



TOKIO MARINE
HCC



ANNUAL MARKET REPORT

Tokio Marine – A&H Group
A member of the Tokio Marine HCC
Group of Companies
TMHCC1310 - 05/2026

HCC Life Insurance Company operating
as Tokio Marine HCC – A&H Group
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MESSAGE FROM THE PRESIDENT

Each year, we look forward to sharing this report because it gives us an opportunity to reflect on what's happening across the medical stop loss market and what those changes may mean for you. As the landscape continues to shift, with rising costs, growing claim complexity, and new pressures shaping the industry, we hope this report offers not just data, but meaningful perspective. Our goal is to provide insights that help you better understand the market, navigate uncertainty, and make informed decisions in the year ahead. Our 2026 Annual Market Report provides a timely overview of the trends, challenges, and emerging considerations influencing the industry, helping readers better assess risk and prepare for the future.

The report, which draws on six years of proprietary claims data, finds that claims above \$2 million have risen 213% since policy year 2020.

A significant factor is the duration of the most complex cases. Conditions that lead to the largest claims are not only becoming more frequent, but they also require sustained, intensive treatment that keeps costs climbing long after the initial diagnosis or event. Cancer remains the single biggest driver of stop loss exposure, accounting for just over 35% of total paid claims and has grown as a share over the past four years as more advanced treatments are deployed. Cancer is followed by cardiovascular diseases at nearly 13% of all claims paid. However, cancer and cardiovascular claims fall well below those incurred for perinatal, neonatal and congenital or chromosomal abnormality categories when the claims exceed \$1M. Plan members under the age of 10 represent 39% of all claims over \$1M.

The medical stop loss rate environment remains under significant pressure in 2026, driven by rising claim frequency, higher-cost catastrophic conditions, specialty pharmacy inflation, and continued growth in transplants, neonatal care, and cellular & gene therapies.

As a result, the market is tightening, pricing is becoming more disciplined, and deductible strategy plays an increasingly important role in how employers manage long-term risk. Tokio Marine HCC – A&H Group is here to help navigate the ever changing landscape and look forward to partnering with you for many years to come.



JAY RITCHIE

*President & CEO
Tokio Marine HCC – A&H Group*



2020 - 2025

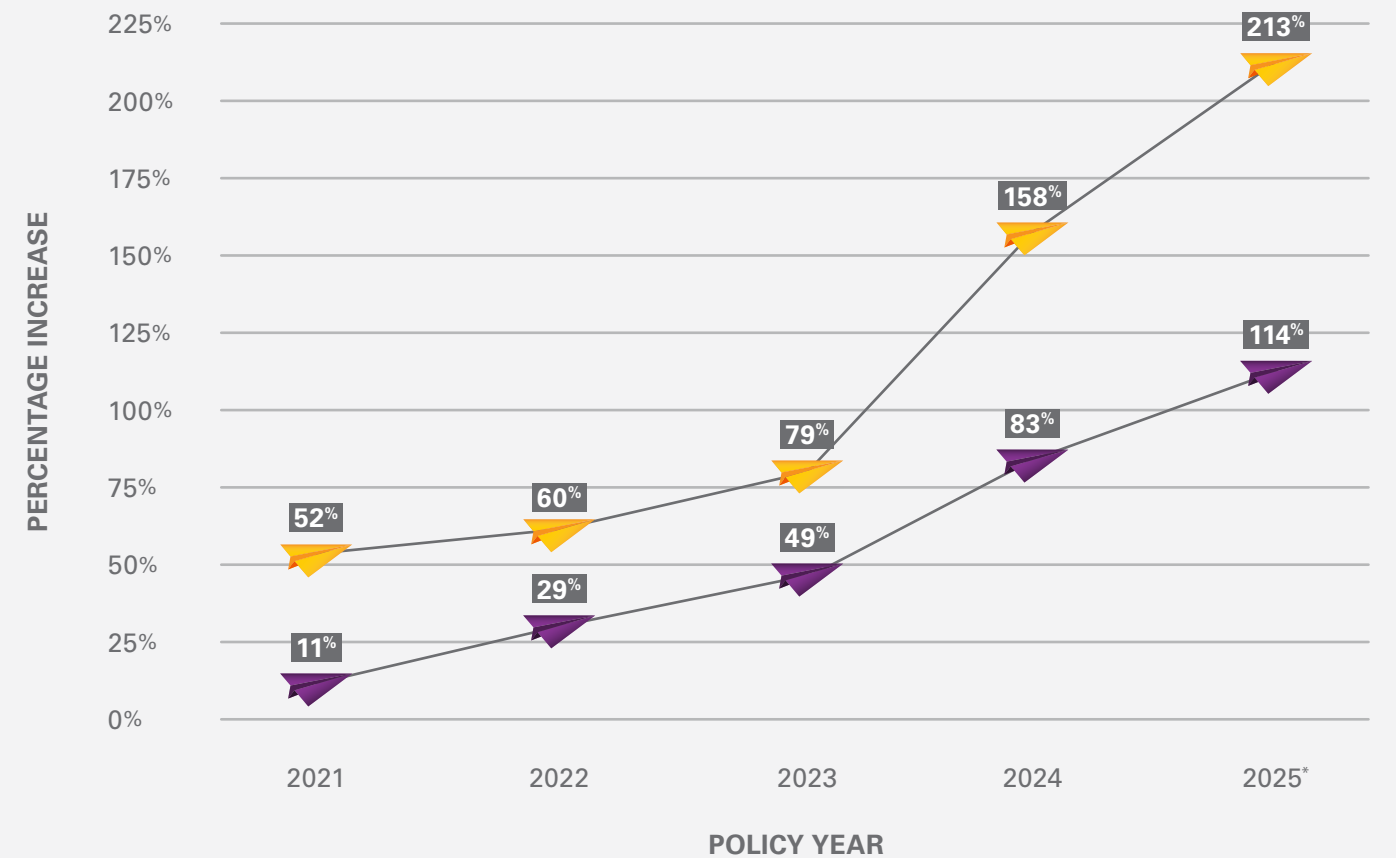
FREQUENCY OF LARGE CLAIMS

There has been a steady rise in the frequency of large claims at both the \$500,000 and \$2,000,000 thresholds since 2020, with an even sharper upward trend appearing in 2024 and 2025. Observable in 2024 and 2025 is also an increase in year-over-year trends at all claim size levels, not only in our own stop loss block but across various industry data as well.

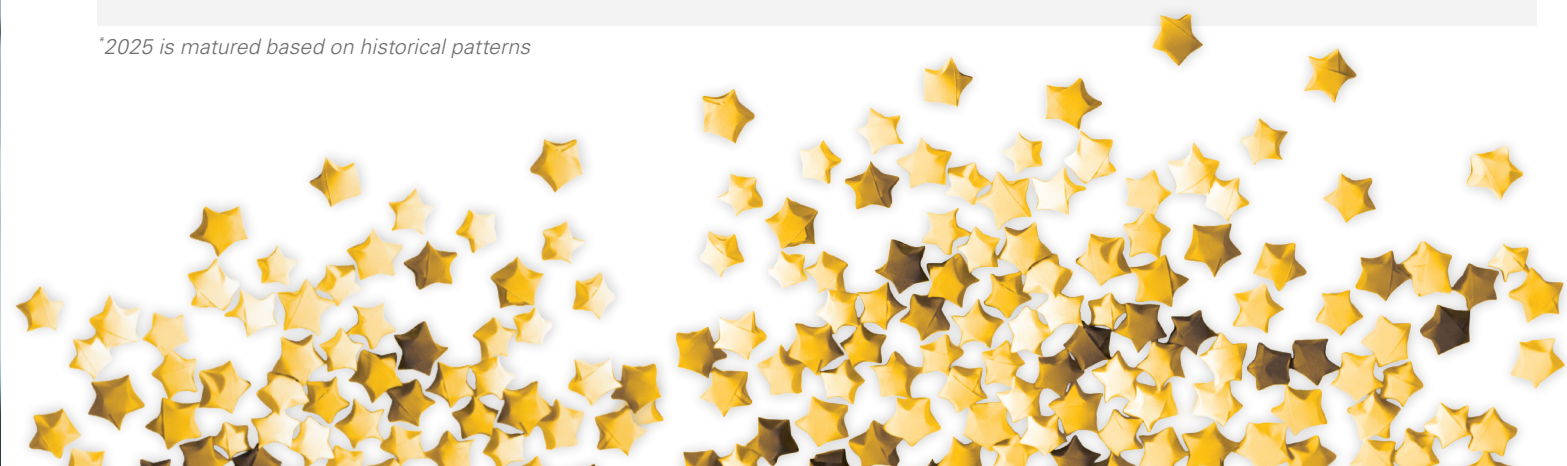
This acceleration in medical and Rx cost increases - spurred by complex cancer treatments, perinatal/neonatal conditions, specialty drugs, and transplants - leads to more claims breaching the stop loss deductibles. This equates to higher large claim frequencies in our book of business and across the stop loss market.

INCREASE IN FREQUENCY OF STOP LOSS CLAIMS ABOVE \$500K & \$2M SINCE POLICY YEAR 2020

Claims exceeding the specific deductible by at least \$2M
Claims exceeding the specific deductible by at least \$500K



*2025 is matured based on historical patterns

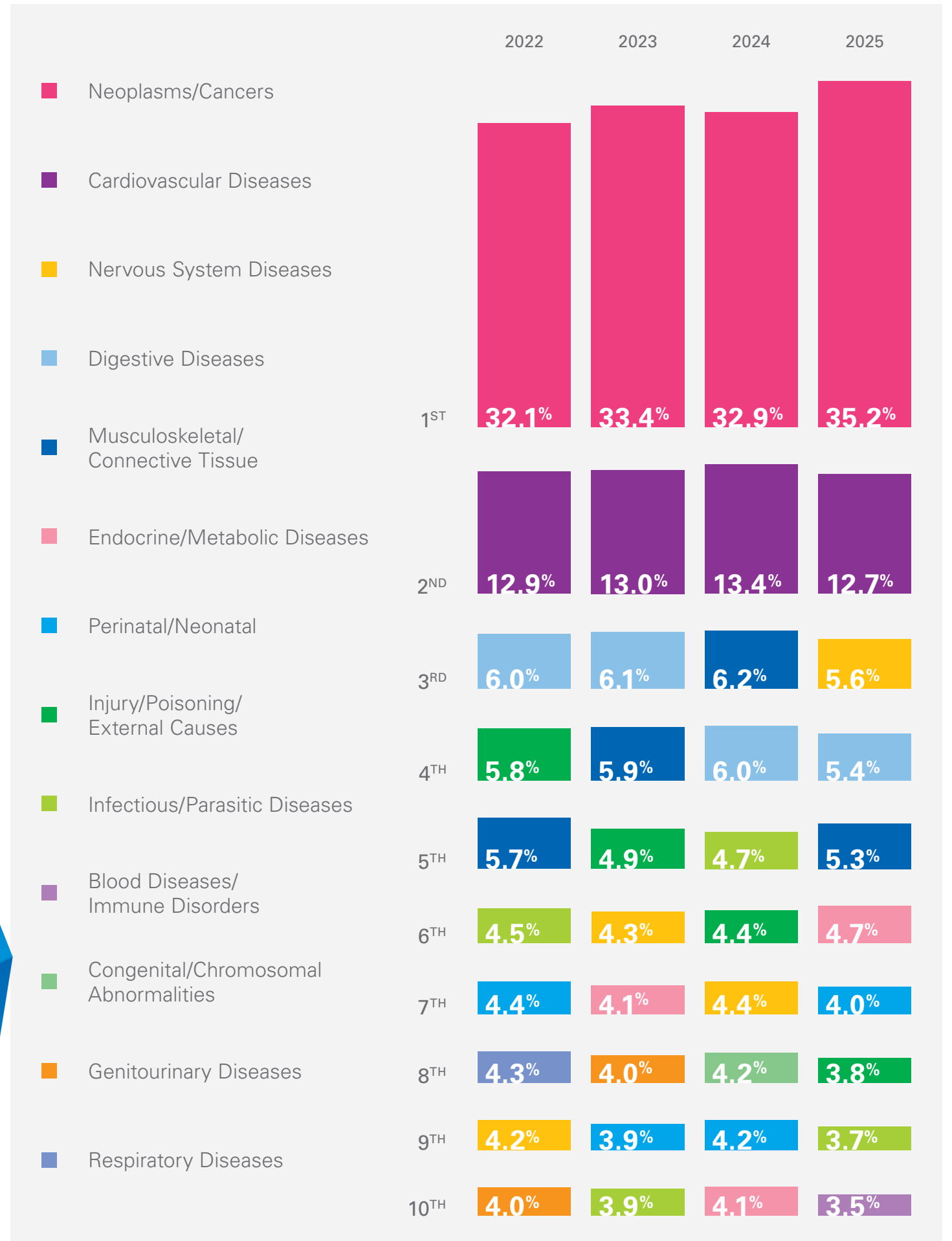


TOP 10 DIAGNOSTIC CATEGORIES BY TOTAL COST

Neoplasms/Cancers and Cardiovascular conditions are consistently the top 2 diagnostic categories by a wide margin, comprising nearly 48% of total costs.

Nervous system disorders are regularly in the top 10 categories, but this year have jumped to the 3rd most costly. This jump in costs can be attributed, in part, to gene therapies and specialty drugs for these types of conditions. There will likely be continued high costs for this category in 2026 from the new gene therapy Itvisma®, which was approved in November 2025 for Spinal Muscular Atrophy.

The remaining top 10 diagnostic categories each comprise 3.5% to 5.5% of total costs.



TOP CLAIMS & CONDITIONS

Digestive Diseases, ranked 4th in total costs, consists of bowel and liver disease as the top contributing conditions.

Endocrine/Metabolic Diseases, ranked 6th, has increased in costs due to the drug Strensiq® exceeding \$1M for phosphorus disorder.

Perinatal/Neonatal, while ranked 7th in total costs, contains our largest 2025 reported total paid amount so far at an astounding \$8.93 million. Maternal advanced age is a risk factor for both premature birth and maternal mortality. Diabetes and obesity are also risk factors for premature birth, with obesity contributing to an increase in high-risk pregnancies in young women under age 26.



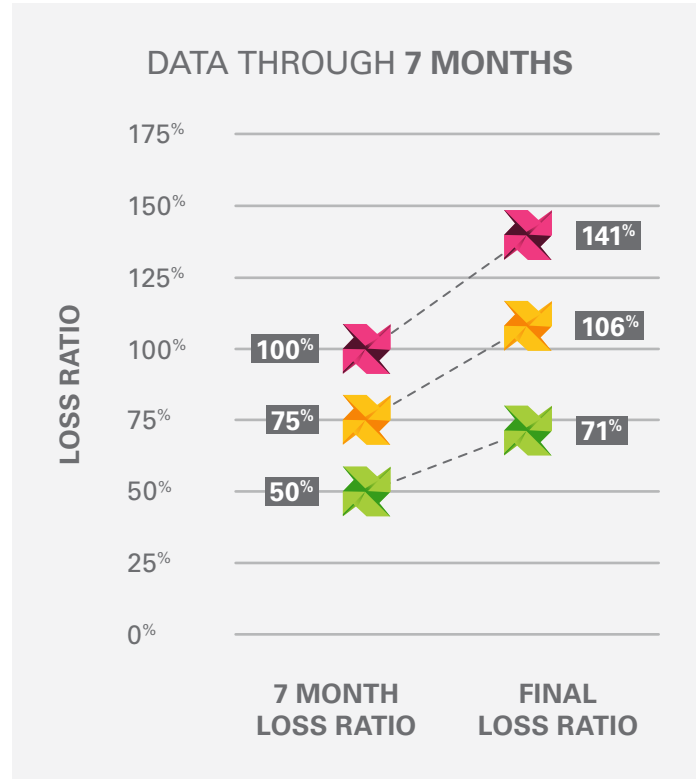
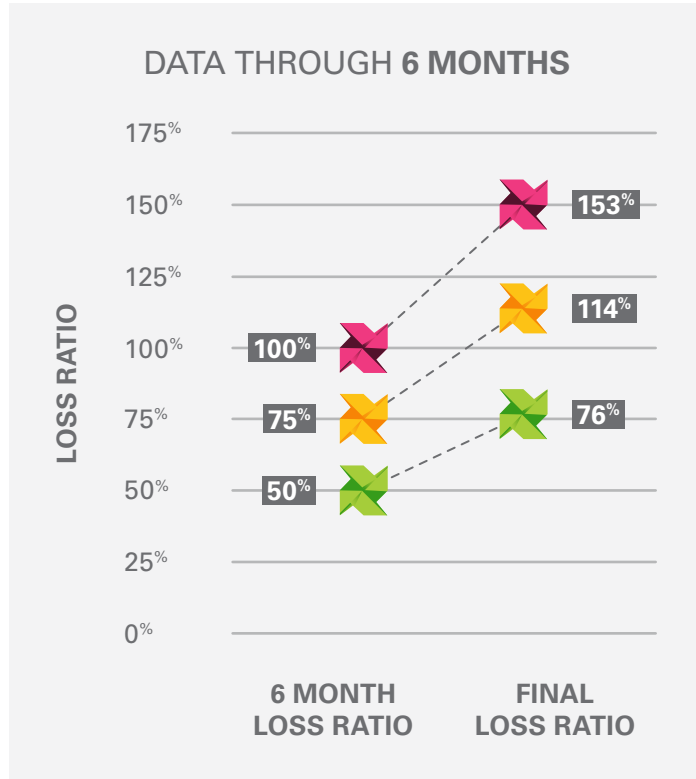
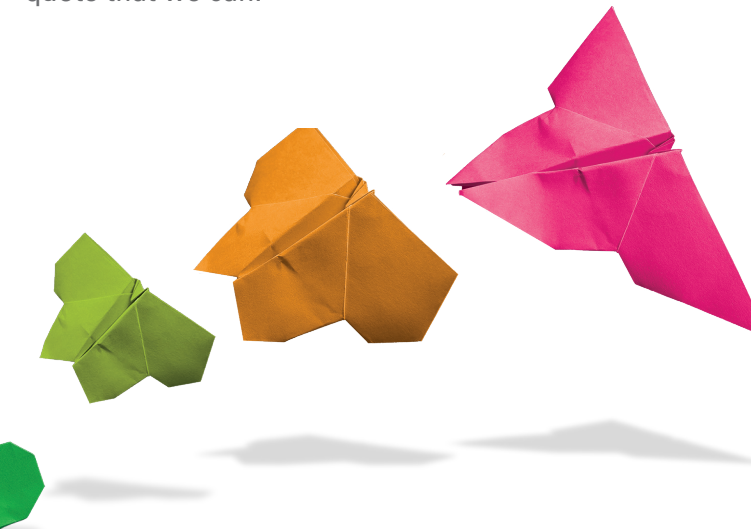
RANK	CATEGORY	1 ST TOP CLAIM	TOTAL PAID AMOUNT	2 ND TOP CLAIM	TOTAL PAID AMOUNT	3 RD TOP CLAIM	TOTAL PAID AMOUNT
1	Neoplasms/ Cancers	C7A.021 Malignant carcinoid tumor of the cecum	\$5,022,636	C86.40 Blastic NK-cell lymphoma not having achieved remission	\$3,903,965	C83.52 Lymphoblastic (diffuse) lymphoma, intrathoracic lymph nodes	\$3,564,595
2	Cardiovascular Diseases	I28.8 Other diseases of pulmonary vessels	\$4,027,636	I50.23 Acute on chronic systolic (congestive) heart failure	\$2,495,742	I38 Endocarditis, valve unspecified	\$1,711,475
3	Nervous System Diseases	G71.01 Duchenne or Becker muscular dystrophy	\$3,850,600	G71.01 Duchenne or Becker muscular dystrophy	\$3,203,581	G04.81 Other encephalitis and encephalomyelitis	\$3,000,050
4	Digestive Diseases	K90.829 Short bowel syndrome, unspecified	\$1,870,111	K55.1 Chronic vascular disorders of intestine	\$1,446,349	K50.813 Crohn's disease of both small and large intestine with fistula	\$1,366,474
5	Musculoskeletal/ Connective Tissue	M31.4 Aortic arch syndrome [Takayasu]	\$2,033,530	M47.814 Spondylosis without myelopathy or radiculopathy, thoracic region	\$1,742,453	M31.30 Wegener's granulomatosis without renal involvement	\$1,363,921
6	Endocrine/ Metabolic Diseases	E84 Cystic fibrosis	\$2,704,935	E75.4 Neuronal ceroid lipofuscinosis	\$2,383,606	E75.4 Neuronal ceroid lipofuscinosis	\$2,063,203
7	Perinatal/ Neonatal	P22.9 Respiratory distress of newborn, unspecified	\$8,927,189	P07.26 Extreme immaturity of newborn, gestational age 27 completed weeks	\$3,528,165	P77.3 Stage 3 necrotizing enterocolitis in newborn	\$3,427,290
8	Injury/Poisoning/ External Causes	S06.359A Traumatic Hemorrhage LT Cereb W/Loc Uns Dur Init	\$2,546,343	S72.352B DSPLC Commnt FX Shaft LT Femur Init Enc Opn I/li	\$1,687,959	S06.5X9A Traumatic subdural hemorrhage with loss of consciousness of unspecified duration, initial encounter	\$1,020,230
9	Infectious/ Parasitic Diseases	A41.9 Sepsis, unspecified organism	\$3,502,403	A41.9 Sepsis, unspecified organism	\$1,579,114	A41.9 Sepsis, unspecified organism	\$1,369,292
10	Blood Diseases/ Immune Disorders	D67 Hereditary factor IX deficiency	\$3,868,807	D56.5 Hemoglobin E-beta thalassemia	\$3,516,953	D56.1 Beta thalassemia	\$3,281,897

LOSS RATIO MATURITY

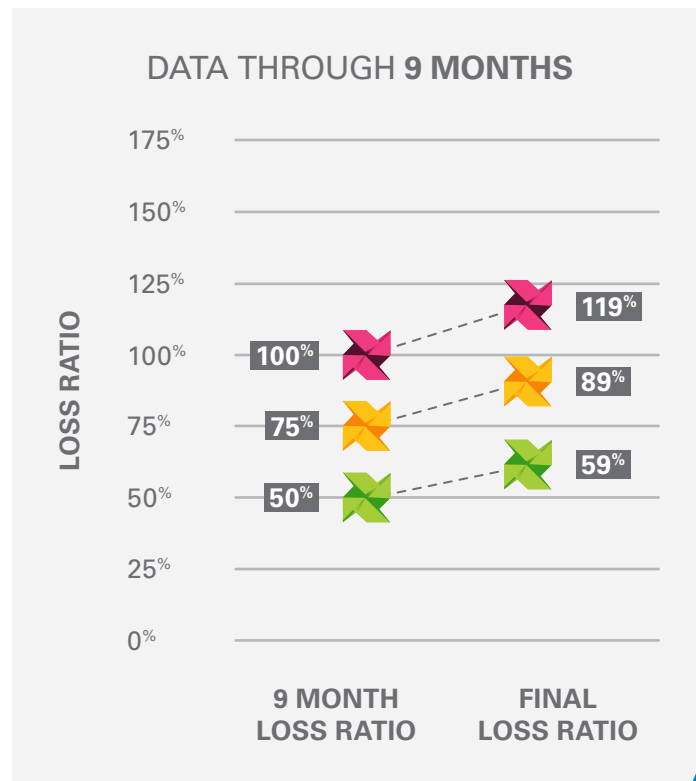
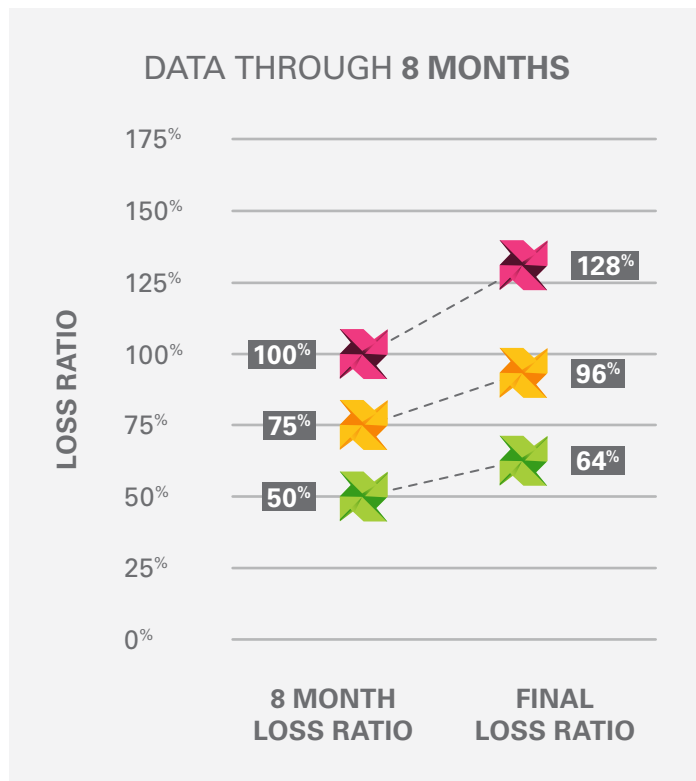
✦ Loss Ratio Percentage starting at 50%
 ✦ Loss Ratio Percentage starting at 75%
 ✦ Loss Ratio Percentage starting at 100%

These charts display various point-in-time loss ratios as “starting points” (50%, 75%, and 100%), after a certain number of months of current year claims data, along with their average final loss ratios based on development patterns from our historical book of business. They demonstrate how a loss ratio based on fewer current-year months of data will have much more volatile estimates for the final loss ratio. As more current year months of data are collected, the final loss ratio estimates gain credibility.

We always recommend locking in pricing with 9 or 10+ months of current year data. More credible claims experience allows us to offer the most competitive quote that we can.



Producing a quote with less than 9 months of current year data results in more volatile experience projections, requiring more conservative pricing metrics.



2024 - 2025

TRENDS IN TRANSPLANTS

With the exception of kidney transplants, which have remained fairly steady the last 3 years, all other transplant types have been increasing in frequency over the years.

2025 TRANSPLANTS CONTINUE TO HIT RECORD HIGHS IN THE US

49,065

amount of transplant performed in 2025

180

number of people added to the transplant waiting list each day

7,239

number of living donors achieved another record high

2,904

overall increase of kidney transplants from 2021 to 2025

186

the amount that kidney transplants decreased by from 2024 to 2025

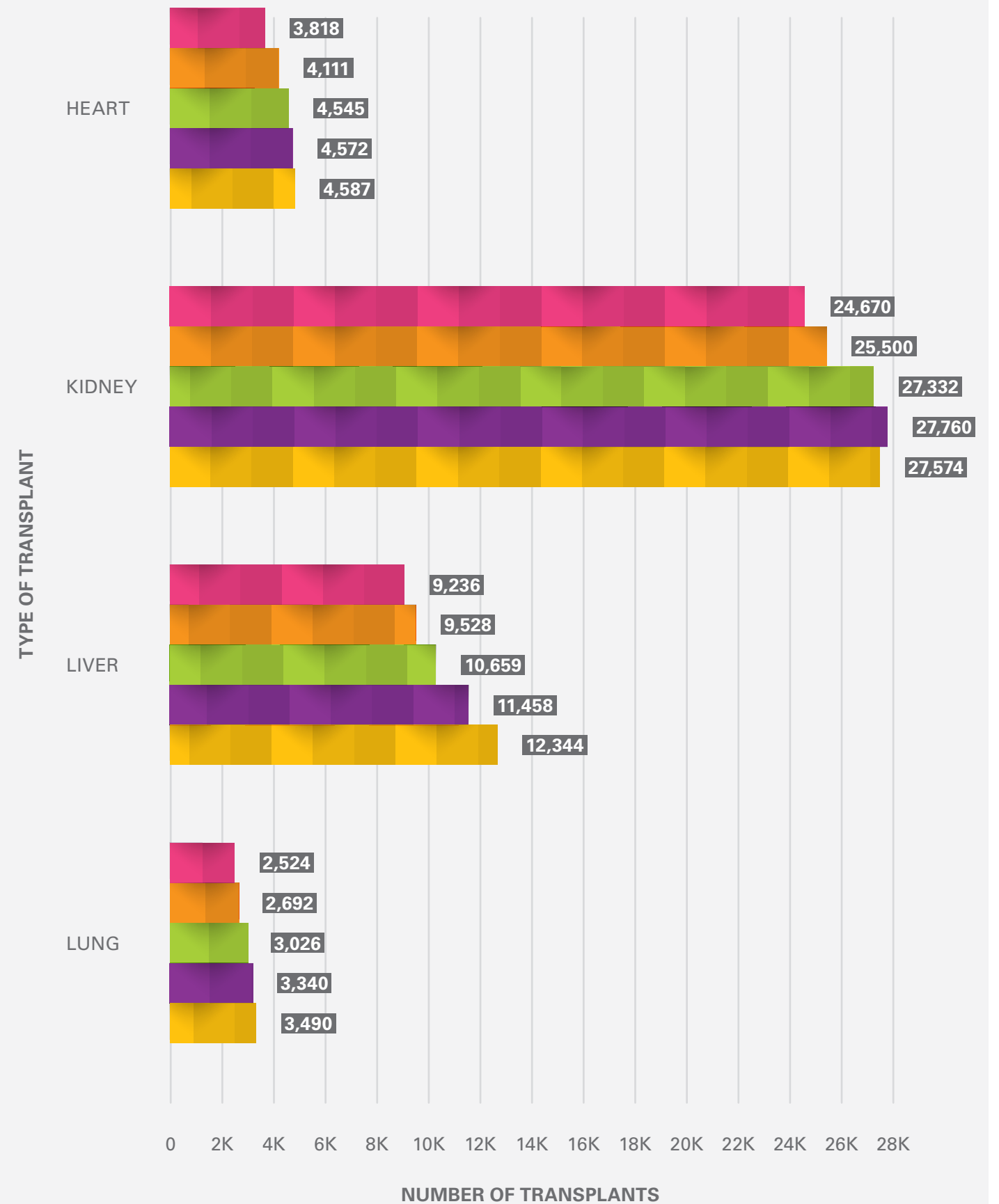
886

amount that liver transplant increased – another record year & the highest increase in transplant growth

Source: unos.org and organdonor.gov

TRANSPLANT INCREASES from 2021-2025

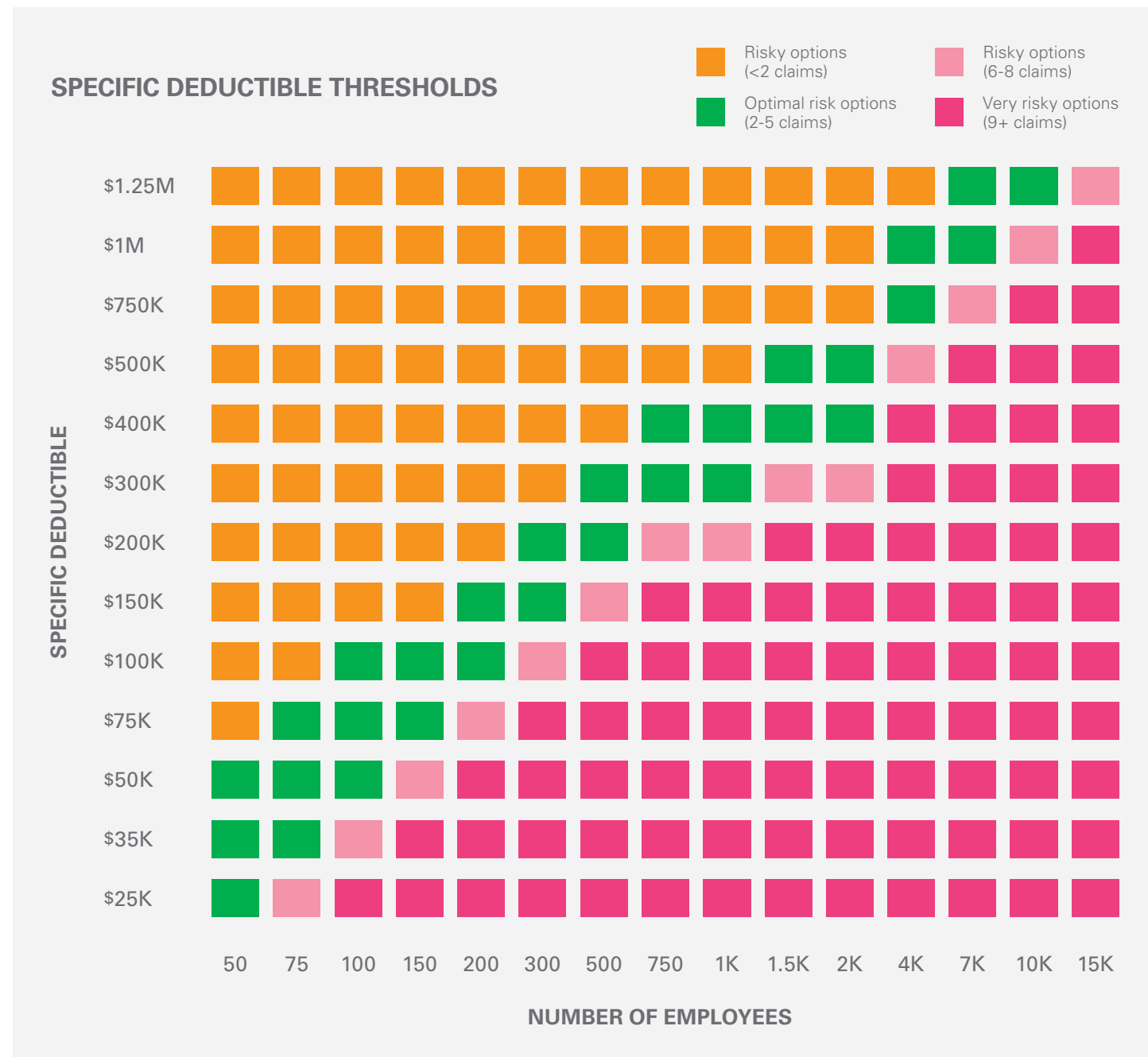
2021 2022 2023 2024 2025



EVOLUTION OF SPECIFIC DEDUCTIBLES

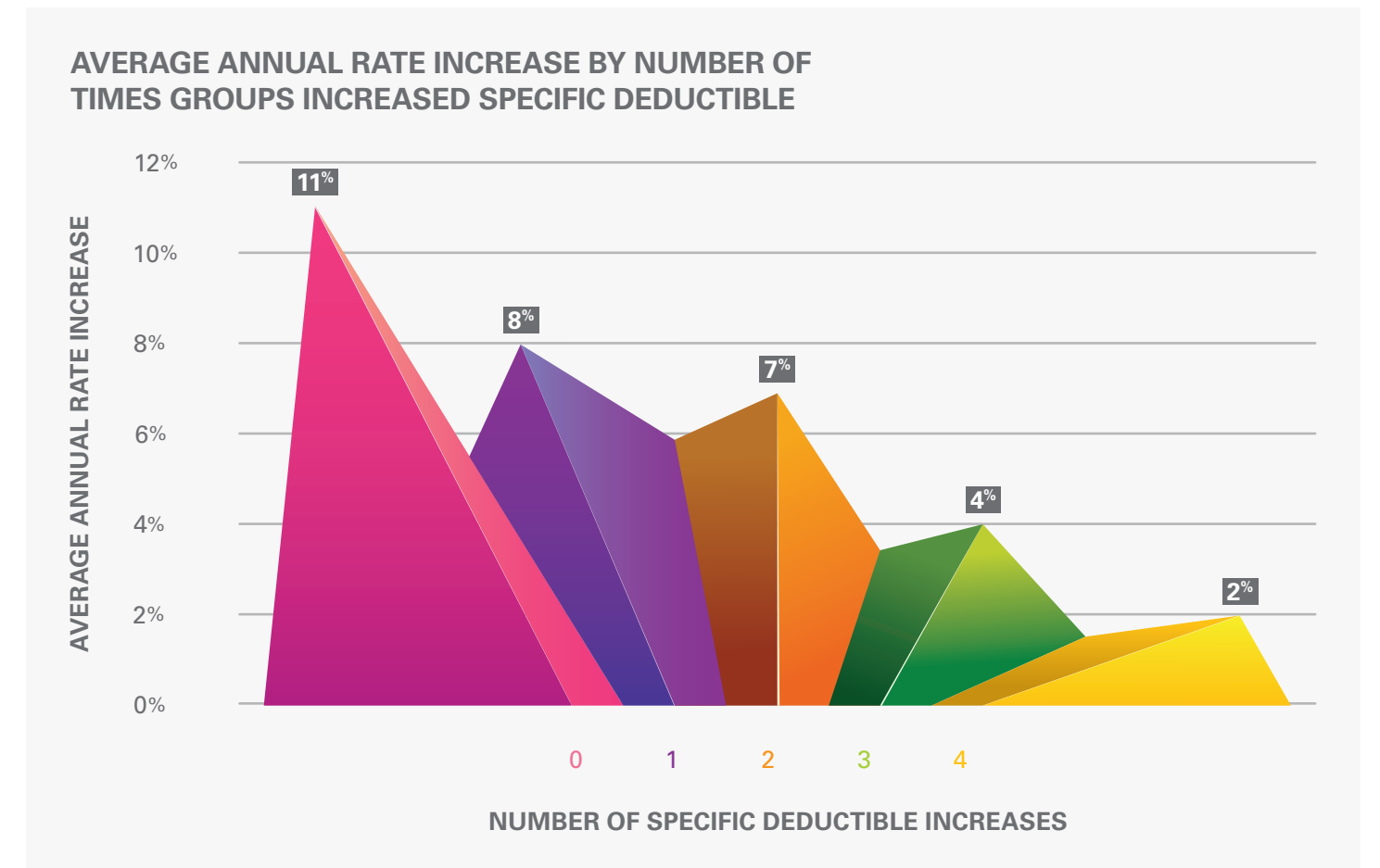
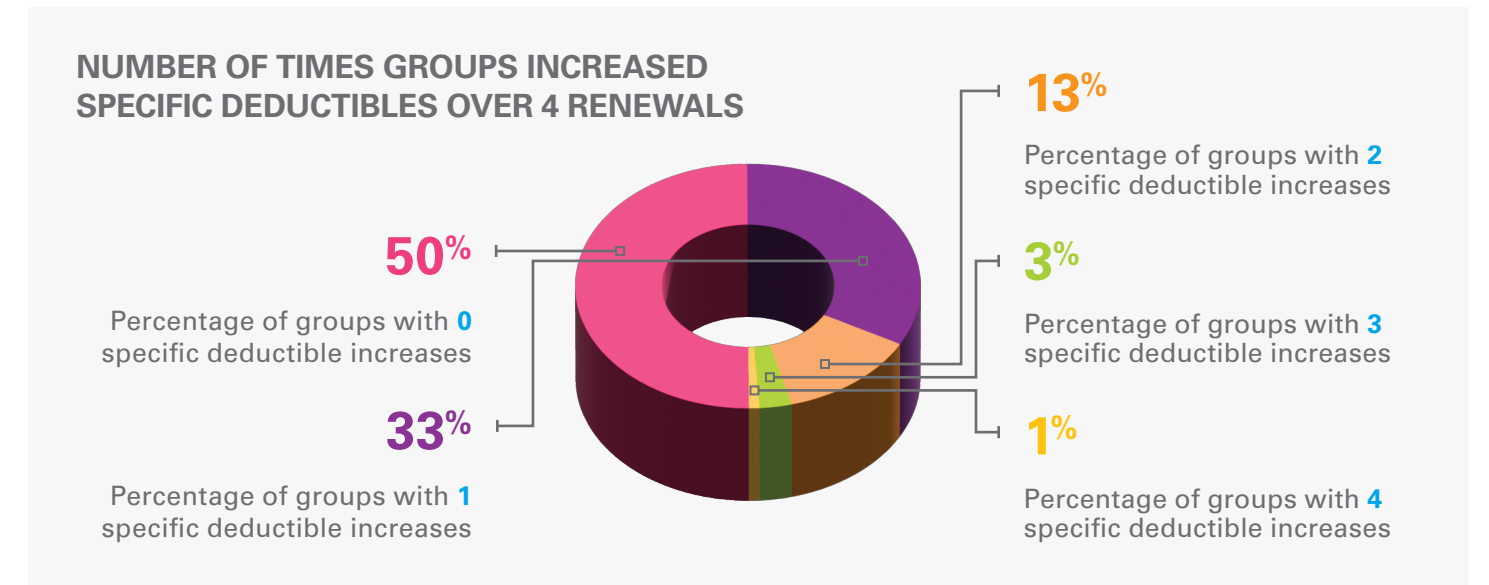
This chart is a tool that may be used in advising your clients on setting an appropriate specific deductible based on their group size. We recognize that these thresholds depend on several variables besides group size – risk tolerance, industry, and profit margins, to name a few – however these are reasonable ranges most groups fall into by considering the expected frequency of stop loss claims.

Too many expected claims equates to higher premiums and more "dollar trading," and points towards the specific deductible being set too low. Too few claims indicates that the specific deductible could be set too high, putting the client in a risky position should several large claims occur below the stop loss plan's deductible.



Groups are split into buckets in these two charts based on the number of times they increased their specific deductible during their 2022, 2023, 2024, and 2025 renewals. These results demonstrate that half of our groups didn't increase their specific deductible even a single time over 4 renewal opportunities. Additionally, there is a clear pattern showing that the more times groups increased their specific deductibles, the lower their average annual rate increases were.

Even though there is a premium incentive to raise the deductible, employers are liable for more claims under a higher deductible. Most of the medical and Rx cost inflation will be absorbed in the stop loss layer when deductibles fail to increase by at least first dollar trend. This will ultimately lead to unstable rate action for the employer group in the long run, especially in the tightening market we are now in.



COST CONTAINMENT SAVINGS

\$2,730,368

2025 PRELIMINARY CLAIMS UNIT (PCU) SAVINGS

PCU SAVINGS STORY

Two claims were received for premature twin infants born with congenital conditions, each requiring extended inpatient neonatal care.

Infant #1 required an 85-day inpatient stay, with total billed charges of \$1,018,784. Following the standard 20% network discount, the expected reimbursement was \$811,054. A subsequent review by the payment integrity vendor identified an additional \$506,462 in savings.

Infant #2 required a 189-day inpatient stay, with billed charges totaling \$2,823,704. After the standard 20% network discount, the expected reimbursement was \$2,247,951. The payment integrity vendor identified an additional \$1,442,554 in savings.

Combined, the payment integrity review generated nearly \$2 million in additional savings across these two complex neonatal claims, demonstrating the significant value of comprehensive claims review and payment integrity solutions.

\$27,588,342

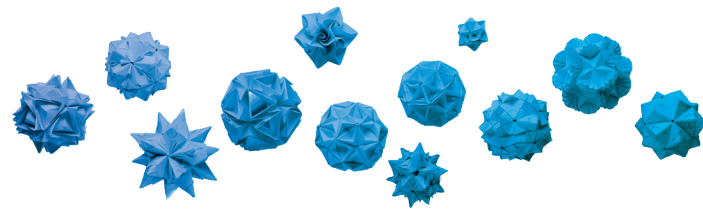
2025 SPECIALTY CLAIMS UNIT (SCU) SAVINGS

SCU SAVINGS STORY

Claimant was diagnosed with COPD and systemic scleroderma causing restrictive lung disease. She was referred for a double lung transplant and a contract for the transplant was put in place.

The double lung transplant took place on June 10th, 2025 with multiple complications and subsequent inpatient stays.

The billed amount was \$2,814,420 and the paid amount was \$595,349. The transplant contract resulted in \$2,219,071 in savings.



CANCER CLAIMS 2021 - 2024

23% increase in cancer claims

with the total paid amount increase of **40%**

65% increase of cancer claims exceeding \$1M

NEONATE CLAIMS 2021 - 2024

130% increase in neonate claims

with the total paid amount increase of **170%**

254% increase of neonate claims exceeding \$1M

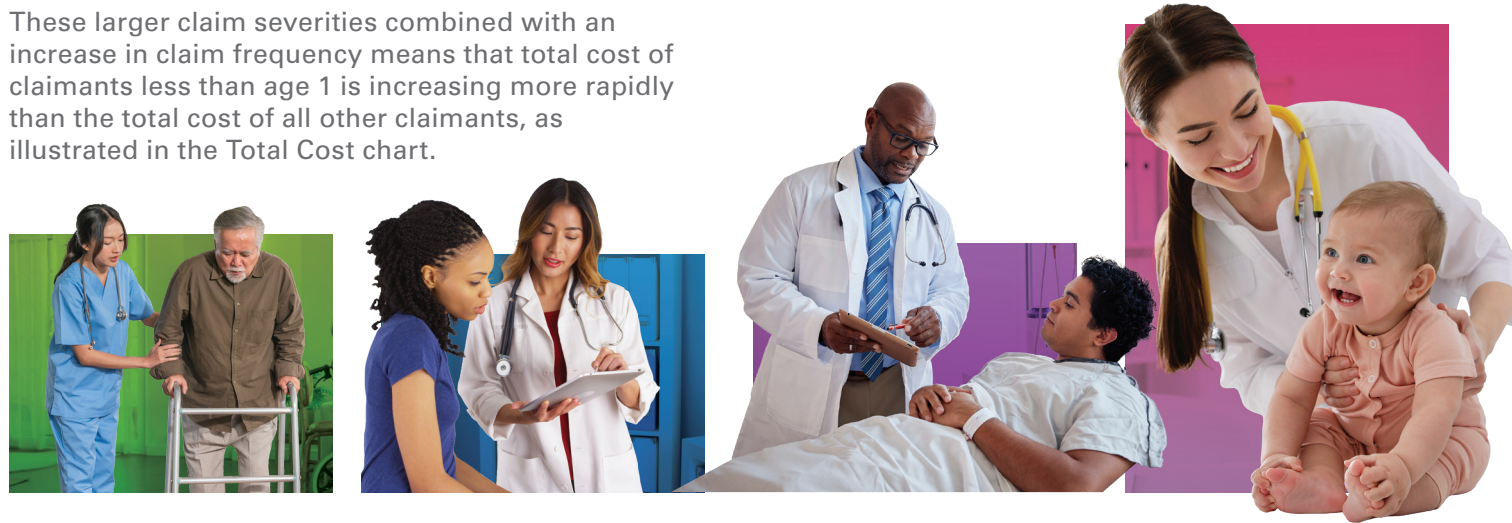


CLAIMS BY AGE

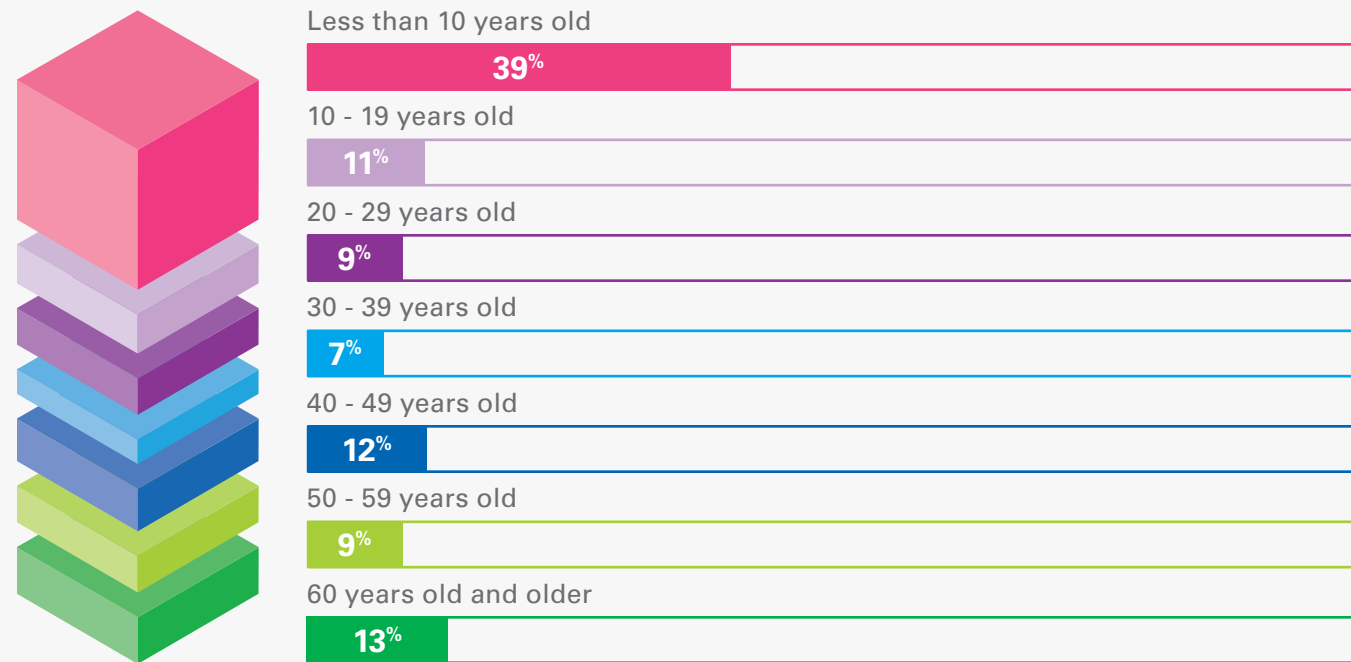
Claim severity continues to be significantly larger for claimants less than age 1 than for all other claimants. We believe advances in perinatal/neonatal treatments have had a major impact on this difference in average claim severity. Two of the main drivers of this are complications of obesity in mothers and an increased frequency of late age pregnancies. Neonatal claims are also often unpredictable in cost and outcome until the treatment/care has already been delivered.

These larger claim severities combined with an increase in claim frequency means that total cost of claimants less than age 1 is increasing more rapidly than the total cost of all other claimants, as illustrated in the Total Cost chart.

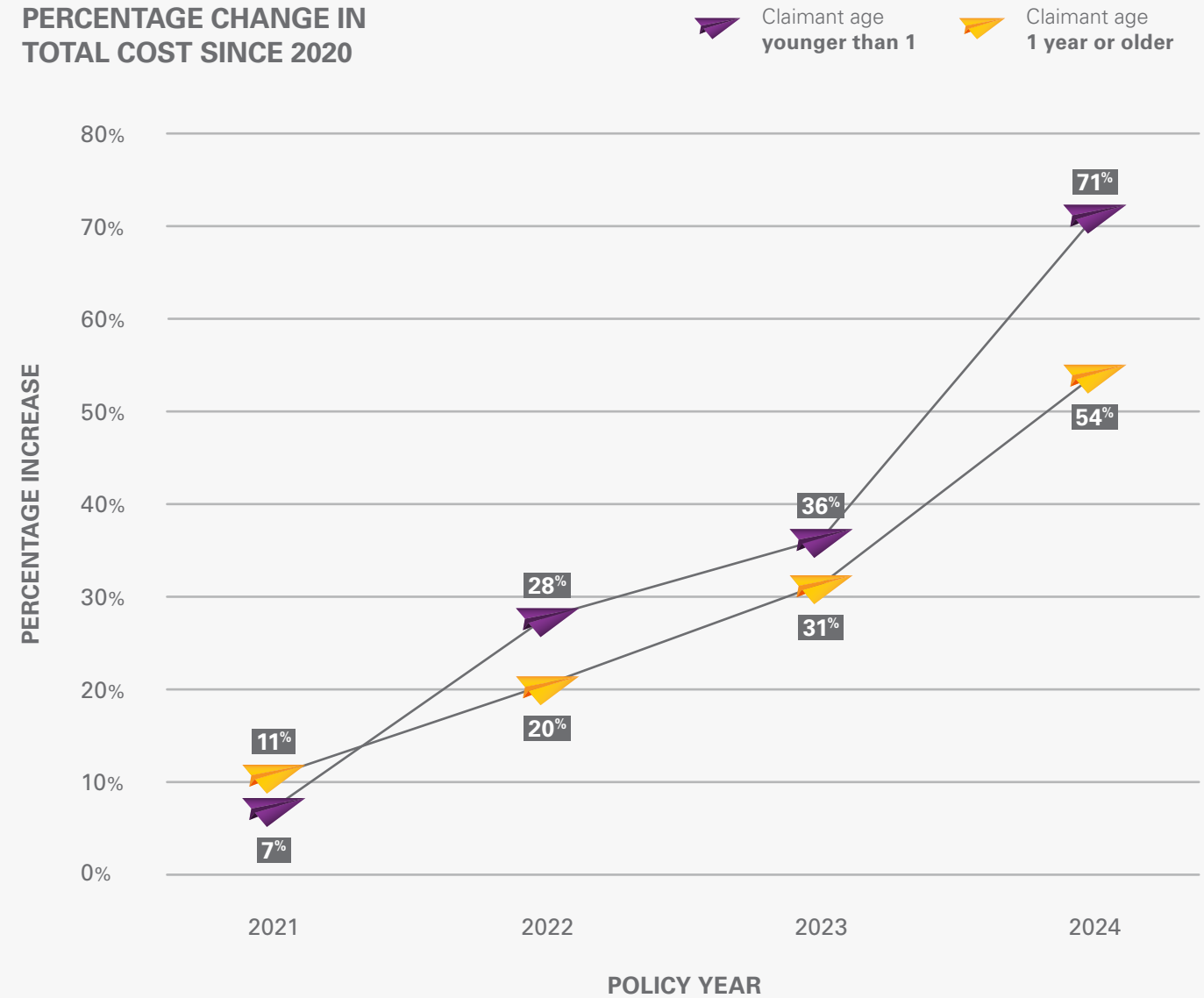
39% of our \$1M+ stop loss claims are from children under the age of 10. This represents more than 3 times any other 10-year age range. The majority of our claimants under age 10 come from very high severity diagnostic categories such as perinatal/neonatal and congenital/chromosomal abnormalities. Additionally, most of the \$1M+ claims in the <10 age range come from ages under 1 year old.



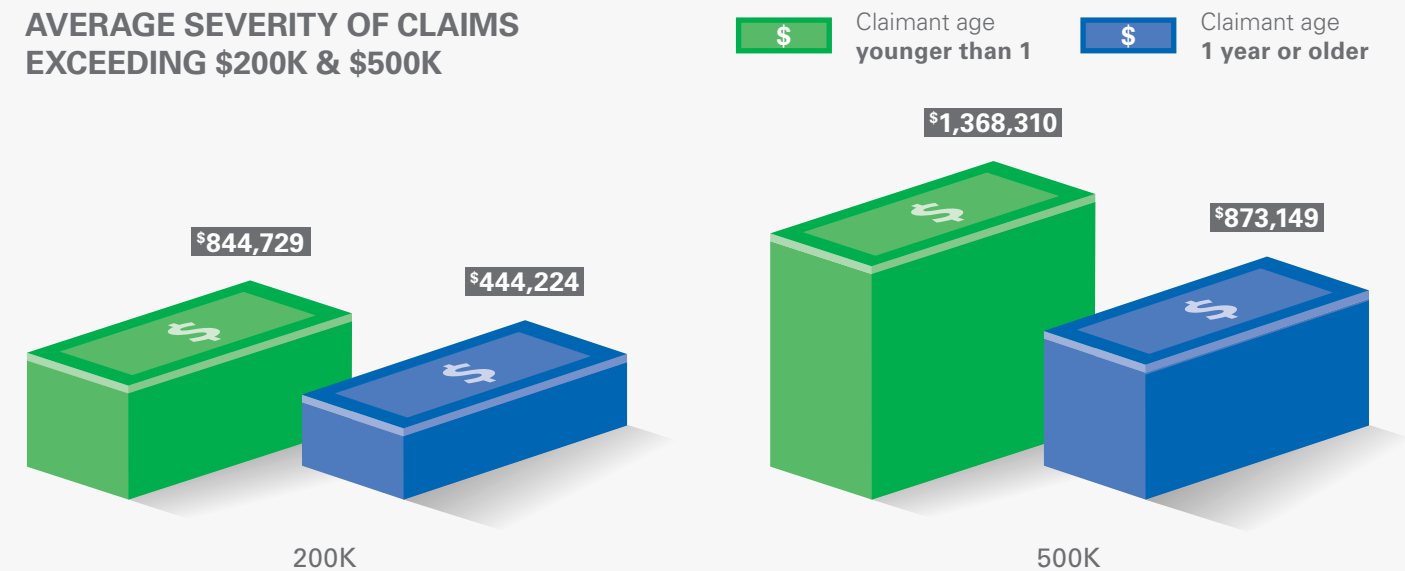
PERCENTAGE OF TOTAL BLOCK CLAIM COUNTS EXCEEDING \$1M BY 10-YEAR AGE RANGE



PERCENTAGE CHANGE IN TOTAL COST SINCE 2020



AVERAGE SEVERITY OF CLAIMS EXCEEDING \$200K & \$500K



HOW STOP LOSS MITIGATES COST TREND FOR HEALTH PLANS

EXAMPLE 1: CLAIM THAT HASN'T YET BREACHED THE SPECIFIC DEDUCTIBLE Specific Deductible: \$75,000

PLAN YEAR	FIRST DOLLAR COST	COST BELOW SPEC (EMPLOYER RESPONSIBILITY)	COST ABOVE SPEC (STOP LOSS CARRIER RESPONSIBILITY)
2024	\$72,000	\$72,000	\$0
2025	\$79,200	\$75,000	\$4,200

MEDICAL/RX INFLATION	EMPLOYER PLAN TREND	STOP LOSS CARRIER TREND
+10.0%	+4.2%	NEW CLAIM IN 2025

*Impact of Medical/RX inflation causes a new claim in the Stop Loss layer

*Trend in the Employer-Sponsored Plan's layer is mitigated from 10.0% to 4.2% by the Stop Loss Coverage

EXAMPLE 2: CLAIM THAT ALREADY BREACHED THE SPECIFIC DEDUCTIBLE Specific Deductible: \$150,000

PLAN YEAR	FIRST DOLLAR COST	COST BELOW SPEC (EMPLOYER RESPONSIBILITY)	COST ABOVE SPEC (STOP LOSS CARRIER RESPONSIBILITY)
2024	\$250,000	\$150,000	\$100,000
2025	\$275,000	\$150,000	\$125,000

MEDICAL/RX INFLATION	EMPLOYER PLAN TREND	STOP LOSS CARRIER TREND
+10.0%	+0.0%	+25.0%

*Impact of Medical/RX inflation is entirely in the Stop Loss layer and is amplified by the leveraging effect from 10.0% to 25.0%

*Trend in the Employer-Sponsored Plan's layer is completely mitigated by the Stop Loss Coverage

When an employer doesn't increase its specific deductible at policy anniversary, medical and Rx cost trends impact the stop loss carrier's costs disproportionately to the employer's stop loss plan costs. Increasing the plan's deductible by at least 1st-dollar trend will mitigate the leveraging impact of trend, preventing large rate increases.

TAKEAWAYS

01

Trend below the Specific Deductible is actually less than total 1st dollar trend, in addition to trend above the Deductible being "leveraged"

02

Stop Loss Coverage transfers much of the impact of Medical & Rx inflation to the carrier





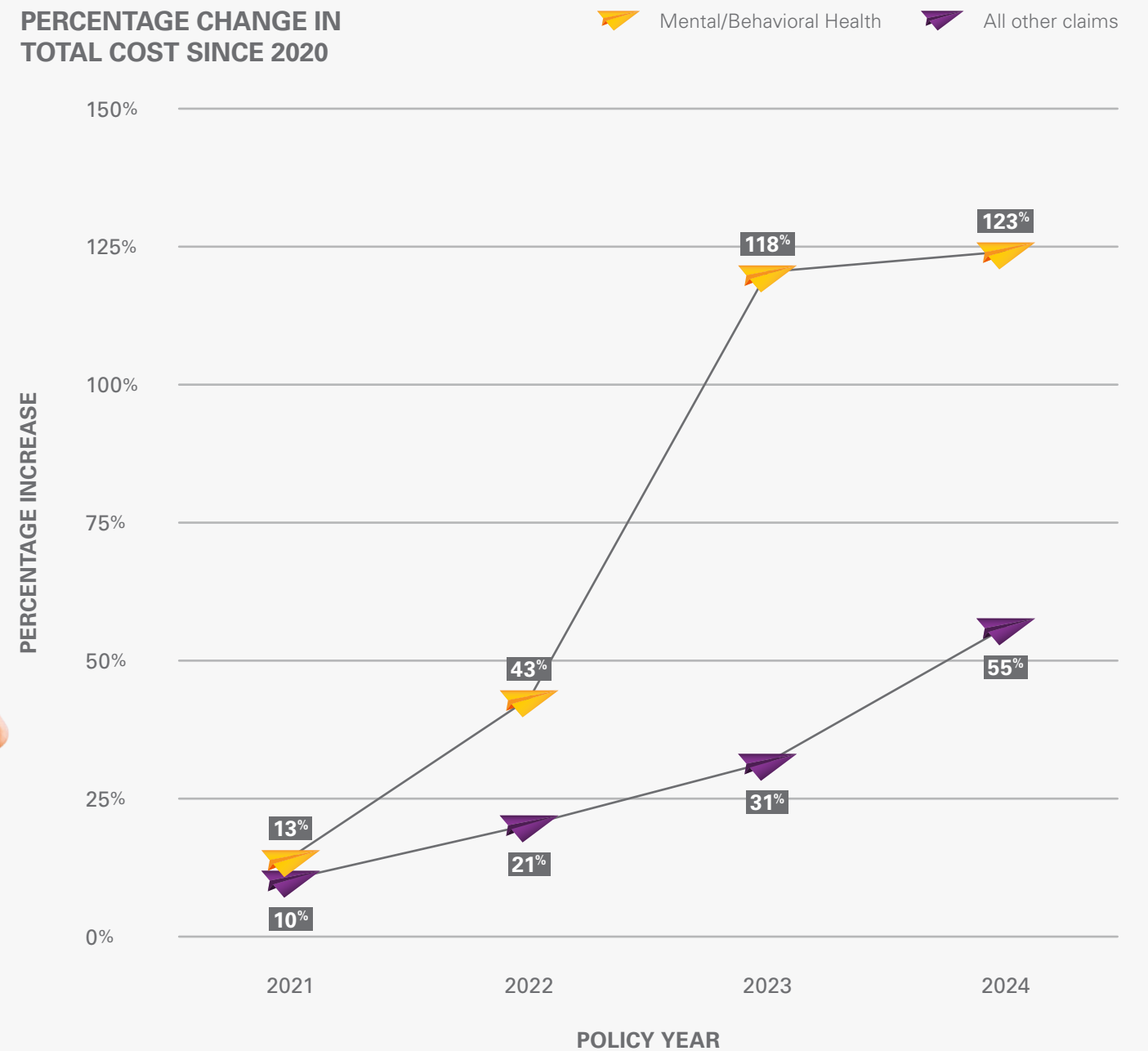
2021 - 2024

MENTAL & BEHAVIORAL HEALTH

While they do not represent a large portion of our stop loss claims, we have seen a sharp increase in the total cost of mental and behavioral health claims, beginning in 2022. With these claims on the rise, they will need to be monitored going forward. While the severity of these claims has increased since 2020, frequency is the main driver of this total cost trend. The trend is still increasing in 2024; however, it has slowed.

We suspect that COVID-19 has impacted the frequency of these claims. We also suspect that an increase in awareness of various neurological disorders (ADHD, Autism, OCD, etc.) and a destigmatization around mental health conditions has impacted this increase in mental and behavioral health claim frequency.

PERCENTAGE CHANGE IN TOTAL COST SINCE 2020



STOP LOSS TREND SURPRISE

YEAR-OVER-YEAR TREND OF JANUARY EFFECTIVE POLICIES

Compared to the average year-over-year stop loss trend of January effective policies in 2019-2023, the trend in January 2024 was 5.0 percentage points higher than this 5-year average, and January 2025 was 9.2 percentage points higher than this average. These trends come from TMHCC – A&H Group's Specific Stop Loss claims history, and we were undeniably surprised by these results.

The market has begun to react to this ongoing change in cost trend but will need to continue tightening to reach adequate rate levels across the stop loss market.

COST DRIVERS FOR STOP LOSS 2026

- The tightening stop loss market which began in 2025 continues in 2026 and is expected to continue into 2027
- Increase in frequency of claims at all levels, including catastrophic claim thresholds, spurred by complex cancer treatments, perinatal/neonatal conditions, specialty drugs, and transplants
- Proliferation of Specialty Rx, cell therapy, and gene therapy approvals by the FDA
- Stagnation of specific deductible thresholds
- Medical Inflation, which is greater than general inflation
- Aging population requiring greater utilization of health care services
- Reduced supply of medical professionals resulting in wage increases greater than general job population
- Provider consolidation leading to increased leverage to negotiate higher reimbursement rates with commercial insurance carriers

- Imposed tariffs that increased the cost of imported prescriptions, medical supplies and devices
- AI-driven maximization of provider reimbursements
- Anticipation of continued reductions in federal financial support for government-funded programs, which will shift costs to employee health plans as providers look to replace that lost revenue
- Continued increase in Medicare Advantage enrollment, which often pays less than Medicare, will also lead to cost-shifting to employers
- Majority of awards from the No Surprises Act's arbitration process have been provider-favorable
- Increased use of behavioral health services and GLP-1 drugs

NAIC DATA



PERCENTAGE POINT TREND INCREASE OVER 2019-2023 AVERAGE TREND

2024	2025
+ 5.0 POINTS	+ 9.2 POINTS





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*Inspiring confidence.
Accelerating progress.*

