SEGAL

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MEMORANDUM

To: Board of Trustees
Industry & Local 338 Welfare Fund

From: Russell Bley
Michael Tesoriero
John P. Urbank

Date: March 21, 2019

Re **HCC Life - Specific Stop-loss Renewal effective April 1, 2019**

The following chart illustrates the Fund's specific stop-loss level and rate history since April 1, 2015.

Renewal Period	Carrier	Stop-loss Level	Premium Rate
Apr 2015 – Mar 2016	HCC Life	$150,000	$52.03
Apr 2016 – Mar 2017	HCC Life	$150,000	$56.04
Apr 2017 – Mar 2018	HCC Life	$160,000	$56.04
Apr 2018 – Mar 2019	HCC Life	$160,000	$59.94

The Fund currently purchases specific stop-loss coverage on the following basis:

- Specific Stop-loss Level: $160,000
- Stop-loss Basis: 12/18 (Incurred in 12 months & Paid in 18 months)
- Stop-loss Coverage: Hospital, Medical and Prescription Drug coverage
- Annual Maximum: Unlimited
- Lifetime Maximum: Unlimited

As mentioned above, the Fund selected a $160,000 specific stop-loss level. This means that currently for any individual that has more than $160,000 in Hospital, Medical and Rx paid claims during the stop-loss policy period, the Fund is reimbursed the entire amount above that level.

HCC Life April 1, 2019 Stop-loss Renewal Offer

Effective April 1, 2019, HCC Life proposes an increase in the Fund's specific stop-loss rate of 15.0 percent from $59.94 to $68.93 per participant per month. Assuming 147 participants, the annual premium would increase by approximately $15,900. Note that it is common for specific stop-loss renewals to receive 'leveraged trend' increases in the range of 13.5 to 24.5 percent so this offer falls within that range.

The chart below outlines the April 1, 2018 current, April 1, 2019 renewal, and April 1, 2019 alternative proposal including rates, participants, estimated annual premiums and other financial parameters.

Teamsters Local 338 WF	**Current Policy**	**Renewal Offer**	**Alternative Offer**
Specific Stop-loss Policy	Apr-18 – Mar-19	Apr-19 – Mar-20	Apr-19 – Mar-20
Coverages	Hosp, Med, Rx	Hosp, Med, Rx	Hosp, Med, Rx
Stop-loss Level.	$ 160,000	$ 160,000	**$ 175,000**
Contract Basis	'12/18'	'12/18'	'12/18'
Individual Annual Max	Unlimited	Unlimited	Unlimited
Individual Lifetime Max	Unlimited	Unlimited	Unlimited
Stop-loss Rate PPPM	$ 59.94	$ 68.93	$63.64
Participants	147	147	147
Estimated Annual Premium	**$ 105,700**	**$ 121,600**	**$112,300**
Rate Change	n/a	+ 15.0 %	+ 6.2 %
Annual Dollar Increase	n/a	$ 15,900	$6,600
Lasers	**None**	**1 @ $250,000**	**1 @ $250,000**
Carrier A.M. Best Rating	'A++'	'A++'	'A++'
Commissions	7.0%	7.0%	7.0%

As an alternative, if the specific stop-loss level were increased from $160,000 to $175,000 per individual, HCC Life would agree to reduce the rate increase from 15.0 to 6.2 percent. This alternative reduces the proposed annual premium by $9,300, but the Fund will assume an additional risk of $15,000 per individual. <u>Based on historical large claims experience, premium savings and Fund's reserve level, we would recommend that the Board consider increasing to the $175,000 specific stop-loss level</u>.

Lasering

As a reminder "lasering", as it relates to specific stop-loss, transfers the claims risk of certain individuals with <u>known</u> catastrophic ailments to the Fund by either increasing the stop-loss level for those individuals, or by increasing the premiums beyond normal leveraged trend. Theoretically, specific stop-loss premiums, as well as most forms of insurance, are priced based on unknown risk. The vendor chooses to "laser" an individual to either mitigate those known claims cost risks or the vendor "prices in" a portion of the expected claims cost to the policy year's premiums.

Based on the disclosure data provided to date, HCC Life has placed a laser on an individual at the $250,000 level. This means that the Fund would be responsible for all Hospital, Medical, and Rx costs for this individual up to $250,000 during the policy period. However, HCC Life has agreed to cover all other participants and dependents at the $160,000 specific stop-loss level and are thus not 'lasering' any of those individuals.

We have requested additional information on the individual being lasered and will appeal to have the laser amount reduced or removed.

Disclosure Process

Each carrier's stop-loss proposal included several caveats, which is typical in the stop-loss market. These caveats include requiring the Fund to sign a disclosure statement, the potential for "lasering" of individuals at the inception of the policy and at renewal (see below), and a review of pre-certification, utilization review and large case management protocols.

Each carrier requires the Fund to complete a disclosure statement, which typically requires the Fund to provide the claim amount, diagnosis, prognosis, and case management notes on any participant who has a claim that exceeds 50 percent of the selected stop-loss level. The Fund is also required to disclose information on any individuals that are currently hospitalized or have certain conditions that have the potential to reach the specific level.

According to HCC Life, the disclosure process is complete and no further information for disclosure will be required as long as they receive confirmation of the proposal acceptance by April 1, 2019.

cc: Associated Administrators
Fund Counsel

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