

# From **Coverage** to **Consequence**: Captives Raise the Stakes

*Building in the right incentives seen as way to encourage shared accountability, stabilize renewals and seed dividends in a hardening market*

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Written By Bruce Shutan

In sifting through a multitude of captive insurance options, an emerging model can be found that promotes accountable member behavior. These progressive captives reward accountable behavior from employer captive members by building in incentives to secure favorable contractual terms, lower renewal rates and distribute underwriting surpluses.

The problem seen with most captive program managers is that they're typically paid per employee per month or a percentage of premium. "They're not incentivized to say no to members joining; they're incentivized to get more lives," explains Jeb Dunkelberger, CEO of ClearPoint Health.

The danger of this compensation scheme is adverse risk retention that encourages bad risk to stay and good risk to leave. Noting that each employer member of the captive must be given adequate information to self-govern, he questions whether everyone being guaranteed a no new laser rate cap arrangement at the same amounts will actually incentivize any of the members to take action.

A captive's board of directors typically creates incentives to encourage better risk management and results, while members who don't implement them are politely excused, according to Harry Tipper, co-founder and chief underwriting officer for Alliance Captive Management. If a member's loss ratio or claims experience exceeds the group's average percentage, for example, they may receive a one-year warning and



*Jeb Dunkelberger*

surcharge on their pricing. And if there's no improvement, then they aren't renewed.

Responsibility for holding captives, as well as consortiums, more accountable for member behavior to help manage claims falls on the program manager, notes John W. Sbrocco, founder and CEO of Virtue Health. The task at hand is complicated by a more than 100% increase in million-dollar medical claims over the past four years, according to a Sun Life analysis. It also doesn't help that a hardened stop-loss insurance market is expected to spill into 2027, with carriers projecting a 30% rate increase.

At a time when new solutions are pouring into the self-insurance market, Dunkelberger believes a captive can be particularly valuable because it can act like a group purchasing organization that secures discounts based on volume and also serve as an innovation hub that allows like-minded employers to share great ideas for improving outcomes and saving money.

## RED-FLAGGING RISK

The concept of shared accountability must be baked into plan design and communication, observes Scott Byrne, president of Blackwell Captive Solutions (BCS). He says that means all captive members "rowing the boat in the same direction" in their use of claims data to mitigate risk but also helping employees make more educated decisions around their healthcare.

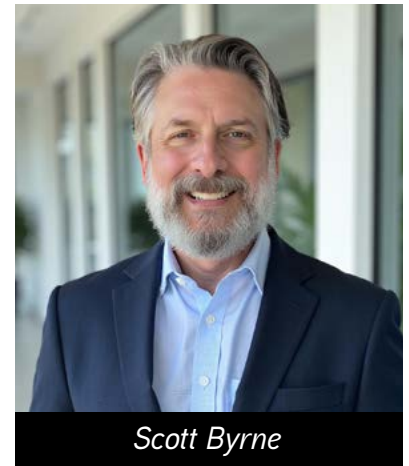
"The role of a good captive program manager is to be the conductor in this whole process and make sure that everybody is aligned," he adds.

Several key categories of red-flag risk in every self-funded plan that captive members must be more mindful of include oncology, chronic kidney disease (CKD) and prescription drugs. Focusing on those three areas offers the best chance of success in terms of keeping plans running within or below expectations, Byrne believes.

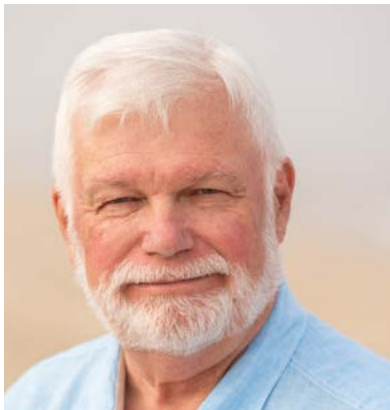
He recalls how a recent client with 250 employees struggled with some ongoing claims in each of these three areas. The company was staring down an ugly, fully insured premium renewal at about 35%, and BCS's underwriting partners were initially skeptical about becoming involved and allowing the client to join a heterogeneous captive, suggesting some of the liability be transferred back to the plan in terms of lasers in the stop-loss contract.

The prevailing attitude was that since these large claims weren't incurred on their watch, it wasn't their responsibility. But after closer examination of diagnoses and drugs, the underwriting team realized it could actually take on the risk from a first-dollar perspective rather than carve it out and laser certain claims.

As long as an employer and its consultant are willing to address any ongoing challenges in a meaningful way, Byrne thinks it would be a good potential captive candidate. "It all comes down to whether they are willing to take their medicine, so to speak," he adds, which would substantially improve their underwriting outlook.



*Scott Byrne*



Harry Tipper

Tipper has seen the push for captive accountability done more in the single-parent model vs. group setting, whose membership may be in flux and tempted to “move for a nickel on the rate.” One such example involves a client earmarking dividend underwriting profit back to a business unit that posted better-than-average results.

“They literally took what was an advantage to the company and moved it down to the manager level to encourage them to enter into those risk management and business practices that overall improved the larger company’s results,” he explains.

Dunkelberger, however, sees this trend predominantly in the group captive space, where multiple parties pool their risk inside one insurance vehicle to act on addressable and avoidable costs.

One common practice for how group captives can hold their members more accountable involves choosing the right site of care. For example, he says an infusion drug will cost half the price in an outpatient vs. inpatient setting where such facilities are available.

### EYEING UTILIZATION OR UNIT COST

Whatever solution is put in place has to manage utilization or unit cost, according to Dunkelberger. He says bundled payments, direct contracts, concierge specialty medicine, case rates and even cash-pay options allow captive members to stem the massive jump in unit cost. He credits wider adoption of narrow performance network solutions with driving much of those savings.

As many smaller businesses move into self-funding via captives with lower attachment points, it increases the number of claims or claimant types that are affecting the captive. And with attachment points for these groups being in the \$100,000 range, he says there will be many more claimants that are addressable and controllable.

In helping pave the way to greater accountability, Dunkelberger says it’s critically important to make all claims data within the captive “super transparent” so that each employer captive member is able to clearly decipher what is addressable and avoidable.

ClearPoint Health builds a proprietary report for each employer captive member that shows how many of their enrolled employees are eligible for the addressable and avoidable claims category, which creates an accountability mindset.

“What’s interesting is the employers now are having conversations about why they believe certain captive members should be taking more accountability because they’re not going to get the same renewal rate or underwriting surplus dividend,” he reports.

What makes this so significant is that many captive members adopt an all-for-one-one-for-all approach. Under this scenario, however, greater accountability is built into the captive from positive peer pressure among more informed employers that are more motivated for success.

While the midmarket’s average stop-loss premium real increase was 22% to 25% last year, Virtue Health renewed its employers at just 5.9% on a no new laser rate cap product. That result is tied to an approach that resists the urge to cross-subsidize groups whose unfettered growth without minimum standards or proper parameters in place may water down the risk pool but produces unintended consequences.



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“I’ve seen many programs begin to fail while running a playbook of only growth over being aligned with the members of the program,” Sbrocco says, referencing large captives that in some cases are backed by private equity firms. “It’s a balancing act of growth and the program’s loss ratios. And you see all the carriers that are leaving the market right now because they’ve been burned too much and can’t figure out this medical stop-loss market.”

Self-insured employers that form the right partnerships will achieve built-in accountability.

Loss ratios on groups managed by administrative-services-only carriers that are owned by BUCAs and steer customers to their Big Three pharmacy benefit manager partners are going to be significantly higher than independent third-party administrators, transparent PBMs, direct contracting and full specialty carve-out arrangements, he explains. Noting that his firm’s top independent TPAs typically record an 80% loss ratio compared to some carrier-owned TPAs hitting a 160% loss, he says it puts the variance in the loss ratios of these parties in perspective.

“If you want to cook a five-star meal, you need a five-star chef,” Sbrocco quips, noting the aforementioned suggestions as key ingredients for such success.



John Sbrocco

The trick is for groups to measure their partners’ loss ratios each year, execution on cost containment and service offerings, as well as vet any change in leadership. In short: closely monitor or certify their performance, which will hold them more accountable and dramatically influence the renewals.

## TECHNOLOGY’S IMPACT

Given that the AI movement is finding its way into self-funded health plan management, Byrne believes the key to successfully implementing the technology is to train it properly to learn the ins and outs of a client’s business to help underwrite risk. It also needs to be paired with a solid retrospective claims data analytics tool to uncover coverage gaps and over-utilization trends that can be addressed from a plan design standpoint.

“Some AI platforms are just so open-ended, and they’re pulling data from everywhere to the point where they’ll fictionalize results or just come up with results that really aren’t applicable to a particular project,” he cautions.

ClearPoint Health uses AI to predict the clinical pathways that prospective members will be on, which ultimately helps all the captive members be more accountable to one another. If a patient has stage 3b or 4 CDC, clinical modeling and AI clinical predictions are deployed to determine the likelihood of having the condition matriculate into end-stage renal disease. If that happens, then the patient will receive dialysis three to four times a week, which will be much more costly than them having stage 3b or 4 CDC.

“The problem with a lot of the algorithmic underwriting is it requires data,” Tipper says, citing high-cost drugs as a good example. While those claims are infrequently incurred, the weight of their severity is palpable.

“Those kinds of situations are almost the opposite of the algorithmic underwriting,” he says. “I have seen the algorithms and bottling work better on the claim side, provided that the input data is very detailed and discrete as opposed to the usual check-off-the box coding because the computer model can’t tell upcoding from a real code.”



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He saw that scenario play out in early computer-based underwriting, well before the modern AI era, wherein the company that was sponsoring the program had anticipated that they were only going to have to audit 5% of claims when it turned out to be 35%. That “blew the expense ratio out the window,” he says, noting that the trouble with computer programming is that it’s hard to program in the notion that someone might lie on a claim file.

In favoring a carrot vs. stick approach, Byrne believes it’s best to suggest rather than mandate that certain parameters or guardrails be in place to hold captive members more accountable for their behavior.

“We achieve that through regular quarterly calls with our membership, and we’ve also got our annual member meeting coming up in July,” he reports. “Positive peer pressure is probably one of the most impactful ways to get this kind of stuff accomplished. It’s a little bit like a group workout class where everybody is pushing each other a little bit harder.” ■

*Bruce Shutan is a Portland, Oregon-based freelance writer who has closely covered the employee benefits industry for nearly 40 years.*



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