Reinsurance Update

June 2012

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Agenda

- Developments in Stop Loss
- Using Reinsurance to manage risk
- Development in the Health Reinsurance marketplace

Stop Loss – Employer

- Recent Stop Loss surveys have shown an increase
  - Number of policies
  - Premium levels
- PPACA impact on XS Market
  - Unlimited versus annual or lifetime maximums
  - Even the largest employers considering the purchase due the exposure
- Networks – Blue, United, Cigna, Aetna (BUCA) expansion via TPAs
- Frequency and Severity

Stop Loss Premium Ranking

HCC Life	$785 M
Sun Life	$768 M
HM Insurance Group	$723 M
Symetra	$696 M
ING	$586 M
Independence Holding	~$280 M

- Others
  - United, Aetna, WellPoint, Blue Plans, CIGNA
- Estimate market size in the 7 to 8 B

Size and Complexity of claims

- Top Reasons for large claims
  - Malignant neoplasm
  - Circulatory
  - Injury/Poisoning
  - Congenital/perinatal
  - Blood related disorder
- Recent High cost areas of focus:
  - Dialysis
  - Implant Device cost
  - Specialty Rx

Management of Risk

- Financial Reinsurance –
  - Impact on financial statements of both ceding and reinsuring companies
  - Not a loan
- Typical Goals
  - Unlock capital
  - Improve IRR/ROE
- Capital leverage
  - Reduce Reserves/RBC

Financial –

- Medicare Advantage–
  - Quota Share on YRT basis
  - Reinsurers capital utilized
  - Typically, reinsurer upside is limited and while downside is not

- Disabled claims block
  - 3 years +, predictable

Aetna

- U.S.health insurer **Aetna Inc.** (**AET** - Analyst Report) January 27,2012 has announced a three-year reinsurance agreement with Vitality Re Limited, a newly-formed special purpose insurance company based in the Cayman Islands. Per the agreement, Aetna will get $150 million of catastrophe bond-type cover for its subsidiary Health Re Inc. against medical benefits claims exceeding pre-determined levels.
- The agreement is a part of Aetna's long-term capital management strategy, which will release capital held with respect to its commercial group health business. It is also expected to effectively meet the risk-based capital requirements set by state regulators.
- Aetna will start receiving reimbursements from Vitality Re if its medical ratio, the percentage of premiums spent on medical costs, reaches 97%. The upper limit for the ratio has been set at 117%, implying that in case the ratio reaches the set limit, Aetna will get a full payment of $150 million.

Developments

- Accountable Care Organizations –
  - Medicare (required starting point)
  - Commercial, Self-funding
- Provider Excess – request to limit downside
- Risk-transfer
- Outlier protections

Developments

- Captives –
  - Growth in number of captives by:
    - Employers
    - Providers
    - Affinity groups
  - Domicile –
    - Off-shore
    - On-shore
  - Insurance regulators from on-shore domiciles helpful

Developments

- New opportunities –
  - Multi-year products
  - Lifetime products
  - Other?

Questions or Comments?

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Thank You