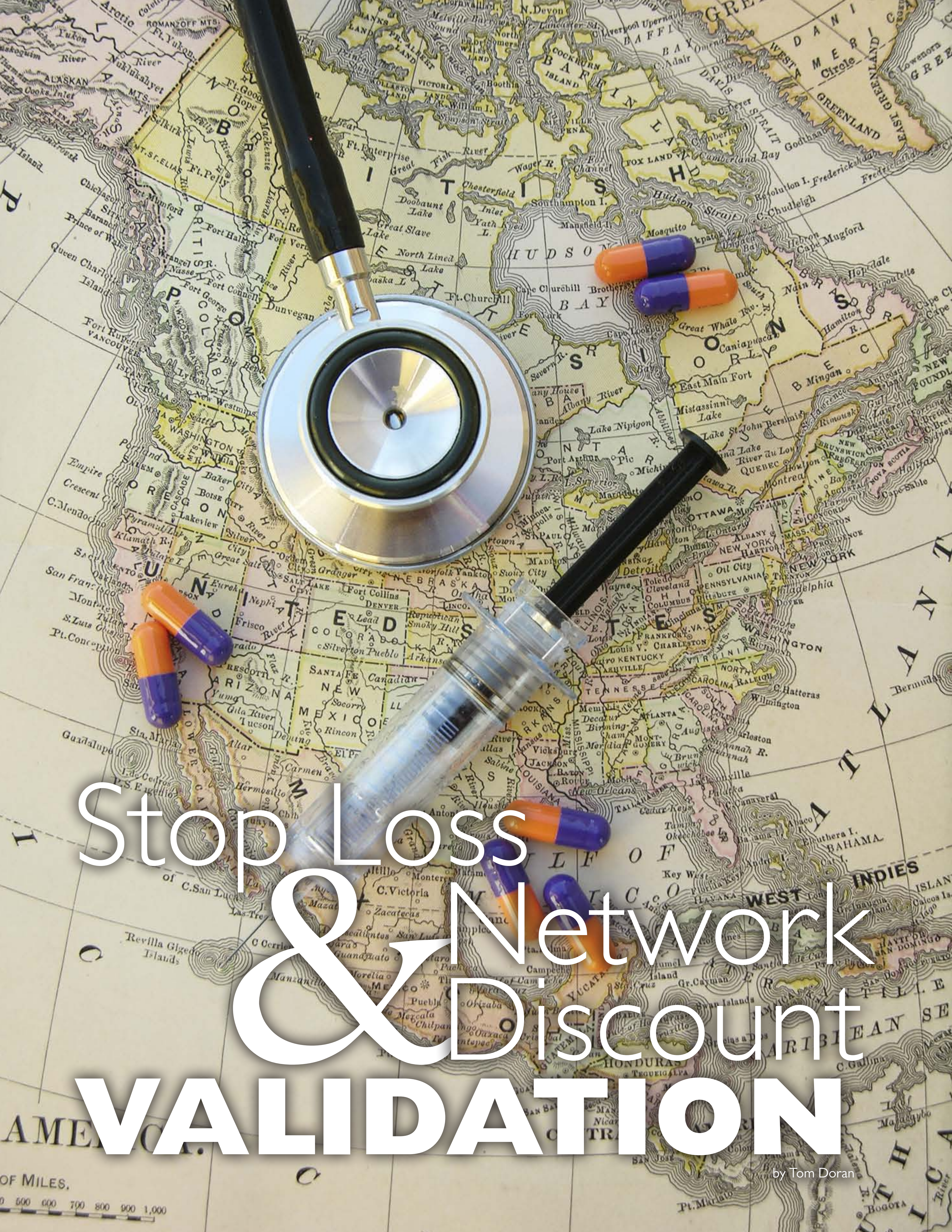

Stop Loss & Network Discount VALIDATION

by Tom Doran

A key component in the determination of specific stop loss premium is the evaluation of network efficiency by deductible by geographic region. Our recent claims analysis confirms the importance of the detailed review of networks specifically focused on large claims and provided explicit feedback on pricing recommendations.

Background

PPO or network Discounts at high dollar amounts are not reflected accurately via averages that are commonly cited. When brokers or consultants market self-funded employer groups with stop loss typically they only provide the overall average discount for the group. PPO Networks and ASO carriers market their overall average discounts and again the focus is on the total claims.

Detailed information may be provided at a case level or network discount guarantees may split out components of In-patient, Out-patient and physician, but even these are average discounts for a given group and may include adjustments or exclusions of large claimants.

This discount information is important for complete understanding of the aggregate attachment point calculations, but not really relevant or helpful for specific or large claim evaluation.

PPO discounts for high dollar claims after deductible will differ from the averages that are typically provided. The actual discounts are typically lower on shock claims, but the reduction in stop loss liability is higher due to reverse deductible leveraging. Let me walk you through an example.

1. If a billed charge was $100,000 and the network discount was 20% then the allowed would be $80,000. If the Specific (ISL) deductible level is $50,000, then the resulting stop loss liability is $30,000.
2. If the same billed charge of $100,000 and the network discount was 30% then the allowed would be $70,000. If the ISL deductible level is $50,000, then the resulting stop loss liability is $20,000
3. So a 10% improvement in the network discount results in a 33% reduction in stop loss liability. This impact illustrates why careful consideration is needed when pricing specific stop loss premium over various networks.

Our specific stop loss pricing process begins with a review of each network by examining the claims information and hospital contract provisions for various deductible levels. This review occurs on an on-going basis as we're constantly reaching out to get the most up to date information on over 400 networks nationally. This assessment provides significant insight into the discount level realized by network exclusively for large claims. Once this is done there are other key considerations that need to be incorporated into overall network discount.

One example of a key consideration is the appropriate evaluation of large claim In-network utilization. Not just the In-network aggregate statistic that is commonly available, but what is the In-network utilization when claims exceed a certain dollar threshold, for example $100,000 in billed charges.

Another example of a key consideration is the importance of the key tertiary facilities. If the network has great large claim discounts at all community hospitals but then all tertiary care is out of network then the network discount factor must be adjusted to reflect this utilization pattern.

If detailed claim information is not available for various reasons, it is possible to analyze the key facilities contract structure to determine the stop loss implications. Careful review of the facility "Outlier Provisions" designed to protect hospitals from catastrophic claim losses can dramatically shift the liability to the stop loss carrier. Many contracts can contain extensive carve-outs that will turn into stop loss claims.

Methodology

Our recent experience analysis set out to evaluate how effective we've been at the network assessment. Our methodology was to examine over $1.6 B in Billed Charges for Stop Loss claimants and assess the actual discounts realized by network by deductible vs. expected discounts utilized in pricing.

In this analysis we included; both regional and national carriers, over 5 years of claim history, over 300 networks, regional and national networks. From a claim volume perspective we looked at over 13,000 stop loss claimants and combined multiple submissions where appropriate.

The Actual % Reduction in Stop Loss Liability was calculated as follows:

$$\frac{\sum(\text{Billed Charges} - \text{Discount} - \text{ISL Deductible})}{\sum(\text{Billed Charges} - \text{ISL Deductible})}$$

(I'm also an actuary and couldn't help but put a formula in). This was done by network on a claimant by claimant basis as realized and aggregated. Individual PPO discounts varied from 10% to 90%. When aggregated by network with millions of dollars in claims these amounts were credible.

The Expected Network Discount was calculated by examining the claimant zip code and ISL deductible level that would be utilized in stop loss pricing for the network. This discount can be significant, 90% or more, at the higher deductible levels, for the best networks. This single factor is the most critical element in pricing of specific stop loss. That's because the stop loss liability remaining as in the earlier example is 1 – expected discount percentage.

Findings

Actual discounts were greater than expected used in pricing and illustrates a degree of conservatism, on the order of 5 to 15%. This built in pricing conservatism varied by network and by the volume of claims included in the network.

We also grouped claim results by deductible to examine if there was any bias evident at certain deductible levels. At key deductible levels ($100,000, $250,000 etc.) we observed consistent, stable results for the largest networks that were reviewed. Smaller networks with lesser available data did not allow for this type of review due to credibility concerns.

The results were examined over a multi-year period and the results were stable. This emphasizes that consistency in methodology is critical as well as constantly updating the dataset used in the evaluation of large claim discounts.

We also examined the variation in ASO carrier vs. national rental networks vs. regional networks. As expected the strongest large claim discounts were evident in the national ASO carriers. An unexpected outcome of the study was that it showed the most pricing conservatism was evident in the regional networks due to penetration assumptions.

The methodology described above is an on-going feedback process and will allow for continued refinement and evaluation of this critical pricing element. It incorporates not only the claims analysis supplied by the networks but also an assessment of the critical assumptions that are necessary to accurately price stop loss. ■

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