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Memorandum

To: Warehouse 730 Health & Welfare Trust Fund

From: Josh Timm

Date: June 26, 2026

Re: Stop Loss Review

Following the prior Board meeting, the Trustees requested Segal to review the stop-loss deductible, including potential increases above the current $500,000 level

This memorandum summarizes the result of our analysis.

Stop Loss Deductible Review

Stop-loss insurance is designed to mitigate the financial impact of unexpected high-cost claims for self-insured health plans. Coverage is typically provided through two components: (1) specific stop-loss, which limits exposure on high-cost individuals, and (2) aggregate stop-loss, which limits total plan-year claims.

Warehouse 730 currently maintains specific stop-loss coverage with a $500,000 deductible and a $50,000 aggregating specific deductible through Ullico. Key considerations in evaluating stop-loss coverage include premium cost, level of risk transfer, deductible (attachment point), contract terms, coverage provisions, and underwriting features such as lasering and dividend eligibility.

Value of Stop-Loss Coverage

Stop-loss can provide meaningful protection by:

- Transferring catastrophic claim risk to an insurer
- Protecting plan reserves and assets
- Reducing year-to-year claim volatility

However, this protection comes at a cost. Stop-loss carriers typically price coverage assuming a loss ratio of approximately 65%, resulting in a long-term margin (and cost to the plan) of roughly 25%–35%. Accordingly, over time, plans generally pay more in premiums than they receive in reimbursements.

Historical Experience

Warehouse 730's experience reflects this dynamic. Over the past eight years:

- The Fund has paid over $840,000 in stop-loss premiums
- No reimbursements have been received to date
- A potential reimbursement may emerge for the 2025 policy year, with one claimant approaching $400,000 (subject to run-out through June 30, 2026)

This history indicates limited realized value from stop-loss coverage relative to cost.

Current Position and Market Comparison

The 2026 specific stop-loss premium is $31.91 PEPM, which is significantly below the Segal benchmark median of $52.52 for a $500,000 deductible. The below-market rate is favorable; however, it should be evaluated in the context of the Fund's low claim activity and strong financial position.

Segal's modeling based on Warehouse 730's projected claims suggests:

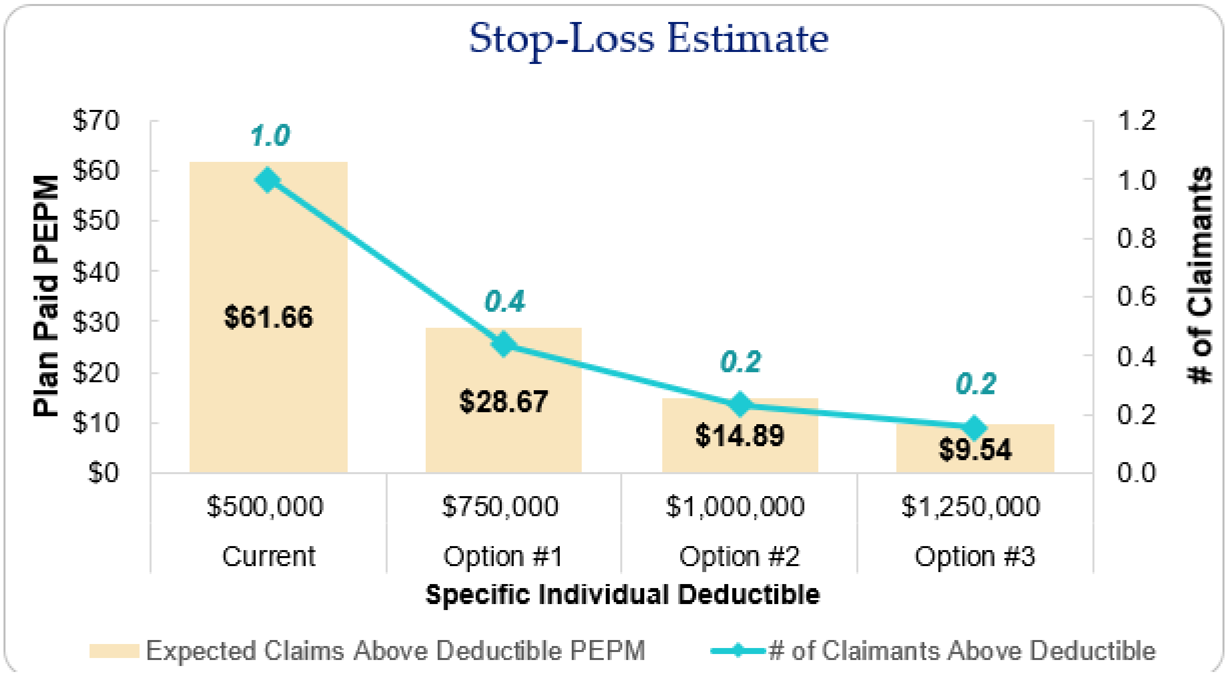
- A higher expected premium equivalent (~$61.66 PEPM) at the current deductible (see below table)
- An expectation of approximately 1 claimant exceeding $500,000

Deductible Sensitivity Analysis

Segal's stop-loss model demonstrates that increasing the specific deductible materially reduces both expected costs above the deductible and the likelihood of large claimants:

- $750,000 deductible: ~0.4 expected claimants
- $1,000,000 deductible: ~0.2 expected claimants
- $1,250,000 deductible: ~0.2 expected claimants

Higher deductibles shift more risk to the Fund but reduce premium costs and improve long-term efficiency.



Recommendation

Given the Fund's strong financial position, minimal historical utilization of stop-loss coverage, and the long-term cost of premiums relative to reimbursements, Segal believes there is an opportunity to assume additional risk while maintaining appropriate protection. Increasing the specific deductible to $1,000,000 would meaningfully reduce premium costs while still providing coverage against catastrophic, low-probability claims. Consistent with this approach, eliminating the aggregating specific deductible would further reduce fixed costs and simplify the program structure.

Based on the modeling results shown below, higher deductibles are associated with a materially lower likelihood of claimants exceeding the attachment point, suggesting that the incremental risk retained by the Fund is relatively modest.

As an alternative, the Trustees may also consider fully exiting the stop-loss market, particularly given the Fund's current reserve levels and demonstrated ability to absorb claim volatility. While this approach would increase exposure to infrequent large claims, it would eliminate premium expense entirely and may be appropriate given the Fund's favorable experience to date.

In addition to the deductible change, the Fund may wish to consider a few other strategies:

- Periodic Market Testing: Even with favorable current rates, periodically marketing the coverage can ensure continued competitiveness and identify alternative structures or carriers.
- Hybrid Strategy: The Fund could consider a phased approach (e.g., moving first to $750,000, then $1,000,000) to incrementally increase risk tolerance while monitoring experience.

Assumptions

Our projections are based on projected 2026 medical claims and 2026 projected hours based on calendar year 2024 and 2025 Associated Administrators quarterly AMR reports.

- Average contribution hours per month:175 - based on the Fund's rounded average hours for the past two years (2024 and 2025)
- Aggregate hours for 2026 through 2030: 661,822
- Average Number of Actives: 315
- 2027 Projected Medical Claims of $2,799,800
- Medical Trend: 8%
- Prescription Drug Trend: 11%
- Stop Loss Trend: 15%

The projections in this report are estimates of future costs and are based on information available to Segal at the time the projections were made. Segal has not audited the information provided. Projections are not a guarantee of future results. Actual experience may differ due to, but not limited to, such variables as changes in the regulatory environment, medical innovations/FDA approvals, trend rates, and claims volatility. The accuracy and reliability of projections decrease as the projection period increases. The ability to project future expenses accurately using current expenses, claims, premium rates and income is significantly lessened the further that projection is extended. Moreover, long-range projections will be influenced by other variables including; a shift in covered population, changes to health provider ownership, and the competitive landscape of local markets. Therefore, caution must be used when referring to these projections.

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We look forward to discussing this with you at the upcoming Board of Trustees meeting. If you have any questions prior to that, please contact us.

cc: Kyra Poplaski