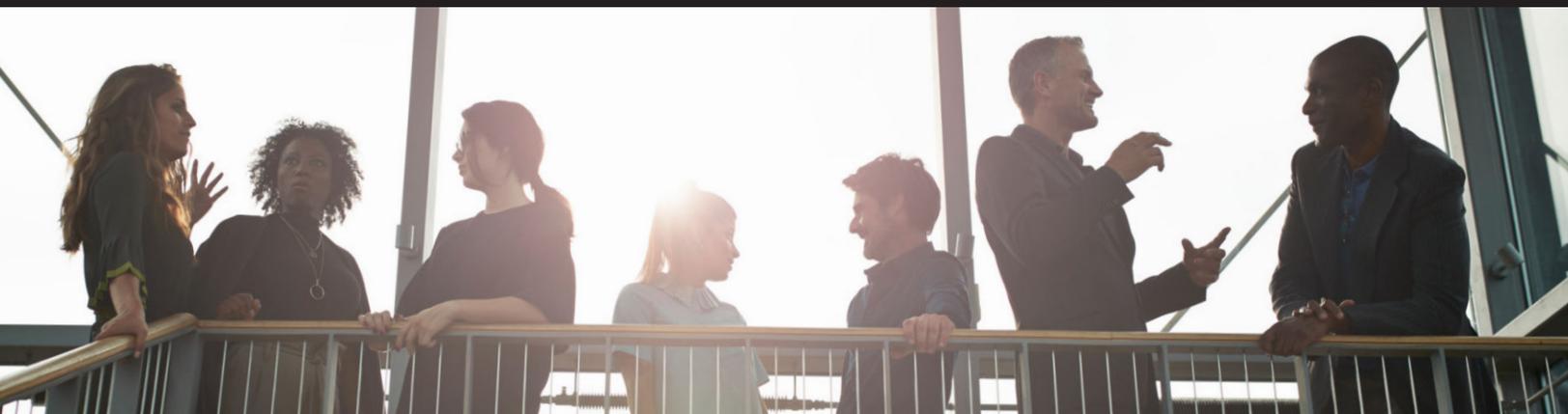
Percent Of Claimants With Over \$100k Claims



High-cost claimant prevalence

In 2020, there was a 20% increase in members with over \$100k in claim costs

- 0.6% of members (up from 0.5% in 2019) had claims over \$100k, driving over 30% of claim costs
- Cancer claims accounted for the largest percentage of stop-loss reimbursements, followed by septicemia (infection)



Lockton's Complex Claims
Specialty Practice — helping
self-insured employers mitigate the
risk and cost of catastrophic claims.



SUPPORTING YOU NOW AND IN 2022

We're here to help you understand the complex claims landscape and to help you navigate its impact on you now as well as in the future. From the evolving impact of COVID-19 on high-cost claims to the increasing demand and risk for gene/cell therapy treatments, we're keeping an eye on the trends and how they may impact us all. As existing programs evolve and new risk transfer programs emerge, we'll work closely with you to align the stop-loss risk transfer strategy with the employer's underlying medical plan coverage.

Our goal is to leverage market competition every year to ensure the most competitive renewal for our employer partners. To help you prepare for renewals, we provided stop-loss renewal budget projection placeholders.

We work hard to analyze historical claims, market dynamics, prior year marketing results, rate vs. benchmark and a detailed clinical review of high-cost claimants to provide each employer with a customized renewal forecast.

As always, feel free to reach out directly with any questions or needs.

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