When utilizing the laser option, an employer assumes more financial risk for an individual participant's claims.

This allows the stop loss carrier to keep premium rates for the entire plan lower than if that person's claims were factored into the overall group rate.

For many employers, self-funding their group's medical plan makes financial sense—especially when backed with stop loss coverage that protects the plan from excessive losses.

Stop loss coverage reimburses the plan when high-cost claims—such as those caused by cancer, heart disease and other catastrophic conditions—exceed a designated amount. The cost of coverage is determined by several factors, but one that's frequently misunderstood is an option known as lasering.

What is lasering?

When a self-funded plan leverages stop loss protection, both the employer and the stop loss carrier look for ways to mitigate exposure to known risk.

Lasering is a common stop loss practice that occurs when an individual participant—based on prior claims experience or known conditions—is covered by the stop loss policy at a higher Specific deductible than the rest of the group. In this instance, the employer takes on additional claim risk for the individual in exchange for lower annual premium across the entire plan.

While many carriers offer policies guaranteeing no new lasers will be mandated at renewal, there is nearly always an option to set a laser (or multiple lasers) at policy inception to account for known or projected individual participant risk in excess of the group-level deductible. Another cost-saving tactic is to offer—rather than mandate—the laser option at renewal.

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How it works

The following example compares a stop loss policy with and without a laser and how actual experience can affect the plan.

	No laser	Laser with lower than expected claims	Laser with higher than expected claims
Specific deductible	**$100,000**	**$100,000**	**$100,000**
High-cost participant claim projection	$200,000	$200,000	$200,000
Laser amount	—	$200,000	$200,000
"Soft dollar" liability on high-cost participant (Laser amount minus Specific deductible)	—	$100,000	$100,000
Stop loss annual premium	**$600,000**	**$520,000**	**$520,000**
Incurred claims for high-cost participant	**$200,000**	**$120,000**	**$210,000**
Stop loss reimbursement	$100,000	—	$10,000
Additional plan spend	—	$20,000	$100,000
Total plan costs (stop loss premium + additional plan spend)	**$600,000**	**$540,000**	**$620,000**
Plan savings/expenses compared to no-laser option	**—**	**Savings: $60,000**	**Expense: $20,000**

When considering whether or not to include a laser on their stop loss policy, employers should evaluate all potential outcomes to determine which strategy best aligns with the financial goals of their plan.

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Benefits of lasering

- **Long-term savings for the plan:** Using lasers to manage anticipated high-cost claims for individual participants helps keep premium costs for the entire plan in check. This is especially important since the rising cost of health care may require higher stop loss pricing at renewal. Mitigating the cost of the current year's premium sets a lower starting point for any future rate increases, allowing the group to realize long-term savings.
- **Opportunities for cost-containment solutions:** When a single member or multiple members with similar conditions/diagnoses are projected to incur significant claims costs, the employer can work with their administrator to implement cost-savings options for the overall plan. For example, some administrators may recommend a dialysis cost management program or a suggest adding a specialty drug carve-out program to their plan.

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- **Potential cost savings for participants:** Adjusting stop loss coverage for individuals, rather than raising rates across the entire group, helps reduce overall expenses for the plan. If the group's medical benefits include premium cost-share, these savings can then be passed on to plan participants, thereby reducing their contribution requirements.

Choosing the right stop loss partner

The relationship between the employer, broker and stop loss carrier is essential to the success of any self-funded plan. It's important to work together and evaluate what's working with your current plan design, identify opportunities to improve, and implement the changes needed to meet your budget and coverage goals.

To learn more about protecting your self-funded plan, contact your stop loss representative.

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