

# Summit Perspectives

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**Take calculated risks. That is quite different from being rash.**

**George S. Patton**



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## Insights into large claims

**This article is part of a series of case studies—real stories of how managed care companies increased profits by using Summit Re’s resources to increase sales, decrease expenses, and manage claims.**

An insight is the act or result of comprehending the inner nature of things or seeing intuitively (Webster’s dictionary). This is a good description of what takes place in a Summit Re *InSight* analysis.

We often have a better perspective for viewing this inner nature of a large claim, since we only deal with coverage for large claims. Your staff must spend a majority of their efforts in areas that involve smaller and much more frequent claim events. This case study is an example of how an *InSight* analysis conducted by Summit Re helped a plan gain a better view of the inner nature of its catastrophic claims.

**Situation: An increase in large claims**  
ABC health plan, located in a large metropolitan area, focuses on Medicaid members, specifically AFDC/TANF eligible members. AFDC/TANF membership is primarily composed of mothers and their children, and the majority of the large claims for this population involve premature infants or other infants with significant problems at birth. For this reason, the large claims from these situations are primarily from inpatient hospital confinements at facilities equipped to treat infants who are severely premature or have other critical problems. ABC health plan was seeing an increase in large claims from this population.

**Cause: Reimbursement structure**  
ABC health plan utilized strong DRG contracts for most facilities in its state. The exception to this was for facilities classified as children’s hospitals. These facilities were considered in a unique category by the state for its Medicaid reimbursement methodology, and the plan was simply following the state’s lead for reimbursement. These types of facilities were paid on a percentage of billed charges determined by the state.

The state’s intention was to recognize these facilities as unique, and the state therefore concluded that the DRG reimbursement was not appropriate given the level and type of services the children’s hospitals were providing. What that meant for ABC health plan was that its most severe and highest cost claims were often being reimbursed at a percentage of billed charges. In this instance, the plan had little ability to contractually modify this reimbursement, although that was certainly an option for the plan to explore.

**The reinsurance implication**  
How did these circumstances translate to the health plan’s needs for catastrophic medical excess reinsurance coverage? The plan had been purchasing coverage with a relatively low average daily maximum limitation for inpatient hospital services because of a mistaken per-

## Employer Stop Loss—can we really do that?

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Offering your provider networks and care management programs to self-funded employers may be a key area of expansion and one that builds on your core competencies.

We have a long history of working with HMOs that contract with TPAs or establish their own ASO capabilities for the employer stop loss business. Our background in the managed care reinsurance market allows us to understand the challenges our clients face and present a wide array of solutions.

**The HMO gained pricing and underwriting control by writing coverage through their insurance company.**

In fact, we are so committed to this effort, we explicitly mention providing employer stop loss products and services in our Founding Principles.

### Range of services

In most instances, HMOs look to us for competitive stop loss quotes that reflect the savings associated with accessing their networks and care management programs. In some instances, however, HMOs have a properly licensed insurance company and are interested in becoming risk takers. They would like to of-

fer employers a complete stop loss platform, including administration, provider networks, care management programs and stop loss coverage. Since most HMOs do not have the stop loss coverage expertise on staff, Summit is able to act as a managing underwriter—performing pricing, underwriting, policy issuance and claim functions.

### Case study background

Company ABC is a very successful HMO operating in two locations. The company historically used a handful of stop loss carriers to offer specific and aggregate coverage to its self-funded groups. During one of our visits, we asked a simple question: “Why don’t you consider writing employer stop loss coverage through your insurance company, rather than somebody else’s?”

They called us back the next day and said, “Did you really mean it? Can we really do that?” We said yes, and the rest is history.

### Taking control

This HMO moved the majority of its business from its previous carriers to the HMO’s insurance company. Company ABC staff members have the flexibility and control to meet marketplace conditions with respect to pricing and underwriting, including the setting of appropriate rates, lasers, and binding limits prior to the effective date of

coverage. While Summit Re makes recommendations on pricing and underwriting guidelines, Company ABC ultimately decides what terms and conditions it chooses to offer employer groups, since the health plan’s insurance company affiliate is assuming the risk. Even though Summit Re does the actual underwriting, policy issuance and claims adjudication for this client, the client retains the authority to make all final decisions.

In addition to our day to day involvement with Company ABC, Summit Re lined up excess-of-loss protection for its employer stop loss portfolio after Company ABC absorbs a corridor of risk.

### Results

The deal has worked out just as the HMO and its affiliates had envisioned: the marketplace reaction was favorable.

- Clients knew the HMO had been in the marketplace for over 25 years and its B+ rating was more than acceptable (Weiss).
- The HMO brought strong provider contracts and case management capabilities to the employer stop loss product.
- The plan had good relationships with brokers, agents and customers in the marketplace.
- It could now offer a fully branded product including its provider contracts and network

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## Managing Risk with *Summit ReView*

Managing risks effectively is critical to the financial health of your company. It starts with accurate risk analysis and ends with cost-effective risk management strategies. This is a complex task, but it is now easier since we have introduced *Summit ReView*. *Summit ReView* is a package of consulting services designed to provide detailed analysis of risk exposure as well as recommendations to mitigate those risks.

Some of the services included in *Summit ReView* include:

- Our proprietary ***InSight analysis***, which helps you determine if you should purchase reinsurance coverage and, if so, the appropriate deductible levels and average daily maximum limitations given your claim history, contracted arrange-

ments with network facilities and referral patterns. (See case study on Page 1.)

- A detailed evaluation of your **medical management** department's structure, policies and procedures, with comparisons to nationally-recognized benchmarks and recommendations for improving program efficiencies and effectiveness.
- Our reinsurance "**Report Card**," an objective measure for comparing reinsurance options.
- A comparison of **material contractual provisions** contained in the excess loss agreements issued by current leaders in the health plan reinsurance marketplace.
- A high-level assessment of the financial competitiveness of your **pharmacy benefits management program**.

- An assessment of your **directors and officers/errors and omissions policy**.
- Referrals to consultants who can serve as **interim executives** and assist with strategic planning.
- An analysis of your **investment and cash management strategies** and recommendations for improvements.

These services may be "unbundled" and pricing depends on the options selected.

With our experienced, talented people who grew up with pricing, underwriting, and administering medical excess products and our "bird's-eye view" of the marketplace, we can offer you additional perspectives that often prove invaluable in helping you develop on-target risk management strategies.

## Employer Stop Loss—can we really do that?

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management capabilities, its TPA services and its employer stop loss policy.

In the words of Company ABC, "Summit Re met all of my service requirements. Things are great from our perspective. We look forward to a long relationship with Summit Re on this product line."

Although this client didn't need it, Summit Re was available to provide sales and marketing training to HMOs who are new to this self-funded marketplace. Summit Re is

also in a position to recommend consultants who assist HMOs in setting up their own administrative shops and in getting their stop loss policy forms and rates filed with departments of insurance.

This approach won't fit everybody, but is it right for you?

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## Case Study—Insights into large claims

(Continued from Page 1)

ception that the strong DRG reimbursements at many facilities and deep discounts at children's facilities were protecting it from all risk except for the exceptionally long hospital stays. In reality, the facilities being reimbursed at a percentage of charges had

**...its most severe and highest cost claims were often being reimbursed at a percentage of billed charges**

been rapidly raising their rates, and, despite the presence of deep discounts, the plan was experiencing average per-day charges on many large claims well in excess of its average daily maximum limitation for inpatient hospital services. This meant that the plan was absorbing a great deal of variability from large claims due to payments at very high costs per day.

### Options

Now that the plan recognized the

circumstances under which it was operating for many large claims, it could now consider the options for managing the risk. Re-contracting with children's hospitals in its service area at more favorable terms would, of course, be a wonderful solution since it could be structured to significantly reduce the plan's overall risk. In this instance, however, the plan was not in a position to implement such a provider contracting change. This course of action could certainly be considered in the future.

What could be restructured easily was the reinsurance coverage so that it would provide more coverage for high cost days. The best and most immediate solution for this plan was a higher average daily maximum limitation for inpatient hospital services, coupled with a slightly higher deductible. This allowed the plan to exchange reinsurance premium dollars for better reinsurance reimbursement for both long-stay and high cost-per-day hospital risk.

Although these changes may seem obvious to the party reviewing large claims day in and day out, they were not at all intuitive to the plan's management staff, who had been spending a majority of their time and effort managing the everyday activities and finances of a health plan. It is, in fact, the purpose of the *InSight* analysis to bring these circumstances to the forefront when they otherwise would remain hidden in the day-to-day activities of the plan.

### Summit Re Contact

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*Summit Perspectives* is a periodic newsletter published by Summit Reinsurance Services, Inc., a full-service managing underwriter and reinsurance intermediary that focuses exclusively on managed care. *Summit Perspectives* highlights various items from both Summit Re and the managed care reinsurance marketplace. We will publish it only when we have important information to share.

If an item in this edition generates questions or comments, please give us a call at 260-469-3000 or write to us at [www.summit-re.com](http://www.summit-re.com).



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