

# City of Olathe

## Stop Loss

### Marketing Analysis

#### Complex Claims Specialty Practice

JANUARY 1, 2025

FIRM RESULTS



# Executive summary

## FACTORS IMPACTING YOUR STOP LOSS RENEWAL

### MARKET CONDITIONS

#### **Stop loss carriers have tightened underwriting requirements.**

- **Gene & Cell Therapy** treatments are expected to more than double by the end of 2026, with 14 Gene Therapies approved as of mid-2024
- **Increase of \$1M claims** continues to climb with Newborn/Infant Care average cost increasing by 44% over the last four years
- **Cancer drugs** continue to dominate the market, making up more than half of the top 20 high-cost injectable drugs

### PLAN PERFORMANCE

#### **Carriers review historical utilization to better understand high-cost claimant trends within an employer group.**

- Historical cumulative loss ratio is **68%**
- Current loss ratio is **20%** with claims through August 2024

### ONGOING RISK ASSESSMENT

#### **Carrier underwriting is more aggressively reviewing known claimant risk through comprehensive data reviews.**

- Known risk on plan of the top 5 claimants by spend is projected to result in 2-3 stop loss deductible breaches
- **5** ongoing claims projected for 2025: **\$880K-\$1.65M**

### PEPM RATE VS. BENCHMARK

#### **Underwriters expect large claim risk from new claimants to even out over time, so a lower rate compared to benchmark can lead to carrier losses when claims activity normalizes.**

- Current PEPM Rate is **lower** than Lockton benchmark

# Executive summary

## RECOMMENDATION

### CURRENT CONTRACT TERMS

**Contract Type:** \$200K Deductible; \$150K Aggregating Specific Deductible; Paid Contract; Specific Coverage; Medical & Rx

**Multi-year Protection:** Currently a 45% Rate Cap with No New Laser renewal protection in place

### MARKET RESULTS SUMMARY

**Provided Firm:** Cigna, QBE, Voya, Wellpoint

**Decline to Quote:** Berkshire Hathaway, Optum, Sun Life (uncompetitive to current)

**Uncompetitive Illustrative:** BCS (+43%), Granular (+28%), HM (+65%), Symetra (+34%), TMHCC (+44%)

### RENEWAL RECOMMENDATION

**Best Fixed-Price Option at Current Deductible:** QBE (+10%)

**Stop Loss Carrier:** Maintain coverage with Cigna

**Plan Design Review:** Current specific deductible is low when compared with similarly sized employers.

**Recommendation Rationale:** City of Olathe will continue to have simultaneous stop loss reimbursements under the bundled arrangement with Cigna. An Experience Refund is only available if the City renews with Cigna.

# Factors Impacting Your Renewal



# Stop loss plan performance

Historical Plan Performance	2022	2023
Stop Loss Carrier	Wellpoint	Wellpoint
<b>Specific Deductible</b>	<b>\$200,000</b>	<b>\$200,000</b>
Aggregating Specific	\$150,000	\$150,000
Contract Basis	Paid	Paid
# of Lives	1,025	986
PEPM Specific Rate	\$108.20	\$122.67
Total Paid Premium	\$1,306,515	\$1,595,248
Total Paid Specific Claims	\$336,149	\$1,634,435
<b>Annual Loss Ratio</b>	<b>26%</b>	<b>102%</b>
<b>Cumulative Loss Ratio</b>		<b>68%</b>

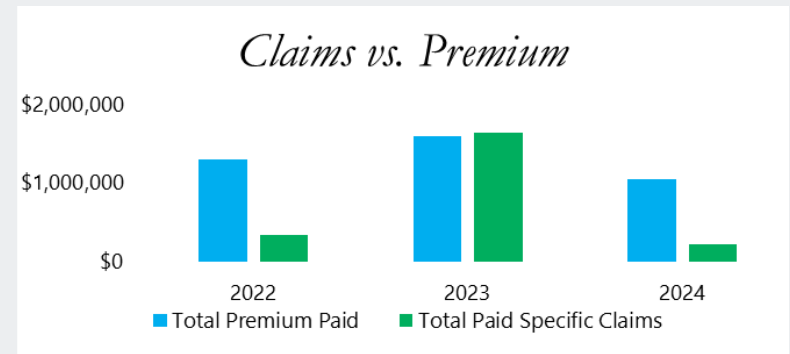
Historical Claimant Activity	2022	2023
Claimant 1	\$452,142	\$694,777
Claimant 2	\$299,279	\$613,670
Claimant 3	\$247,303	\$489,944
Claimant 4	\$243,985	\$472,857
Claimant 5	\$230,689	\$307,965
Claimant 6	\$212,751	\$301,562
Claimant 7	\$0	\$279,621
Claimant 8	\$0	\$215,776
Claimant 9	\$0	\$208,263

Current Plan Performance
Cigna
<b>\$200,000</b>
\$150,000
Paid
1,068
\$122.17
\$1,054,083
\$212,468
<b>20%</b>

Current Claimant Activity
\$380,976
\$340,758
\$225,338
\$215,397
\$0
\$0
\$0
\$0
\$0
<b>Large Claims Thru:</b>
<b>8/31/2024</b>



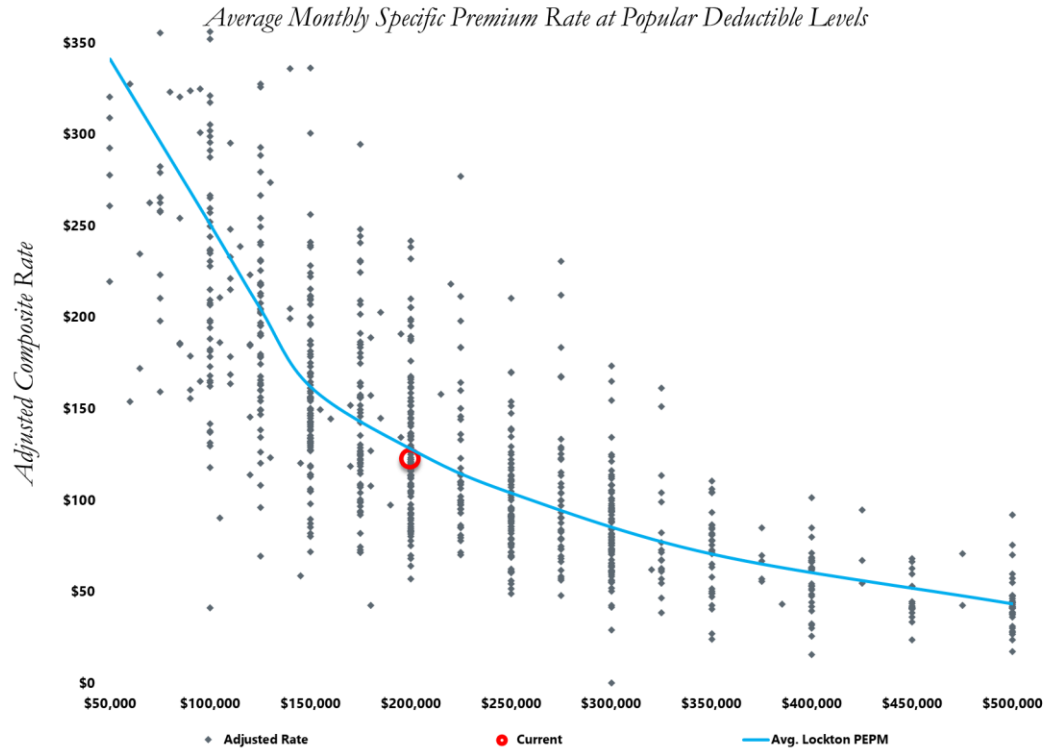
**CARRIERS EVALUATE** historical plan performance, member demographics and risk from ongoing claimants to assess an employer's future projected costs.



\*Enrollment is from the Cigna renewal

# Specific premium evaluation

(\$50K - \$500K)



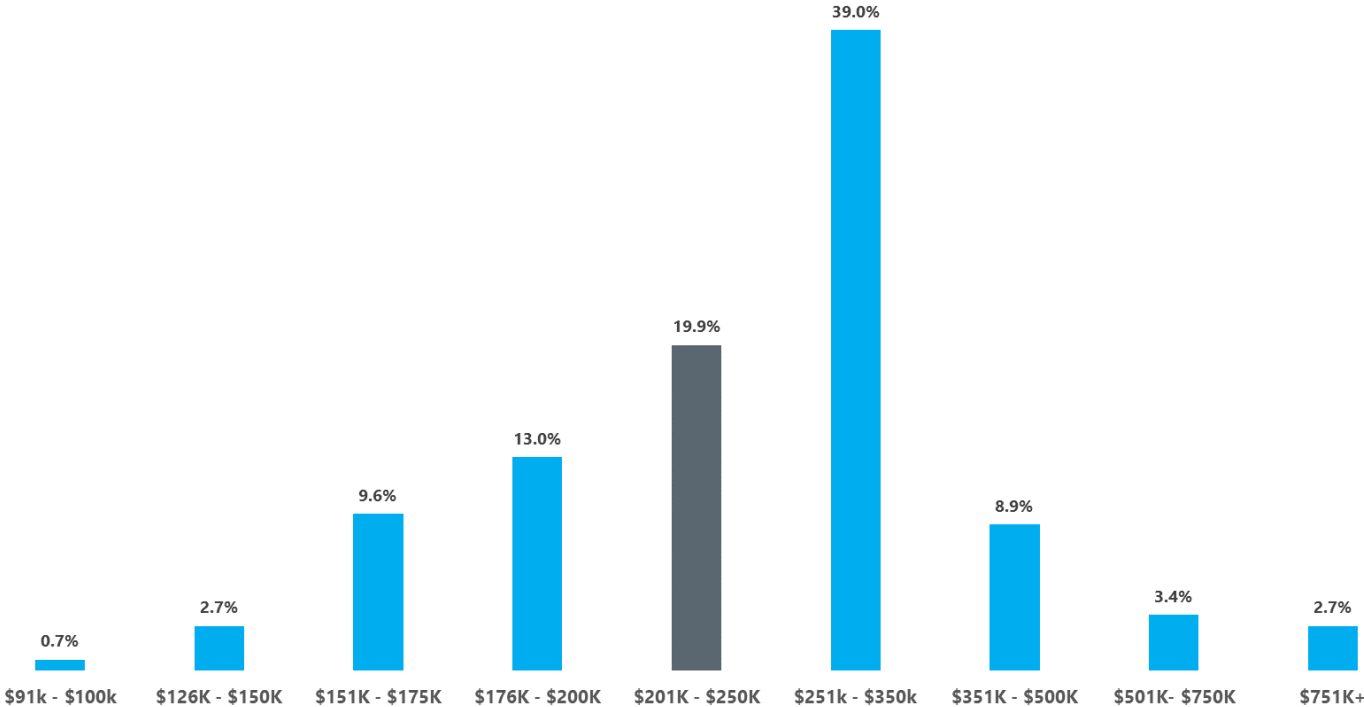
Avg. Lockton PEPM based on comparable Lockton Complex Claims Specialty Practice Book of Business.

Adjusted Rate based on Lockton Complex Claims Specialty Practice; all policies are mature, or the rates have been actuarially adjusted to be mature.

No adjustments were made for clients with Aggregating Specific Deductible or Lasers.

# Deductible evaluation

ENROLLMENT RANGE (1,001 – 1,500 EMPLOYEES)



**NOTES**

- We have provided a benchmarking bar graph that illustrates the percentage of employers within a similar range of employees and the deductible they elected.
- Using our benchmarking graph supports a more specific approach to electing a deductible more in line with other employers of similar enrollment.

# Financial Overview





# Status quo renewal summary

	Current	Renewal	Neg. Renewal	Option 1	Option 2	Option 3
Carrier	Cigna	Cigna	Cigna	QBE	Voya	Wellpoint
Quote Status	Current	Initial Renewal	Negotiated Renewal	Quote-Firm	Quote-Firm	Quote-Firm
Coverage Included	Medical, RX	Medical, RX	Medical, RX	Medical, RX	Medical, RX	Medical, RX
Contract Basis	Paid (144/12)	Paid (156/12)	156/12	36/12	36/12	24/12
Enrollment	1,068	1,068	1,068	1,068	1,068	1,068
<b>Specific Deductible</b>	<b>\$200,000</b>	<b>\$200,000</b>	<b>\$200,000</b>	<b>\$200,000</b>	<b>\$200,000</b>	<b>\$200,000</b>
Aggregating Specific Deductible	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000
<b>FINANCIAL ASSESSMENT</b>						
Total Interface Fee	\$0	\$0	\$0	\$38,448	\$38,448	\$38,448
<b>Total Fixed Cost</b>	<b>\$1,565,731</b>	<b>\$1,851,528</b>	<b>\$1,818,206</b>	<b>\$1,717,857</b>	<b>\$1,752,972</b>	<b>\$1,745,155</b>
Fixed Cost Change \$		\$285,797	\$252,475	\$152,126	\$187,242	\$179,424
<b>Fixed Cost Change %</b>		<b>18%</b>	<b>16%</b>	<b>10%</b>	<b>12%</b>	<b>11%</b>
<b>Total Laser Liability</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>2ND YEAR RENEWAL PROTECTION (NO NEW LASERS / RATE CAP)</b>						
Renewal Protection Included	Yes	Yes	Yes	Yes	Yes	Yes
Rate Cap Maximum %	45%	45%	45%	40%	45%	50%

## NOTES

- Cigna charges a \$3.00 PEPM interface fee for all carved out stop loss solutions
- Cigna renewal and firm proposals include an Experience Refund Option
  - City of Olathe must renew Stop Loss coverage with Cigna to receive 2024 plan year refund
- Cigna renewal and firm proposals cover pre-65 retirees under Stop Loss plan
- Multi-year rate protection is included with all options.
  - 2nd year rate cap & No New Laser Provision

# Breakeven and premium/risk analysis

	Renewal	Option 1	Option 2
	Cigna	Cigna	Cigna
ISL Deductible	\$200,000	\$225,000	\$250,000
Total Premium	\$1,818,206	\$1,624,556	\$1,437,571
<b>Premium Costs/(Savings) from Renewal</b>	<b>N/A</b>	<b>(\$193,650)</b>	<b>(\$380,635)</b>
<b>Breakeven based on Claimants (#) over the New ISL Deductible</b>			
Minimum # of High Claimants Needed to Void Savings		7.7	7.6
<b>Weighted Historical Avg. Claimants</b>		<b>5.7</b>	<b>4.3</b>
<b>Monte Carlo Model Avg. Claimants</b>		<b>7.4</b>	<b>6.1</b>
<b>Blended Avg. Claimants (30% Historical Credibility)</b>		<b>6.9</b>	<b>5.5</b>
<b>Premium/Risk Analysis based on Additional(Reduced) Claim Liability (\$)</b>			
Weighted Historical Average Additional/(Reduced) Claim Liability		\$160,595	\$288,019
<b>Net Cost/(Savings) to Change Deductible from Renewal</b>		<b>(\$33,055)</b>	<b>(\$92,617)</b>
Monte Carlo Average Additional/(Reduced) Claim Liability		\$203,603	\$367,853
<b>Net Cost/(Savings) to Change Deductible from Renewal</b>		<b>\$9,953</b>	<b>(\$12,782)</b>
Blended Average Additional/(Reduced) Claim Liability (30% Historical Credibility)		\$190,700	\$343,903
<b>Net Cost/(Savings) to Change Deductible from Renewal</b>		<b>(\$2,949)</b>	<b>(\$36,732)</b>

## NOTES

- The break-even analysis based on Claimants (#) is being used to determine the number of ISL claim breaches required to offset the premium and/or liability being assumed by the employer.
- The premium/risk analysis is calculated based on Additional Claim Liability (\$) in-between the optional deductible and renewal deductible, and above the optional deductible versus the premium costs/savings by changing the deductible.

Weighted Historical Average methodology:

1. Historical plan performance for the previous two years are available and will be weighted 45% each year and the current year will be weighted 10%

# Financial projection analysis

Time period of projection: 1/1/2025 - 12/31/2025

Number of Employees: 1,068

Number of members (estimated): 2,243

## Number of Claims Exceeding Specific Deductible

Carrier Options	Renewal Cigna	Option 1 Cigna	Option 2 Cigna
Deductible Level	\$200,000	\$225,000	\$250,000
Average	9.1	7.4	6.1
Minimum Based on Simulations	1.0	0.0	0.0
25th Percentile	7.0	5.0	4.0
75th Percentile	11.0	9.0	8.0
Maximum Based on Simulations	23.0	22.0	18.0

## Total Dollar Amount of Claims Exceeding Specific Deductible

Carrier Options	Cigna	Cigna	Cigna
Deductible Level	\$200,000	\$225,000	\$250,000
Average	\$1,451,582	\$1,247,980	\$1,083,729
Minimum Based on Simulations	\$4,000	\$0	\$0
25th Percentile	\$764,375	\$590,000	\$450,500
75th Percentile	\$1,899,500	\$1,662,000	\$1,463,500
Maximum Based on Simulations	\$9,163,000	\$8,913,000	\$8,682,500

## What is the plan's expected cost under the various options?

Carrier Options	Cigna	Cigna	Cigna
Deductible Level	\$200,000	\$225,000	\$250,000
Average Simulated Expected Claims	\$17,108,490	\$17,312,092	\$17,476,343
Specific Premium	\$1,818,206	\$1,624,556	\$1,437,571
Total Expected Cost (Expected Claims + Stop Loss Premium)	\$18,926,696	\$18,936,649	\$18,913,914
% of simulations this option "wins" when all contract options considered	44.7%	0.0%	55.4%

\*Average Simulated Expected Claims (paid by plan after specific and aggregate) is based on a simulation dependent on the probability of total claims over the specific deductible and aggregate factors; the change to either could result in different outcomes.

# Next Steps to Secure Coverage



# Checklist to secure coverage

1

Cigna renewal is **FIRM**. Please provide renewal election and signed proposal, if applicable, no later than **November 7, 2024**.

2

Once confirmations are received, the stop loss team will obtain application paperwork.

3

Leave of absence policy needed.

4

Please supply updated SPDs/PDs/Plan Amendments and wrap documents once available.

5

Confirm if there are any vendor changes (RX, Admin, Network, UR). Please note that this could have a material impact to the rates and/or factors.

# Coverage considerations

## IMPORTANT DISCLOSURES

### POLICY DISCLOSURES OF IMPORTANCE

- The Cigna proposal assumes enrollment in Embarc. The Administration fees for this program are in addition to the pricing in this exhibit.
- Renewal protection rate caps are applicable to the risk portion only and are not subject to any material change in the contract. Material changes include but are not limited to contract terms, effective date, network, commission, vendor(s) and/or plan design changes. Rate caps can be applied to Aggregating Specific Deductible (ASD) amounts.
- Lockton may receive certain incentive compensation including, without limitation, contingency payments, overrides, and bonuses, as a result of being Client's insurance broker (collectively, "Additional Compensation"). Client hereby consents and agrees to Lockton's ability to receive such Additional Compensation under all circumstances.

# Compensation disclosure

	Carrier	Commissions	Lockton Service Fee
Current	Cigna	0%	3%
Renewal	Cigna	0%	3%

For Cigna policies we estimate that contingent compensation, in addition to the 3% Service Fee, may range from 0% to 2% of the total stop loss premium placed.

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# Appendix





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# Proposal detail

## Cigna Renewal Options

Carrier	Current Cigna	Renewal Cigna	Option 1 Cigna	Option 2 Cigna
INDIVIDUAL SPECIFIC STOP LOSS COVERAGE				
<b>Individual Specific Deductible</b>	<b>\$200,000</b>	<b>\$200,000</b>	<b>\$225,000</b>	<b>\$250,000</b>
Aggregating Specific Deductible	\$150,000	\$150,000	\$150,000	\$150,000
Contract Basis	Paid (144/12)	156/12	156/12	156/12
Coverage	Medical, RX	Medical, RX	Medical, RX	Medical, RX
# of Lives	1,068	1,068	1,068	1,068
FIXED COST				
<b>Composite Specific Rate</b>	<b>\$122.17</b>	<b>\$141.87</b>	<b>\$126.76</b>	<b>\$112.17</b>
<b>Total Fixed Cost – Specific</b>	<b>\$1,565,731</b>	<b>\$1,818,206</b>	<b>\$1,624,556</b>	<b>\$1,437,571</b>
ADDITIONAL POLICY TERMS & CONSULTING FEES				
Specific TLO	No	No	No	No
Commission	0%	0%	0%	0%
Service Fee	3%	3%	3%	3%
LASER LIABILITY				
<b>Total Laser Liability</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
TOTAL COMBINED COVERAGE				
<b>Total Fixed Cost</b>	<b>\$1,565,731</b>	<b>\$1,818,206</b>	<b>\$1,624,556</b>	<b>\$1,437,571</b>
<b>Max Overall Liability</b>	<b>\$1,715,731</b>	<b>\$1,968,206</b>	<b>\$1,774,556</b>	<b>\$1,587,571</b>
CHANGE FROM PRIOR YEAR				
<b>\$ Fixed Cost Change</b>		<b>\$252,475</b>	<b>\$58,825</b>	<b>-\$128,160</b>
<b>% Fixed Cost Change</b>		<b>16%</b>	<b>4%</b>	<b>-8%</b>
NO NEW LASER RATE CAP COVERAGE				
2026 Rate Cap	45%	45%	45%	45%
Max 2 Year Fixed Cost		\$4,454,605	\$3,980,163	\$3,522,048
Simulated Average Number of Claims		9.1	7.4	6.1
Simulated Average Reimbursements		\$1,451,582	\$1,247,980	\$1,083,729
Value to Change Current Deductible/Carrier (negative is savings)		\$0	\$9,953	-\$12,782

\*Due to rounding, rates can slightly vary from proposal. Please refer to proposal for carrier rates. Commentary/Recommendation: Value to Change Deductible = (Renewal Simulated Reimbursements - Alternate Option Simulated Reimbursements) - (Renewal Fixed Cost - Alternate Option Fixed Cost)

\*Additional Liability equals Laser Liability and/or Aggregating Specific Deductible

*Independence changes everything.*