FAQS HB13-1290
Modernize Stop-loss Health Insurance

What is stop loss insurance?
When a small business self-insures, the employer takes on the risk of paying employees' medical claims. Stop-loss insurance (also called reinsurance or excess loss insurance) helps these businesses transfer risk to outside insurance companies to pay for very large claims. The employer pays claims up to a specified amount (the "attachment point"), with the stop loss insurer paying anything over this level. Stop-loss insurers are able to base rates on health status, gender, age and other factors, and/or limit the coverage they provide to individual employees within a small business.

Why is use of stop loss insurance by small employers a concern?
If employers with "healthy" employees self-insure while those with "sick" employees stay in the regular fully insured market, it creates adverse selection, which will destabilize the small group market. The marketing and sale of stop loss insurance to smaller and smaller employers can accelerate this problem. In addition, because stop-loss is not guaranteed renewable, employers are likely to move to the traditional small group market when their employees have high health costs, driving up premiums in that market. According to a 2012 Urban Institute Study, premiums could increase as much as 25% in the fully insured market if stop loss insurance is not regulated.

What is the current attachment point in Colorado law?
Colorado's stop-loss attachment point has not changed since 2003. Currently in Colorado the minimum individual attachment point is $15,000 per person and the aggregate attachment point for the entire small group is 120% of the expected health claims for the group.

What regulations or models exist on the national level?
In 1995, the National Association of Insurance Commissioners (NAIC) adopted a model law setting a individual attachment point of $20,000 and an aggregate attachment point (for groups of 50 or less) of not less than the greater of (a) $4,000 multiplied by the number of employees, (b) 120% of expected claims, or (c) $20,000 indexed for inflation. In 2012, an NAIC working group commissioned Milliman to undertake an actuarial analysis of stop-loss. The Milliman study indicated that the individual attachment point needed to be raised to $60,000 in order to meet the same standards as the 1995 law.

The Departments of Health and Human Services, Labor and Treasury issued a request for information on stop loss in May 2012 because of the potential impact on the risk pool and premiums in the fully insured market if small employers decide to self-insure and use stop loss plans.

What are other states doing about regulating stop loss?
24 states currently regulate stop loss insurance. 19 states have minimum attachment points, 3 states ban the sale to small groups, and 2 states regulate stop loss insurance as health insurance. So far this year, stop loss legislation has been introduced in 4 states (Minnesota, Rhode Island, California, and Utah).

What does HB13-1290 to do solve this problem?

- Raises the individual attachment for stop-loss policies to $20,000 and gives the Commissioner of Insurance the authority to raise the attachment point based on the consumer price index.
- Collects data on the self-insurance/stop loss market in Colorado.
- Prohibits discrimination by preventing stop-loss issuers from limiting coverage to individual employees based on age, health, gender, etc.

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