



Sun Life Health and Risk Solutions

April 4, 2025

Unless otherwise noted, all amounts are in US dollars.



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Currency

Unless otherwise noted, all amounts are in US dollars.

Rounding

Amounts in this presentation are impacted by rounding.





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Key Takeaways

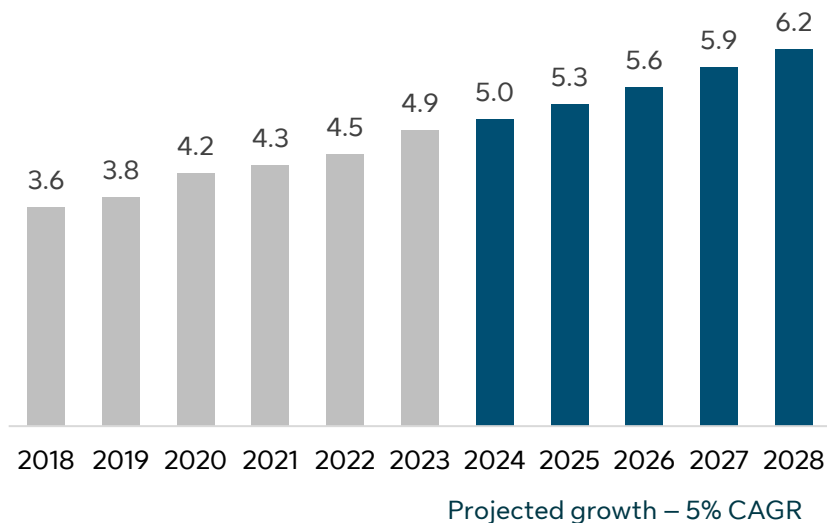
-  The U.S. healthcare system is one of the largest and fastest growing sectors in the world, our industry-leading independent stop-loss business is well-positioned to capture growth
-  Stop-loss is a growing, high-return market and is repriced annually. We have leading scale and differentiated capabilities to grow earnings and manage short-term variability from pricing, claims frequency and severity
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-  Stop-loss has a well-established underwriting cycle, and we have consistently outperformed the market through these cycles

Overview of the U.S. healthcare system



U.S. healthcare expenditures are large and growing

U.S. national health expenditures
(\$ trillions)



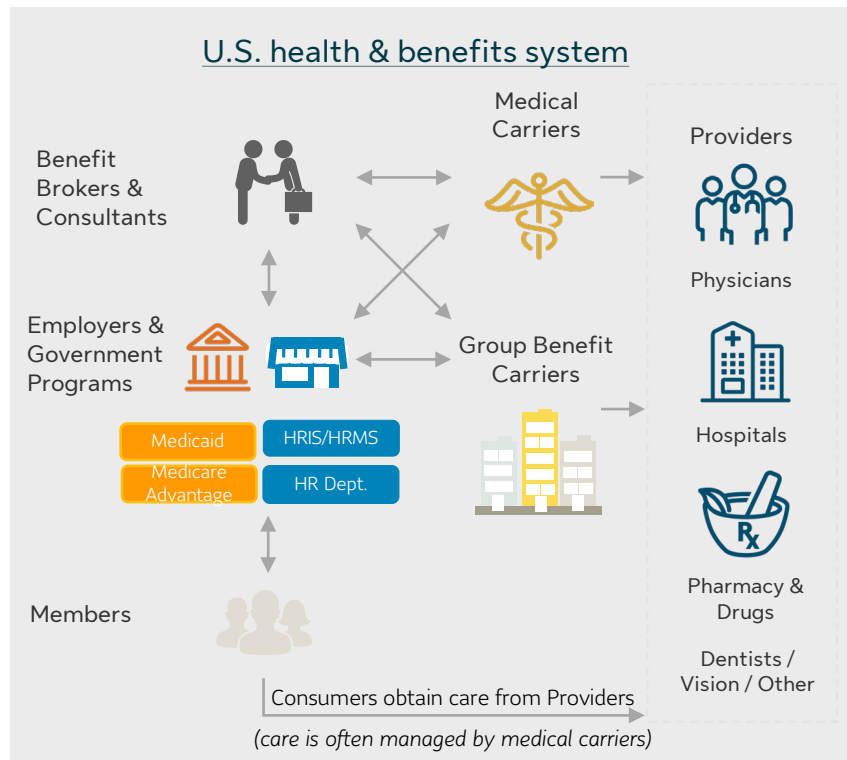
- U.S. national health expenditures of \$4.9 trillion represented 17.6% of total U.S. 2023 GDP
 - Canada spend is 12% of total GDP as of 2022¹
- Health expenditures grew at a 6% CAGR between 2018-2023
 - Expected to continue to grow by 5% per annum over the next 5 years
- Commercial medical inflation (medical cost trend) estimated to be 8% in 2025 (highest since 2012), in addition to increasing pharmacy costs²

Source: Centers for Medicare & Medicaid Services, National health expenditure data.

¹ Canadian Institute for Health Information, National health expenditure trends, 2024 — Snapshot.

² PwC "Medical cost trend. Behind the numbers 2025.

Half of the U.S. population gets their health insurance at work, and 63% of them are in self-funded plans



- The U.S. health system is complex, with care primarily paid for and/or coordinated by health insurers
- The top five health insurers are some of the largest insurance companies in the world
- Half of the U.S. population gets their healthcare coverage from employer sponsored health plans
- 63% of people covered by employer sponsored health benefits are in a self-funded plan, up from 44% in 1999¹

Self-funding means the employer has purchased administration, but keeps the risk



Fully insured

Pay premiums to health insurer



Predictable monthly costs



Self-funded without stop-loss

Pay claims and administrator fees, but no premiums



Unknown and uncapped maximum exposure



Self-funded with stop-loss

Pay claims, administrator fees, and stop-loss insurance carrier premiums



Capped maximum claims exposure

Self-funded plans have grown in popularity as they offer employers several advantages



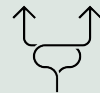
Customizable health benefit plan



Lower state and federal taxes and other potential savings



Flexible approach for best-fit vendors



Greater cash-flow control



Not subject to state-mandated benefits



Increased claims data access

What is stop-loss insurance?



Stop-loss covers very large claims, beyond a deductible or “attachment point”, so that the self-funded employer can limit exposure

Stop-loss insurance

Protection against the high-dollar cost risk exposure of a self-funded health plan



Stop-loss deductible

The portion of the claim risk that the employer retains (the amount above the deductible is reimbursed according to the stop-loss policy)

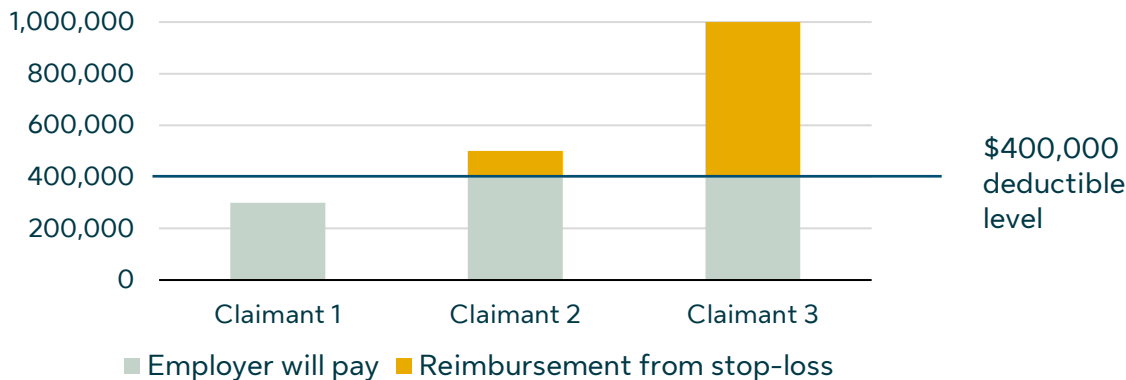


Stop-loss reimbursement

Payment provided by the stop-loss carrier to reimburse the employer for the amount above the stop-loss deductible



Stop-loss coverage with a \$400,000 deductible



Protection for the self-insured employer from large claims that occur for any one covered individual

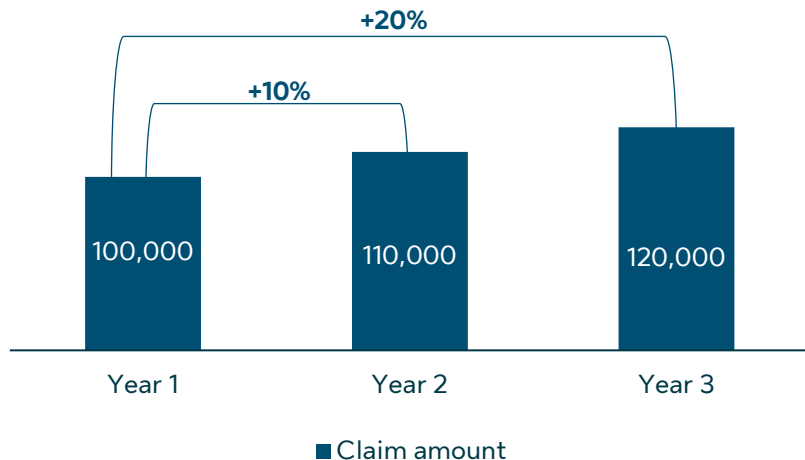
87% of employers had a stop-loss claim during a given policy year¹

¹ Based on Sun Life experience between 2019 and 2022.

Stop-loss medical trend (inflation) is double underlying trend

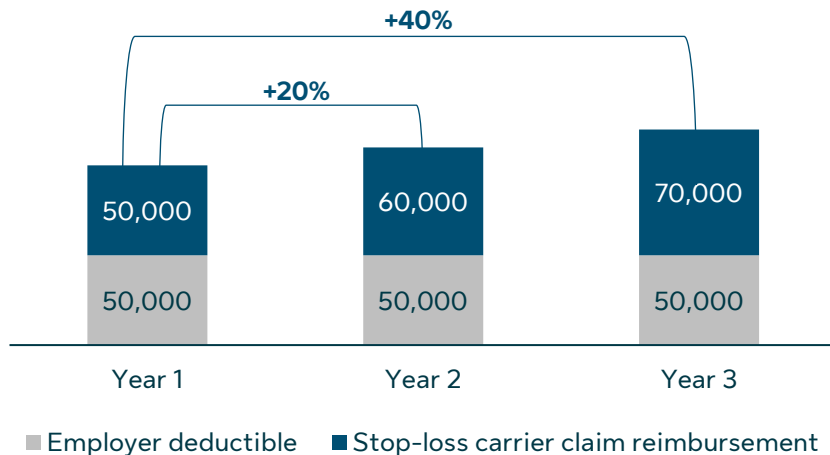
Underlying medical trend

- Annual increase in healthcare costs
- The increase is driven by many factors including rising prices for treatments and procedures, new technologies, increased utilization, etc.
- As a result, the same claim is going to cost more year over year



Stop-loss leveraged medical trend

- The compounding effect first dollar trend has on stop-loss reimbursements if the deductible stays the same
- To minimize the effect of leveraged trend, employers typically increase their specific stop-loss deductible (*also referred to as Deductible Leveraging*)



A stop-loss member's health journey begins well-before insurer sees claim – there is variability in the timing of a stop-loss claim, depending on the medical condition

Example one – severe cancer diagnosis

- January** ● **Diagnosis**
Employee receives breast cancer diagnosis at a cost of \$40,000
- March** ● **Treatment and billing**
 - Diagnostic evaluation and testing at a cost of \$45,000
 - Treatment plan; patient receives recurring Perjeta infusion therapy every 3 weeks at a cost of \$13,000 per infusion
 - Provider submits claim after each treatment to health plan, which pays claims from the employer's bank account based on the employer's plan design
 - Deductible of \$200,000 is reached at month 8
- September** ● **Claim submission**
Employer submits claim to stop-loss insurer for reimbursement
- November** ● **Stop-loss insurer**
Stop-loss provider reviews claim and reimburses amount above the specific deductible

For stop-loss insurers, there are varying degrees of information available based on insurers, relationships and data.

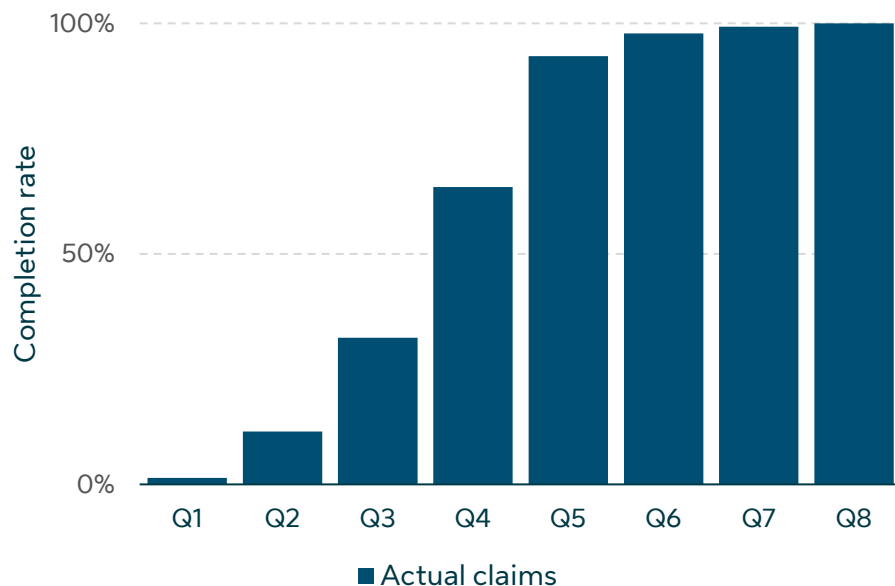
Example two – premature birth

- January** ● **Hospitalization and treatment**
 - Twins are born prematurely and require acute hospitalization
 - Patients receive intensive care for 10 months
- October** ● **Claim submission**
After twins are discharged, the health plan administrator receives bills for the care received and submits claims to stop-loss provider for \$3,000,000 each (above \$200,000 deductible for each)
- November** ● **Stop-loss provider**
Stop-loss insurer reviews claim and reimburses amount above the specific deductible

For acute claims, stop-loss insurers see claims after the hospitalization has ended and claim is submitted. There is variability based on the hospital billing practices.

Stop-loss claims fully emerge over eight quarters, with most emerging in Q4 and Q5

Stop-loss claims completion (illustration)



- Low levels of actual claims for the first three quarters of a stop-loss policy
- Most claims are reported in the fourth and fifth quarters after the policy effective date
 - Two-thirds of stop-loss business is written effective on Jan 1; claims emergence highest in calendar Q4 and Q1
- 90% of actual claims reported by the end of the fifth quarter
- Remaining claims completed within eight quarters

Sun Life's stop-loss business



Sun Life is the leading independent provider of stop-loss

- The leading independent stop-loss insurer¹
- \$2.7B stop-loss net premiums as of 2024²
- 6 million lives covered
- More than 40 years in the stop-loss business
- Over \$8.4B in claims reimbursed over the past five years
- Innovative insights, educational opportunities, and tailored solutions



Net premiums²

\$2.7B



Policyholders

3,000+



Covered lives

6M



**Approved TPA
Partners and
Health Plans**

395



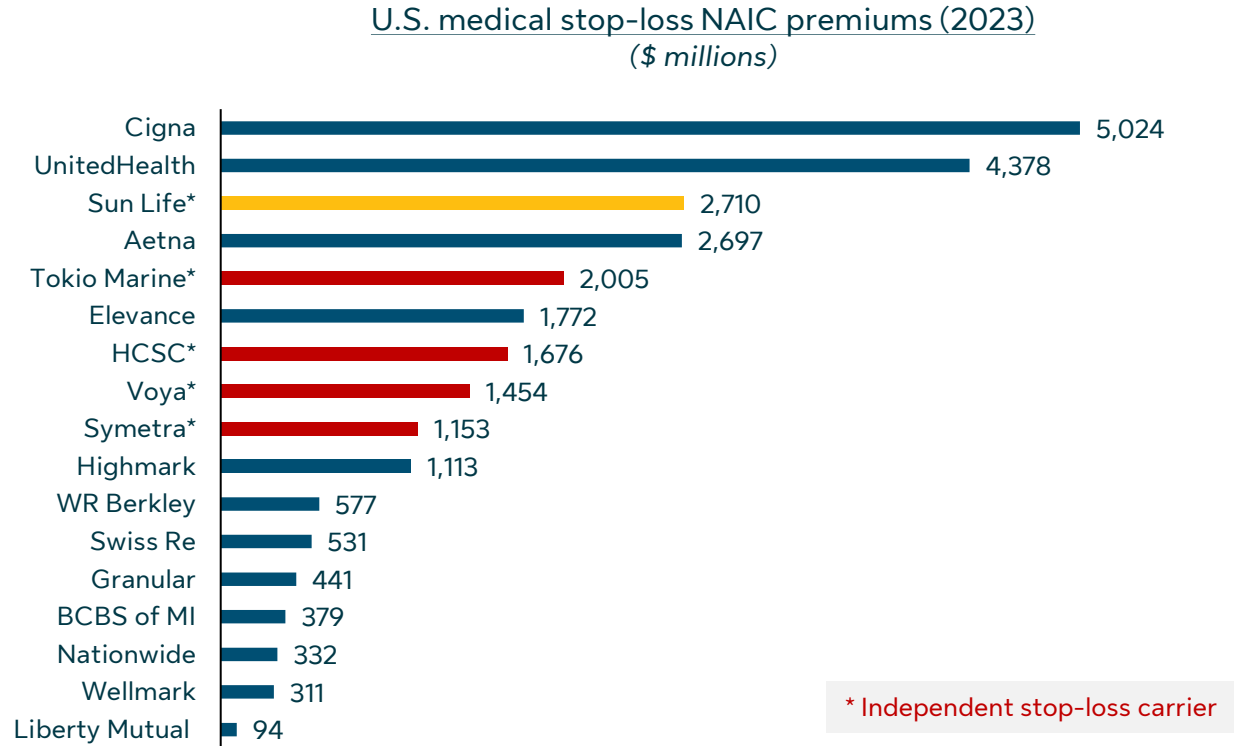
**Provider networks
evaluated in past 5
years**

218

¹NAIC 2023 Accident and Health Policy Experience Report, page 196-197. An independent stop-loss carrier is defined as a stop-loss carrier that does not also sell medical claim administrative services.

²Represents a non-IFRS financial measure. Refer to the "Non-IFRS financial measures" section on slide 2 of this presentation.

Sun Life is the leading independent provider of stop-loss



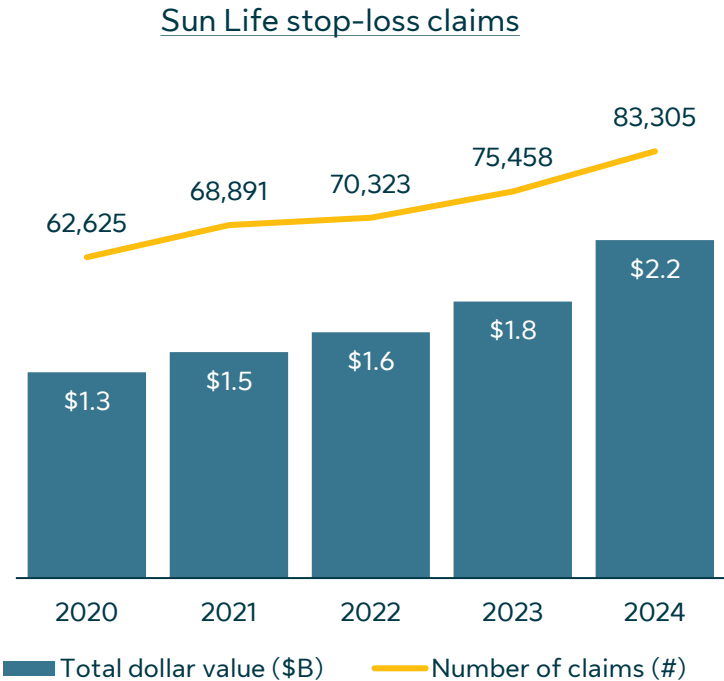
Sun Life's scale and expertise differentiates us in the marketplace

Our dedicated claims team has demonstrated exceptional proficiency and scale

Since 2020, we have:

- Handled over 360,000 claims
- Processed \$8.4B worth of claims
- Kept growing our ability to handle more claims each year
- Leveraged analytics to better manage claims

Our robust infrastructure, expert personnel, and adaptability to the evolving healthcare landscape support our ability to process and manage increasingly complex high-cost claims



Sun Life is differentiated in stop-loss by being involved in care while it is in progress

Clinical 360 is our foundation

A dedicated and experienced team of nurses identifying opportunities to optimize care and reduce costs. Clinical 360 is embedded in every Sun Life stop-loss policy

Adding healthcare advocacy & navigation through PinnacleCare

Empowering members to confidently make decisions about their health, resulting in a better experience, improved health outcomes, and cost savings

Care at Home

Providing high-value, comprehensive care for kidney and heart patients in the comfort of their homes

Bringing access to small and mid-market clients

Musculoskeletal support gives our Clients and members access to the most clinically validated digital MSK care on the market

Reaching our members

The Sun Life Health 360 app maximizes our ability to meet our members where they're at and engage them with the right services at the right time



Sun Life's broad data set enables us to use analytics to generate useable insights



Underwriting

Enhances our ability to underwrite and price through greater stratification of risk

Uses underwriting decision support tools to create stability and consistency in the process



Claims

Shows the predictability of high-cost claims

Manages the variability associated with individual claimant and policyholder experience

Enhances our clinical claim triggers to identify the most impactful claims and members



Profitability & growth

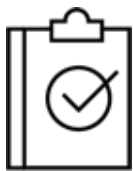
Leverages analytics for profitability and growth optimization

Ensures payment integrity

Enables us to use risk selection for new segments

Sun Life has a superior stop-loss pricing process that supports our winning track record

Robust process for managing risk

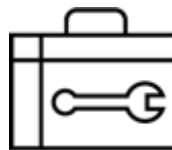


→ **Formal manual rate study** done yearly based on Sun Life experience and external data points

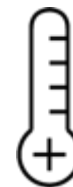


→ **Commission major actuarial consulting firm** to provide trend study focused on stop-loss, with emphasis on leveraged trend

Utilize reputable medical trend studies for additional insights



→ **Recalibrate renewal strategy** twice per year based on emerging loss experience and market trends that impact persistency and rate action attainment

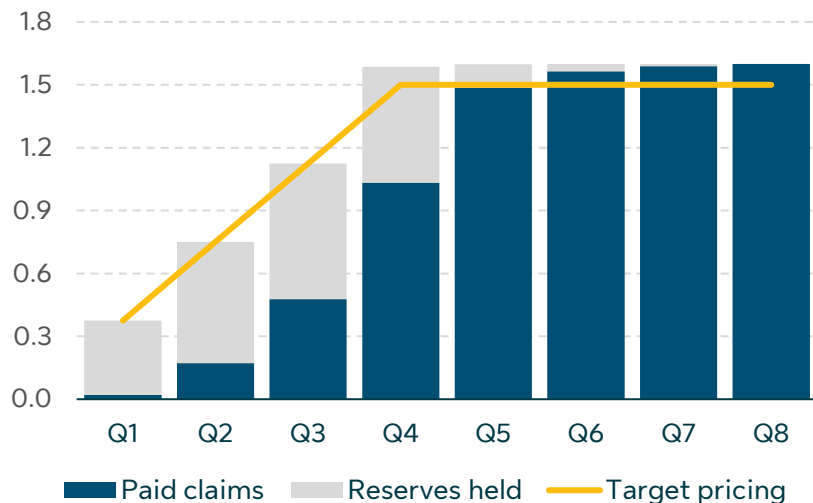


→ **Adjust rating factors** more frequently as needed

Continually monitor emerging claims experience to adjust reserves as needed

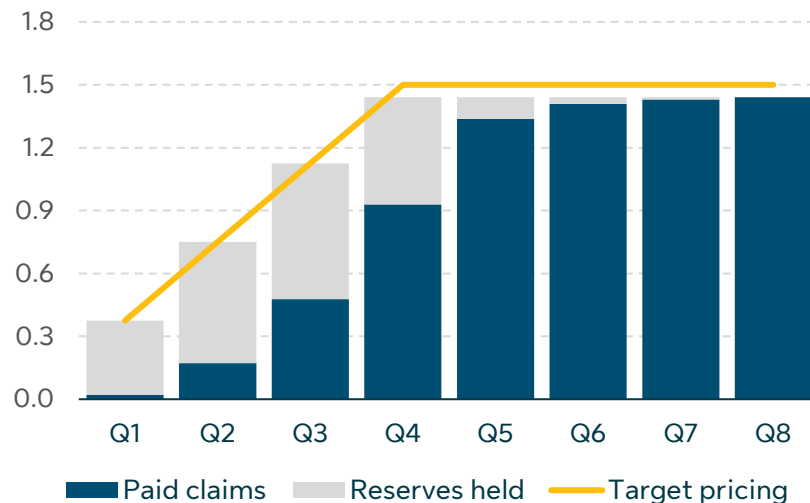
Sun Life's reserving practice requires a reserve true-up depending on the difference between expected and paid claims over the life of a cohort

Example one – claims emergence & reserve build
(\$ billions)



- Assumes loss ratio underperformance of 300 bps
- Higher paid claims vs. expected claims results in reserve strengthening in Q4, reflecting a catch-up for the prior three quarters
- Reserve strengthening can happen prior to Q4 if we observe underperformance

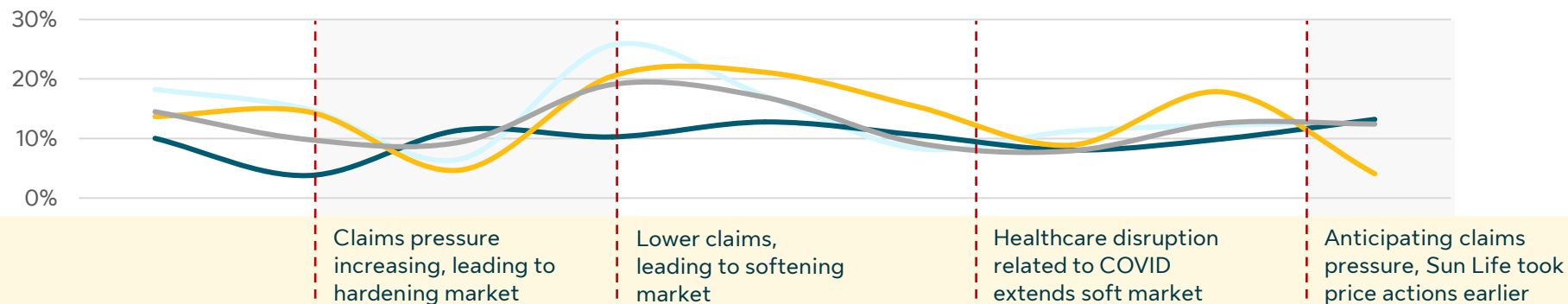
Example two – claims emergence & reserve build
(\$ billions)



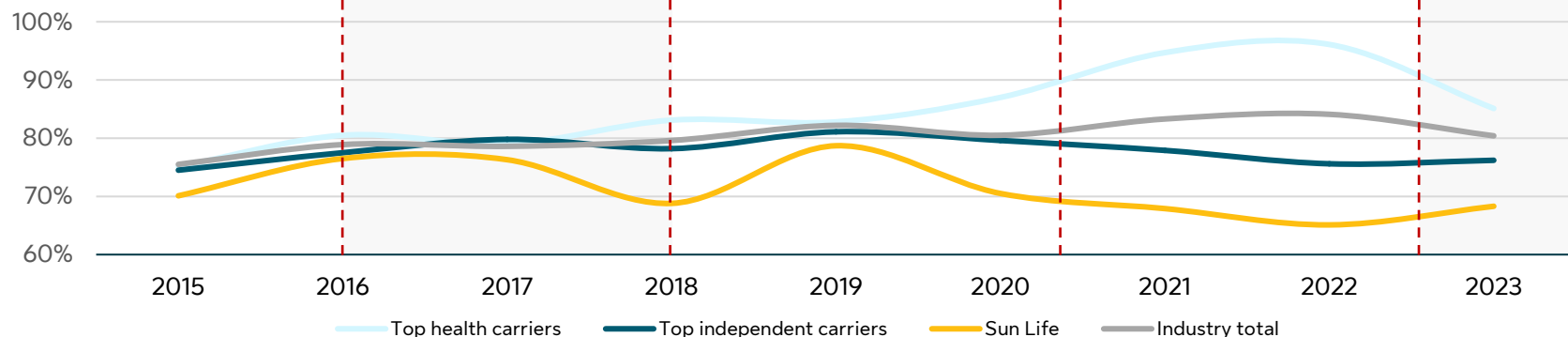
- Assumes loss ratio outperformance of 300 bps
- Lower paid claims vs. expected claims results in reserve release in Q4
- Reserve release can happen prior to Q4 if we observe favorable performance

Stop-loss historically has had a distinct underwriting cycle – Sun Life has consistently outperformed the market through those cycles

Industry premiums earned (YoY growth)



Industry loss ratios



Source: National Association of Insurance Commissioners 2023 Accident and Health Policy Experience Report.

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Recent stop-loss results driven by unsustainable COVID-related experience and a sudden increase in claims severity

1 Impact of COVID-19

Immediate impact was a reduction in demand for healthcare services not related to the COVID-19 illness itself

After COVID-19, healthcare capacity was severely reduced due to staffing shortages in the system

Resulting dynamic created abnormally low healthcare utilization and favourable stop-loss results

2 Increasing severity

For the 2024 cohort, utilization increased in line with expectations (refer to slide 29). Larger than expected increase in severity is impacting all market participants





Severity driven by more severe cancer diagnoses, higher U.S. births and increased hospital unit cost

In the first three quarters of a stop-loss policy period, reserves make up the majority of incurred claims, and severity is not fully seen until the fourth and fifth quarters

Business response moving forward

- Increased prices on average by 14% for business effective 1/1/2025 and further increasing prices by 2% in 2025
- Strengthening analytics and exploring new applications of data insights
- Getting involved earlier in a member's health journey, aiming to help through the process and ultimately lower final claim totals
- Leveraging 50% reports to improve forecasting and pricing

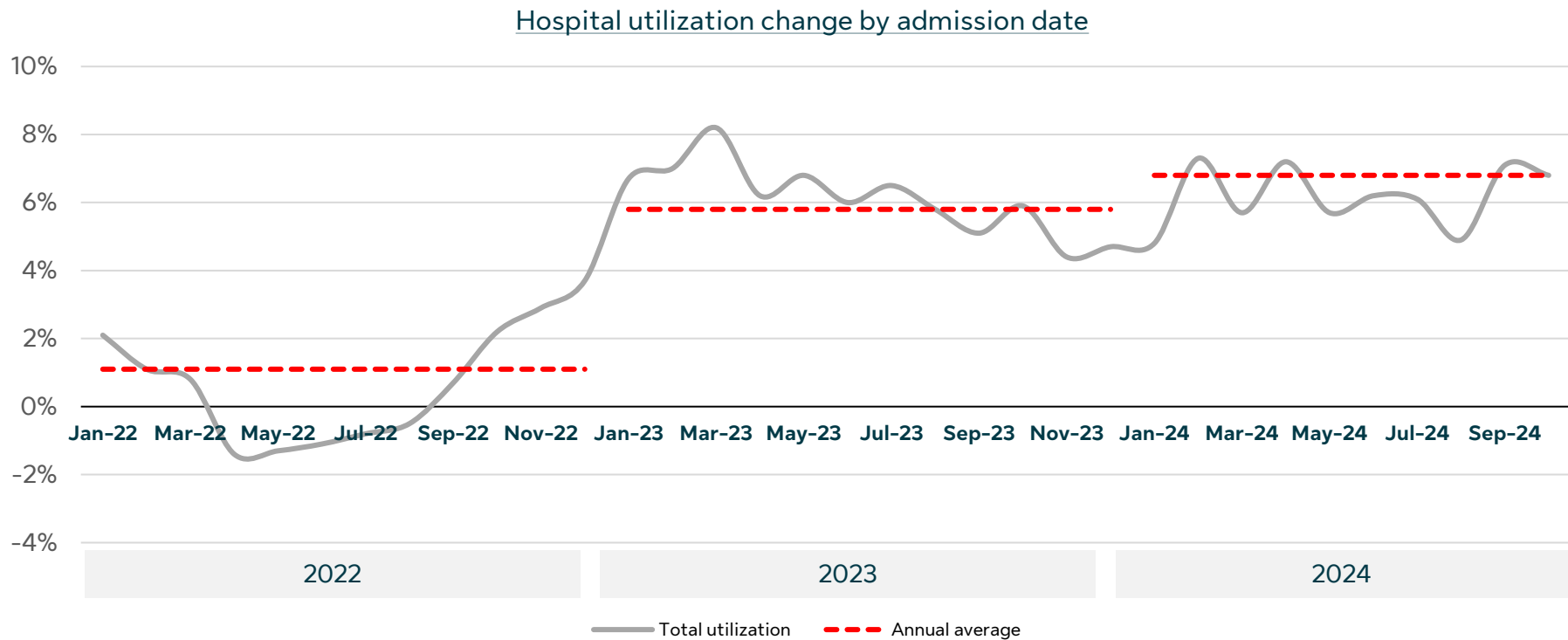
Key Takeaways

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Appendix



Hospital utilization



Source: Strata Decision Technology normalized for Sun Life block demographics.
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How stop-loss is reported in the drivers of earnings¹

Sun Life U.S. Underlying drivers of earnings

US\$ millions, pre-tax

Q4'24

| | |
|---|------------|
| Risk adjustment release | 6 |
| Contractual service margin recognized for services provided | 11 |
| Expected earnings on short-term (group) insurance business | 191 |
| Expected insurance earnings | 208 |
| Experience gains (losses) | (56) |
| Total net insurance service result – Underlying | 152 |
| Expected investment earnings | 33 |
| Credit experience | 1 |
| Earnings on surplus | 33 |
| Other | 1 |
| Total net investment result – Underlying | 68 |
| Other fee income | 8 |
| Expenses – other ² | (83) |
| Earnings before income taxes – Underlying | 145 |
| Income tax (expense) or recovery | (30) |
| Common shareholders' underlying net income (loss) | 115 |

Represents the expected profit margin earned on stop-loss business during the period

Includes morbidity and expense experience. Morbidity experience reflects variances between actual claims and target pricing

Investment income generated from stop-loss premiums

Non-directly attributable expenses

¹ The Drivers of Earnings analysis contains non-IFRS financial measures. Refer to the Non-IFRS financial measures section on Slide 2 of this presentation and the "Drivers of Earnings" section in our Q4 2024 Supplementary Financial Information Package.

² Expenses – other removes the non-underlying Other adjustments, including Acquisition, integration and restructuring, and Intangible asset amortization. Certain Other adjustments – other may also be an adjustment from Other expenses.



Sun Life Health and Risk Solutions thought leadership

High-cost claims and injectable drug trends analysis 2024 [[link](#)]