GROUP CAPTIVES OFFER STOP-LOSS SOLUTION FOR SELF-INSURED PLANS

For self-funded programs, captives can offer unique savings on stop-loss coverage.

Written By Karrie Hyatt

Stop-loss insurance is an important risk mitigation tool for any company's medical benefits program and particularly for self-funded programs, where unpredictable losses can undermine finances. Yet, for self-funded health plans, traditional stop-loss insurance coverage may not be the right solution. Self-insured plans more and more are turning to captives to place their stop-loss coverage.

As many as 90% of large companies use a captive to cover their medical stop-loss risk, according to data released by Marsh, but the idea has not spread as rapidly to mid-market companies. While large companies are more likely to put their stop-loss into their pure captive, mid-market companies have the ability to join an already established group captive.

A medical stop-loss group captive pools small to medium-sized companies to add a layer of protection from unpredictable or excessively high health claims. Companies most often join already established group captives, rather than setting up a new captive, whether they already have a self-funded plan or are still insuring through the traditional market.

According to Jeff Fitzgerald, vice president of employee benefits with Innovative Captive Strategies, "I think that the majority of groups that we are dealing with are coming from fully insured to self-funding, but we do have a significant number of people who have been self-funded on their own then going into a captive."

"Traditionally, what we've seen are employers that are fully insured and see the financial opportunity to get into the self-funded world through a group captive," said Jim Hoitt, senior vice president of the captive division for Berkley Accident and Health. "They have the opportunity to spread their risk and reduce pricing volatility across a number of other employers who share their concerns."

Hoitt continued, "Group captives bring together a number of self-funded employers who join together for a variety of reasons and allows them to take advantage of captive insurance without the risk that might come with it."

"Middle market employers can access stop-loss captive programs that use the 'law of large numbers' to smooth renewals and lower overall medical spending," said Donald McCully, founder of Medical Captive Underwriters.

The primary benefits of putting stop-loss coverage into a group captive are reducing premiums and stabilizing pricing from year-to-year. The group captive spreads the risk across a number of similar companies which can reduce the unpredictability of market forces.

Financial reasons are the main impetus for most self-funded trusts to make the transition from traditional insurance to self-insurance. "For most companies, it's the financial outlook. They've been paying for medical stop-loss for the last five years and they've run their program very well, yet their carrier kept all of that profit or all of that benefit loss-ratio. By participating in a stop-loss group captive, those companies now have the chance to keep some of that back for themselves," said Hoitt.

According to McCully, an important benefit of a group captive is the potential to see some of the premium returned. "Lowering medical spend is a function of the stop-loss captive program returning some of the employer's premium. It's a second layer of savings, if the employer's own premiums are returned, effectively lowering the employer's medical spend."

However, joining a group captive has many more benefits besides financial ones, benefits that are unique to all captives. Fitzgerald said, "For a currently self-funded group joining a group captive, the benefits of a captive still apply. What I mean by that is that there is a stability that comes from participating in a captive. If the captive is run well and performing well, there are flatter renewals and they will be more predictable than they would be in a regular market."

Captive benefits include reduced costs, tailored coverage, the ability to get coverage not available in traditional markets, access to reinsurance markets, flexibility when it comes to underwriting, and improved cash flow. Importantly, for self-insured medical plans, that are used to having control over their spending, they can extend that control to their stop-loss insurance coverage.

One of the most anticipated benefits of joining a group captive is the ability to work with fellow owners. From sharing concerns to sharing ideas for best practices that can benefit the whole group, this prospect is one of the biggest draws to group captives. For Hoitt, "The group captives gives them the opportunity for collaboration, surrounded by a number of other employers that are doing great stuff to manage their risk and exposure. For the ability to collaborate like that, more than ever we are seeing self-funded groups transition into a captive."

The process of joining a medical stop-loss group captive is nearly as simple as getting a traditional insurance policy. According to Fitzgerald, "It's the same process and procedure. Self-insurance plans that are already self-funded won't have to change their TPA, or even their network, unless there is a real need to. They would be replacing one stop-loss policy with another. It's relatively straightforward for a self-funded plan to do so."

"For a self-funded employer, they can join a group captive at any time," said Hoitt. "They are joining the captive via their stop-loss coverage, the stop-loss coverage is going to cede into the captive. That's how it functions. It avoids any concerns with plan assets being mingled into a group captive or into an unregulated captive. They're buying regulated filed medical stop-loss and the stop-loss is being ceded into a captive that they are participate in, from a risk-sharing standpoint."

Members of a group captive, besides sharing medical stop-loss, also have to opportunity to work together to lower prices on other benefits. According to Hoitt, "They can band together with those other employers to leverage a

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better pricing deal. For example, if they are all on disparate PBMs [pharmacy benefit managers], they could all go the same route with one PBM and they could get a better deal and better outcome. They can leverage their scale for other opportunities to make their self-funded plan run more efficiently."

"Well-run captives really have a sense of best practices and work together across the group for what works best—whether that be pharmacy, wellness, or claims management. These programs are available to a self-funded group, but it doesn't have the knowledge to access them," said Fitzgerald.

With so many benefits, why aren't more self-funded medical plans putting their stop-loss insurance into captives? It comes down to education, to knowing about medical stop-loss group captives. Many brokers don't have the time or ability to research this type of solution for their clients.

For Fitzgerald, "Each group is different, each group's relationship with their broker is different. As much as anything else, it's when a self-funded plan finds out about captives, hears about the solution that group captives offer. A lot of them just don't know that it's an option."

"It's another step in the direction of self-funding," Hoitt said. "[Self-funded plans] find that funding a portion of their stop-loss by participating in a captive is an opportunity with a limited downside. The upside is that rather than paying a carrier for stop-loss and kissing that money goodbye, they retain control."

When companies move their stop-loss into a group captive, are expanding their capacity, not just in terms of insurance, but in risk management, price leveraging, and other tools that can make a world of difference to the management of their self-funded plan. ■

Karrie Hyatt is a freelance writer who has been involved in the captive industry for more than ten years. More information about her work can be found at: www.karriehyatt.com.