

The Hole in the Ceiling Leaks Upwards

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Back in October 2009, when Congress was designing the legislation that became the Affordable Care Act, a House Energy and Commerce subcommittee brought in Nathan Wilkes, a Colorado technology consultant, to talk about what it's like to be the father of a small child with hemophilia.

Doses of the clotting factors and other substances used in the treatment of hemophilia are expensive. Wilkes' son used most of a \$1 million group plan lifetime maximum, then used up a state plan's \$1 million lifetime maximum.

"Our family is now covered by a high-deductible health plan with a \$6 million cap, premiums of roughly \$10,000 per year, and an annual deductible of \$6,000," Wilkes testified at a hearing on the underinsured. "It is only a matter of a few years before we reach the end of that road and have to change course once again."

Members of Congress responded to the stories they heard from witnesses such as Wilkes, and from their own constituents, and wrote bills that banned lifetime benefits maximums. When the Republicans drafted a proposal of their own, one of the ideas they kept from Democratic proposals was a ban on lifetime maximums.

The final version of the Affordable Care Act will ban lifetime maximums starting with plan years beginning on or after Sept. 23. The minimum annual maximum will be \$750,000. That amount will increase to \$1.25 million one year later and to \$2 million two years later, and then annual maximums must go away Jan. 1, 2014.

For now, the health reinsurers that serve health insurers and the stop-loss carriers that serve self-funded employers are competing fiercely for employers' business and promoting the availability of high annual limits and lack of lifetime limits.



Soon after the Affordable Care Act passed, many stop-loss providers said they would offer stop-loss coverage with no lifetime maximums and high annual maximums. But players in the stop-loss industry and the employee benefits market are wondering what will happen in the future. "How many folks magically get cured at their plan maximum?" asks Sam Fleet, president of AmWINS Group Benefits, Warwick, R.I.

A typical employer that self insures might make the employee pay a \$1,000

deductible, take care of claims between \$1,000 and \$50,000 in-house, and use stop-loss to handle claims between \$50,000 and \$1 million. The employer or the stop-loss provider then might arrange to get one or more layers of reinsurance from a reinsurer to take care of excess layers of risk.

Alison Saifer, an actuary, said in June during a stop-loss session organized by the Society of Actuaries (SOA), Schaumburg, Ill., that she has seen estimates indicating that the incidence of \$1 million claims increased to about seven per 100,000 lives in 2008, from fewer than two per 100,000 lives per year in 2002.

Many big claims are the result of transplants, cancer, premature birth or blood-clotting disorders.

Milliman Inc., Seattle, reported in 2008 that hospitals were billing an average of more than \$750,000 for 7 of 16 types of transplants. Total national expenditures on all of the procedures combined amounted to an average of less \$20 per plan enrollee per quarter – but health plan profits often are less than \$10 per enrollee per quarter.

Before the Affordable Care Act came along, many large employers offered coverage without maximums, and stop-loss companies were eager to serve those employers, Fleet says.

The stop-loss market has been soft since the early 2000s, and the Affordable Care Act could help it harden, Fleet says. “Employers that don’t traditionally buy stop-loss coverage may buy it now,” Fleet says.

Joe Berardo, president of MagnaCare L.L.C., Garden City, N.Y., a health plan network company, says that, in the long run, the government will have to help control the underlying cost of medical care, not simply squeeze the health insurers.

Today, “there’s no push down on the provider side at all,” Berardo says.

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