CAPTIVE USE FOR EMPLOYEE BENEFITS INCREASES

Written By Caroline McDonald

A changing workforce and a more competitive hiring environment have led many companies to look for more creative ways to enhance medical benefits for both new and existing employees. More and more, these conditions are leading organizations and human resources experts to consider captive insurance.

"Traditionally, captives have been used for medical stop-loss. Increasingly, we're talking to human resources managers, who are looking at the war for talent—how they can retain people and attract talent to their organizations," said Michael Matthews, commercial director, international at Artex. "A lot of them are using their benefit packages as a way of doing that, and for providing non-standard coverages – voluntary benefits such as weight control initiatives."

STUMBLING BLOCKS

The challenge for many HR managers, however, "is getting the budget to be able to afford these forward-looking benefit plans," he said.

An advantage of a captive in this scenario "is to not only use the captive to capture the profits in life, disability, and medical programs, but then use those retained funds to create more innovative well-being, or wellness programs," Matthews said.

More organizations, he noted, are moving to wellness programs, financing unfunded liability linked to deferred compensation plans, and using captives to promote diversity and inclusion within the organization. "They are then expanding to include a range of involuntary benefits. That is geared toward the recognition of a more agile workforce. We're seeing benefits like career support and emergency funds," Matthews said.

Much of this has been driven by the changing work landscape for employees – including working from home and how those changes impact benefits plans. "Captives are playing a bigger role in that funding process for different types of benefits for people working from home," he said.

HR managers, Matthews added, are striving for consistency for all employees, no matter where they are working. "The idea would be a more agile workforce because you have some people working from home. It also gives the company the ability to transfer some people to other countries on a short-term or long-term basis. It's effectively using a captive that allows them to bring their home-grown benefits with them," no matter where they work.

Captives are being used to "level the playing field in terms of the benefits that people get," he said.

"That encourages them to be more mobile and more flexible in terms of where they can be used in an organization. The funding for all of that comes back to their employee benefit programs."

He added that potential employees are often less focused on the salary side of their benefits package. "Rather, they are focused on benefits packages that are not only what is best for them but also for their family and extended families. It's the recognition that it's all those components that make an employer of choice."

While this has been done with large companies and multinational pooling arrangements, "where you actively share in the underwriting profits," Matthews said, "We're looking into the economics of a single-country structure backing into an employee benefit captive to release some of the benefits that multinational pooling programs have seen."

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BUILDING A NEW BENEFITS MODEL

These are the dilemmas that Kirk Watkins, founder and chief executive officer of Promethean Risk Solutions, also faced. Organizations were putting life and disability coverages into a captive, "But nobody ever thought of putting the voluntary benefits in a captive for one main reason: they are 100 percent employee paid, and they don't show up on anybody's P&L statements," he said. "It happens within the four walls of HR, and nobody from financial risk is involved."

Voluntary benefits "are typically chosen by selecting box A, B or C and prior there wasn't much customization," Watkins said. "You couldn't tailor each line item of coverage, there was either the low plan or the high plan."

Another consideration, Watkins noted, is a younger generation of employees, "and they want a smorgasbord of selections. This significantly helps in attracting and retaining talent."

Because voluntary benefits have a low loss ratio of 25 to 30 percent, making them profitable for carriers, "it makes sense to give the employees better coverage, lower premium and to put these benefits in a captive," he said.

Doing this, however, needs to be done in a specific way because of Department of Labor requirements, Watkins said, "But it benefits everybody. Employees get better coverage, lower premiums, and enhanced programs that their employers now have additional funding for, or potentially new programs that are funded through their source. So, it is a win for everyone."

Using the idea of distributing the profits typically retained by the carrier between the employees and the employer was the foundation for a captive he formed named FairShare. The program allows employers to share the risk without having to form a captive.

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"What we do is reinsure the coverage from the carrier," Watkins said. "When we reinsure it, it is underwritten at a higher loss ratio, so it provides better coverage and less premium."

With this model, he said, "The client gets the profit, so we do a profit-sharing program. The dollars that are left over, that would typically be retained by the carrier, are given to the employer."

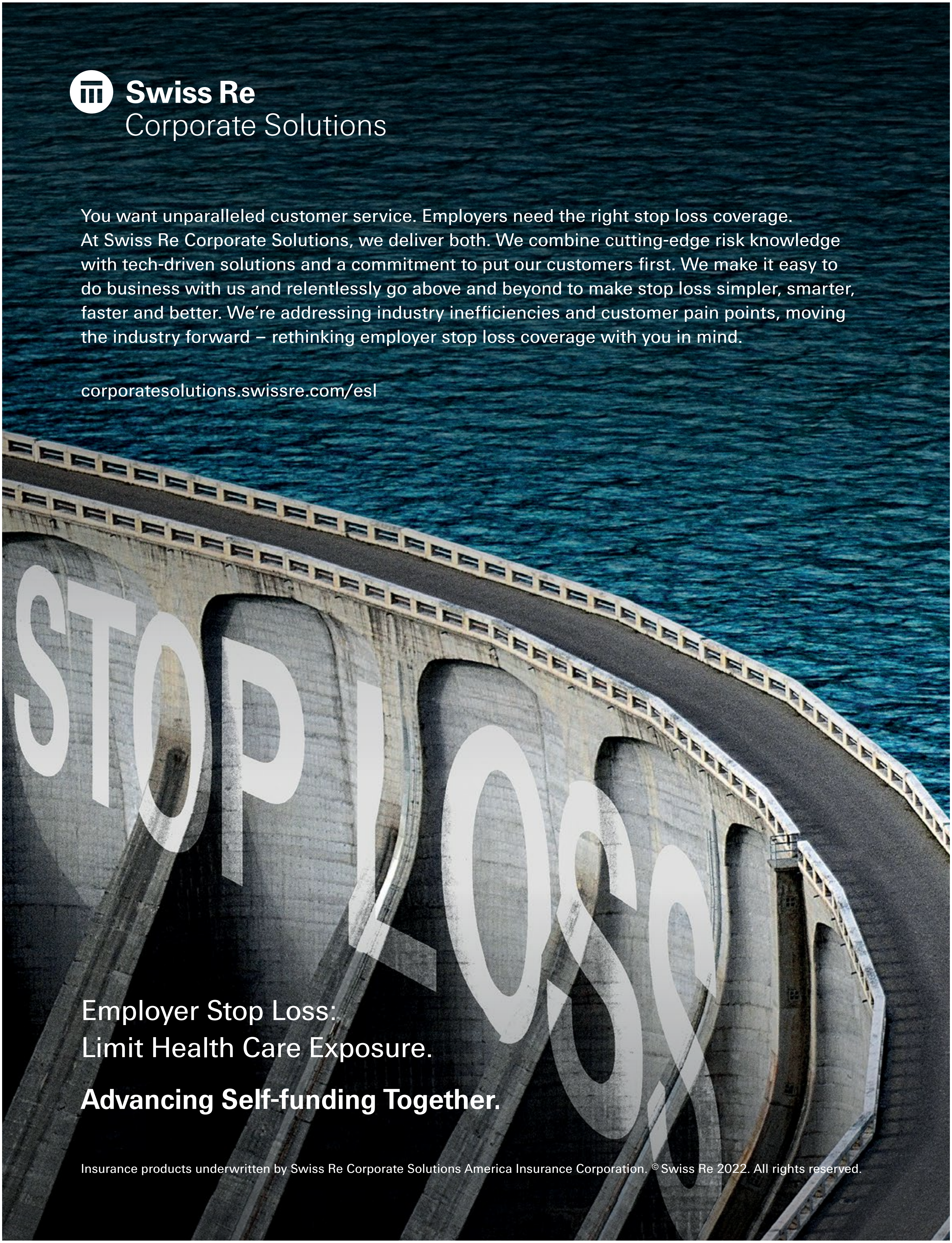
Also important is that the plan works for both large and small companies, providing the same pricing for both, he said. The plan also works for organizations including associations, tenants and franchisees, Watkins said.

Types of coverage include accidental injury, critical illness, hospital indemnity, legal insurance, ID theft coverage, renter's liability, deposit waiver insurance, group auto & home, electronic device, cell phone coverage, home warranty – even pet insurance. Natalie McCulley, senior vice president at McGriff, noted, "The idea of putting benefits into captives is not new. My experience with captives and benefits dates back more than 20 years when larger employers started putting things like employee life into their captive. However, the idea of having the ancillary benefits included is relatively new."

This is important, she said, because "it allows HR departments to have money to reinvest into ongoing benefits, because the employers are taking some risk."

Another advantage is that the plan helps employers create benefits that might be more attractive to their employees. An example, she said, is pet insurance. "One demographic might not feel this is valuable, while another demographic might see this as a great thing, to have coverage for expensive vet bills."

There are values from an overall investment point as well, McCulley said. "The employer can recoup some of the dollars and reinvest in future ERISA plans.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There is a long-term retention strategy. Employers see these benefits as an additional way to help recruit and retain top employees."

Overall, she said, "There is a financial incentive – a pot of money that is currently going to insurance carriers for products and services – that historically has a very profitable loss ratio. So, it's the ability to share in some of that and then reinvest for employees."

While organizations are taking on some risk, "The models say that this should be a profitable venture for them. The idea is to attract new employees to the company," McCulley said. "There is a value proposition with having better benefits than their competitors."

CUSTOMIZATION

A benefit of the FairShare plan, Watkins said, is the ability for organizations to tailor their programs to employees, new hires, association members and even students.

"We had a university that was looking to have the program added when students registered for classes," he said. "They could check a box for student medical, and the university added accidental damage to electronic devices."

Another example, he said, is a large association "that contacted us about working with their employees. They have a captive and millions of members. We told them that they could also offer benefits to their membership. If you're able to give members good coverage at a good price, that's a value-add to attract and maintain employees and members," Watkins said. ■

Caroline McDonald is an award-winning journalist who has reported on a wide variety of insurance topics. Her beat includes in-depth coverage of risk management and captives.