



Marsh Captive Upside: 20/20/20 Webcast Series Session 8

October 16, 2020



Marsh Captive Upside: 20/20/20 Series Agenda and Speakers

- Medical stop-loss and captives.
- Catastrophic medical claims.



Arthur Koritzinsky
Captive Advisory Leader,
North America
Marsh Captive Solutions



Daniel Davey
Stop-loss Specialty Practice Leader,
Mercer Health & Benefits LLC



Captive Options for Medical Stop-loss

“The COVID-19 pandemic is one of the most significant global threats to financial stability we have seen in our lifetimes.”



1

Single parent:

- Internal funding.
- Access to reinsurance.

2

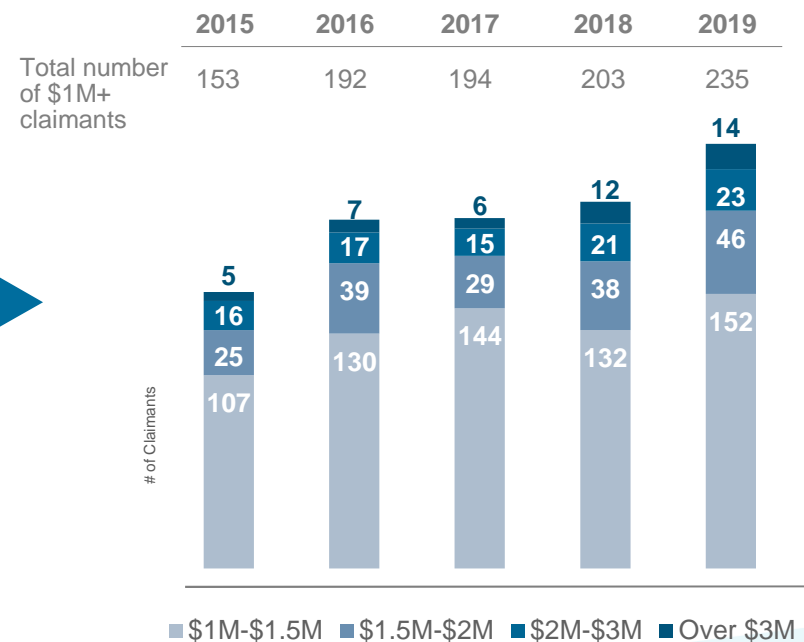
Group captives:

- Midsize organizations.
- Large company.

Can you afford to retain the risk of high-cost medical claims

when your organization is focused on preserving cash and defending its financials?

Million dollar claims are the new normal



Source: Sun Life Financial book of business data, 2015-2019.

Mercer has seen claims in excess of **\$20 million** for one member in a single year!

Specialty Rx Is Changing Catastrophic Claim Risk

- **Novel high-cost therapies create unprecedented challenges:**
 - One plan member potentially bending the plan trend.
 - Cellular and gene replacement therapies among the highest priced.
 - Zolgensma has a \$2.1 million price tag and a treatment for Hemophilia A is in development with a cost of \$3 million.
- **Unique considerations complicate coverage decisions:**
 - Legal and ethical implications of excluding coverage.
 - Potential for long-term savings with curative treatments but with significant short-term impact.



Investment in Rare Diseases Is Fueling Larger Claims

48 Novel drug approvals in 2019.

44% Drugs for orphan diseases.

42% First-in-class.

27% Breakthrough therapies.

Source: US Food and Drug Administration's (FDA) Center for Drug Evaluation and Research, *Advancing Health Through Innovation: 2018 New Drug Therapy Approvals Report*

Drug Pipeline Over the Next Five Years

75% Specialty drugs.

55% Biosimilar.

30% Orphan drugs.

30% Priority review by the US FDA.

15% Breakthrough therapy.

Major focus areas:

- Cancer.
- Hemophilia.
- Alzheimer's.
- Migraine Prophylaxis.
- Liver.
- Gene Therapy.

Catastrophic Claim Risk

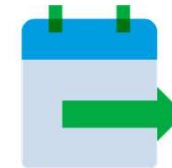
Catastrophic claims often stay at a high level and don't regress to the mean.



In the past, large claims would **spike and then recede**.



The pattern is changing as more claims **spike and then stay at that level**.

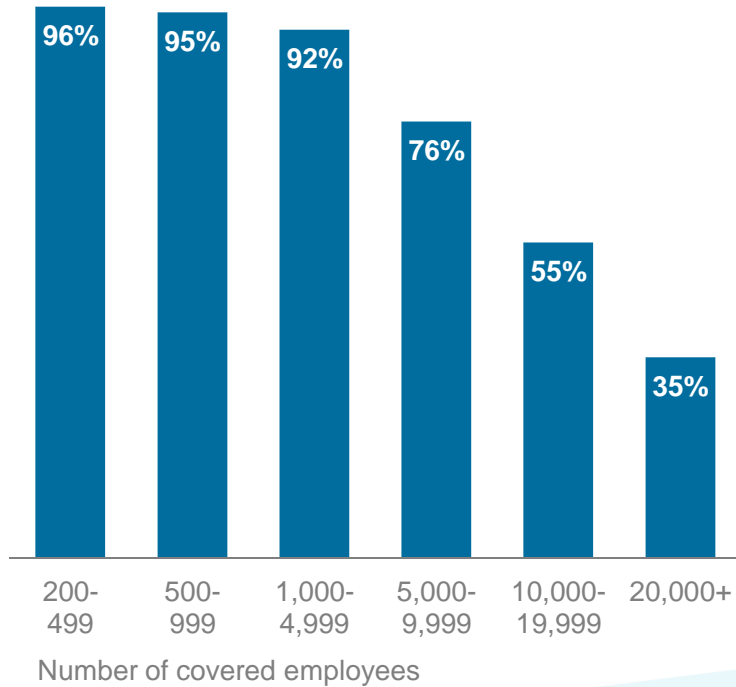


Because the drug treatment protocols for conditions like hereditary angioedema and hemophilia are more maintenance-like than curative, **those \$2+ million claims are becoming annuities**.

Use of Stop-loss to Mitigate Catastrophic Claim Risk

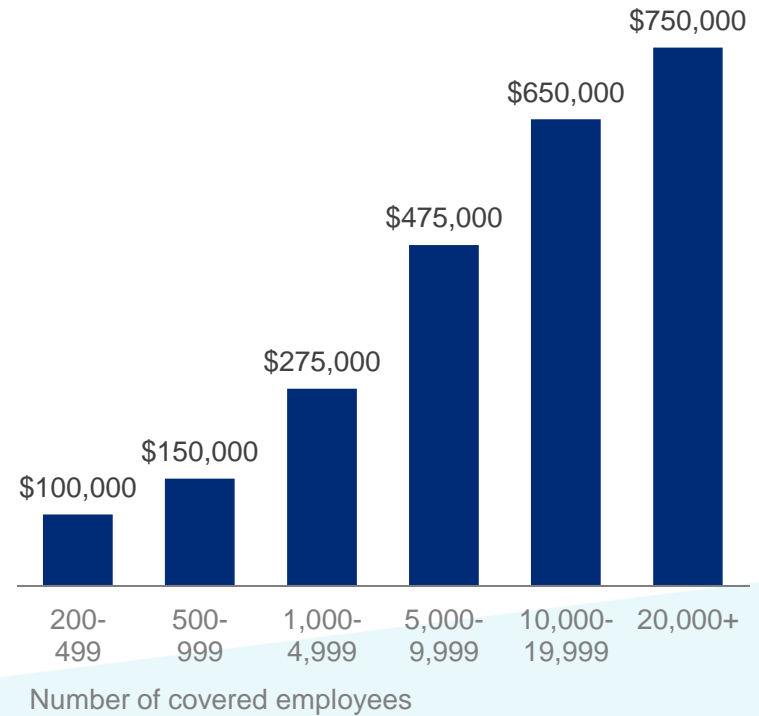
2019 Mercer Survey

Percentage of employers with a self-funded medical plan that carry stop-loss



Source: Mercer's National Survey of Employer-Sponsored Health Plans, 2019

Median specific stop-loss deductible



Copyright © 2020 Mercer (US) Inc. All rights reserved.

Use of Stop-loss to Mitigate Catastrophic Claim Risk

Addressing catastrophic claims with conventional stop-loss for some larger employers can be challenging.



STOP-LOSS MARKET CONTINUES TO HARDEN

- Increased scrutiny by insurers on historical claim experience and increased prevalence of lasering.
- Insurers decline to quote on nearly half of all opportunities.



FOCUS IS ON SMALLER EMPLOYERS AND LOWER DEDUCTIBLE LEVELS

- Limited market for stop-loss deductibles of \$1 million or more.
- Insurers tend to be extra conservative with pricing for groups without coverage in place currently.



INSURERS PURCHASE REINSURANCE

- Stop-loss insurers typically transfer top end risk for claims ~\$5 million.
- A significant portion of high-deductible stop-loss premium is a pass through of reinsurance charges.

Group Captive Option for Larger Employers

Mercer's Catastrophic Claim Captive

SPEND PER MEMBER

Reinsurance \$3M+

The captive purchases a single reinsurance contract for the participating employers.



Group specific review to confirm eligibility criteria is met.




Multi-year commitment required.

\$3 Million Specific Deductible



Mercer Operational Oversight



Mercer

Coming Next
Session 9 – November 20

Questions or feedback about this webcast?

Please reach out to Arthur Koritzinsky, Arthur.G.Koritzinsky@marsh.com or Daniel Davey Daniel.Davey@mercer.com.

Want to hear our earlier webcasts again? All prior recordings and slide decks are available on our replay page:
<https://coronavirus.marsh.com/us/en/insights/research-and-briefings/captive-upside-webcast-series.html>

Interested in hearing more about medical stop-loss?

Listen to the recent Global Captive Podcast featuring Daniel and Arthur:
<https://www.globalcaptivepodcast.com/gcpshort14>



Marsh is one of the Marsh & McLennan Companies, together with Guy Carpenter, Mercer, and Oliver Wyman.

This document and any recommendations, analysis, or advice provided by Marsh (collectively, the "Marsh Analysis") are not intended to be taken as advice regarding any individual situation and should not be relied upon as such. The information contained herein is based on sources we believe reliable, but we make no representation or warranty as to its accuracy. Marsh shall have no obligation to update the Marsh Analysis and shall have no liability to you or any other party arising out of this publication or any matter contained herein. Any statements concerning actuarial, tax, accounting, or legal matters are based solely on our experience as insurance brokers and risk consultants and are not to be relied upon as actuarial, tax, accounting, or legal advice, for which you should consult your own professional advisors. Any modeling, analytics, or projections are subject to inherent uncertainty, and the Marsh Analysis could be materially affected if any underlying assumptions, conditions, information, or factors are inaccurate or incomplete or should change. Marsh makes no representation or warranty concerning the application of policy wording or the financial condition or solvency of insurers or reinsurers. Marsh makes no assurances regarding the availability, cost, or terms of insurance coverage. Although Marsh may provide advice and recommendations, all decisions regarding the amount, type or terms of coverage are the ultimate responsibility of the insurance purchaser, who must decide on the specific coverage that is appropriate to its particular circumstances and financial position.

Copyright © 2020 Marsh LLC. All rights reserved. MA20-16009