Berkshire Hathaway Specialty Insurance

Working Together

A publication of Berkshire Hathaway Specialty Insurance Company's Medical Stop Loss Team

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Welcome back to ***Working Together***, published for the Taft-Hartley and Public Sector benefits community to provide relevant information and important current trends to this important market.

Tips for Experience Rating Refund Programs

Experience Rating Refund programs are becoming more and more popular in the Taft-Hartley and Public Sector market space. An Experience Rating Refund program will refund a portion of the premium to the plan if the plan's actual stop loss claim experience results in a loss ratio that is better than a pre-set target loss ratio. When the loss experience runs well, a group can get a nice refund check months after renewal (or can use that refund as a premium credit). Not all Experience Rating Refund programs are alike, so it's important that the plan checks out the particulars before selecting a program offering a premium refund option.

Here are some items to check:

- **Is it an annual program, or multi-year (and is a premium refund available right away)?**
- **If a plan has a bad claims year does the loss carry forward to the next year, affecting the ability to get a premium refund in that year?**
- **What is the target loss ratio used in the calculation (many good programs use 65%)?**
- **What percentage of the "better than expected" loss experience is payable as a refund (typically, 25%)?**
- **Is there a premium load for the program, and how does the dollar value of the load compare to the best-case scenario when receiving a premium refund?**
- **Is the program part of a pool of risks or is it based solely on each plan's experience?**
- **If the group terminates in a later year and is due a premium refund, is it still paid?**

It's always a good idea to work with the plan's professionals to understand the potential value of adding an Experience Rating Refund program.

UNDERWRITING CORNER

Leveraged Trend Revealed

For folks who don't work with medical stop loss every day, Leveraged Trend can be a confusing concept when compared to regular Medical Trend.

Medical Trend is, not-so-simply, the expected percentage increase from one plan year to the next for the cost of medical care (e.g. doctor visits, hospital stays, surgical procedures, prescription drugs, etc.). It includes the impact of inflationary price increases, as well as anticipated changes (both increases and decreases) in the frequency and intensity of the medical services being provided.

Leveraged Trend, on the other hand, is a different animal entirely, underpinned by the first dollar Medical Trend but driven by the operation of the stop loss contract's Specific Deductible.

If the plan keeps the same Specific Deductible from one plan year to the next, the portion of the plan's catastrophic claims exceeding the plan's Specific Deductible in the following year will be greater than the portion in the preceding year. In effect, the amount of very large excess claims (amounts over the Specific Deductible) is leveraged much higher than the increase represented by the underlying Medical Trend.

A simple example is shown below, using a 6% annual Medical Trend and two large claims over a $50,000 Specific Deductible. The Specific Deductible stays the same from year to year, and the two large claims increase by the 6% annual trend. The excess claims over the $50,000 Specific Deductible increase by 11.7% from the first year to the second year, while the claims that are capped at $50,000 only increase by 5.455%. The 6% Medical Trend triggers an 11.7% Leveraged Trend in this example.

$50,000 Specific Deductible with a 6% Annual Trend

	First Year			Second Year			Increase	
Claims	Claim Amount	Amount **over** $50K	Amount **under** $50K	Claims after 6% Trend	Amount **over** $50K	Amount **under** $50K	Over $50K	Less than $50K
Claim 1	$80K	$30K	$50K	$84.8K	$34.8K	$50K	16%	0%
Claim 2	$125K	$75K	$50K	$132.5K	$82.5K	$50K	10%	0%
Others	$1,000K	$0	$1,000K	$1,060K	$0	$1,060K	0%	6%
TOTAL	**$1,205K**	**$105K**	**$1,100K**	**$1,277.3K**	**$117.3K**	**$1,160K**	**11.7%**	**5.455%**

Because of the way the Specific Deductible drives the Leveraged Trend, the value of the Specific Deductible diminishes as the underlying Medical Trend asserts itself year after year. Though not illustrated in the example, a claim that falls just under the Specific Deductible in one year could go over that unchanged Specific Deductible in the next year due to the 6% increase in Medical Trend.

Plans should monitor their Specific Deductible level to make sure that it is keeping up with Medical Trend as a way to minimize, or eliminate, leveraged increases in their specific stop loss premiums.

64th International Foundation of Employee Benefits Convention

October 14-17, 2018
New Orleans, LA

Come visit our booth in the exhibit hall to learn more about BHSI!

Contact BHSI

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Berkshire Hathaway Specialty Insurance turns five years old

Growing a Forever Company