



STRENGTH IN NUMBERS

Whether it's a consortium or stop-loss group captive, smaller employers are increasingly pooling their purchasing power to make self-insured health benefits more affordable

Written By Bruce Shutan

For small and midsize employers that self-insure their employee health benefits, there's genuine power in banding together to contain soaring costs. One huge advantage of a consortium is that there's no need to put up any collateral, a barrier to entry for those who cannot afford to be part of a stop-loss group captive. However, investing in a captive can yield dividends – making it yet another tantalizing option for smaller entities.

Is there a clear winner between the two? The answer isn't necessarily cut and dried. Two industry experts wrestled with this question during a panel discussion at SIIA's 2025 national conference, explaining that minor differences make both these approaches palatable for organizations that prefer not to go it alone.

"There are so many similarities with these programs that it gets a little murky in terms of how you really differentiate them," observes Jeffrey Fitzgerald, managing director of Strategic Risk Solutions, who moderated the session. "The buyer is becoming increasingly the same. The only real difference, essentially, is that there's a level of compliance and ownership in a captive. I think captive members can sometimes overstate that, and consortium members can sometimes underestimate how much that really does make a change."



Jeffrey Fitzgerald

Whereas consortiums sell prospective members on leveraging their buying power to land better rates, he describes stop-loss group captives as more of an exclusive club of highly educated consumers that strive to understand how the vendors associated with self-funding work.

Any differences in these two models are negligible enough that making the case for either vehicle's superiority is like saying one twin brother is uglier than the other, quips Brad Kopcha, EVP of Actuarial Services and Corporate Development at Benecon.

ENORMOUS MARKET POTENTIAL

There's enormous market potential for both consortiums and captives. A 2024 Kaiser Family Foundation study found that just 20% of covered workers in employer groups with 199 or fewer employees are self-funded. With more employers flocking to self-insured solutions, these

group models are expected to share in the industry's growth.

A recent McKinsey report estimated that 12 million U.S. health plan members are going to leave the fully insured model by 2030 and flock to level-funded captives or self-funding. The reason is simple: "Small to middle-market employers are sick and tired of being stuck in the Dark Ages with no transparency and having to swallow last-minute renewals that they have no ability to control," notes David Konrad, VP of Accident and Health for Coverys.

Kopcha believes employers increasingly will be drawn to a consortium or stop-loss group captive as multimillion-dollar claims increase, along with specialty drugs and cell and gene therapies, and the commercial insurance market continues to harden.

While industry experts say employers in the 50 to 200-life space could benefit from being self-funded, it's often difficult for them to do so by themselves. Facing an 86% loss ratio in the employer stop-loss space in 2024, Kopcha says there had to be a hardening of the commercial market, which was driving losses for 25 carriers.

"I had multiple brokers call me in tears over losing accounts, and that they couldn't keep up with the way the market was going," he recalls.

That trail of tears is likely to swell. Kopcha predicts that the next two cycles in July 2026 and January 2027 will also be hard because carriers will not see rate actions hit their financials until maybe the third and fourth quarter of this year.



David Konrad

'BEST-IN-CLASS EXPERIENCE'

Kopcha has helped more than 2,000 employers set up in 15 different consortium models across the U.S., funding of roughly \$3 billion in annual employee healthcare benefits, with about \$700 million in annual stop-loss purchases for these programs.

He believes it's a bit easier for groups to join a consortium, which is slightly less expensive, because a captive requires upfront collateral or capitalization to essentially join an insurance company. Still, that financial commitment needs to be put in perspective. Fitzgerald, for example, notes that at 10% to 15% of the stop-loss premium or 5% to



Brad Kopcha

7% of the overall spend, the collateral required for a stop-loss group captive isn't a significant amount of money.

One downside to establishing a consortium is that it's difficult to do from a regulatory standpoint. Kopcha cites as an example the Florida Government Healthcare Solutions for public entities across the Sunshine State. "That took us over two years to set that up," he says, adding that the price tag to build it 13 years ago was \$500,000.

The founder of his firm, Sam Lombardo, helped pioneer the concept of aggregating self-funded health purchasing in 1991 when he decided to negotiate the fully insured renewals of four municipalities as a single entity to secure a better rate for each of those clients. That following year, two more municipalities joined the group, whose relatively small individual members grew to roughly 100 employers by the turn of the century.

When a chief actuary was then brought on board, the group had finally reached enough critical mass to justify his suggestion that it switch to a self-funded model. At that time, Kopcha was working as an actuary in the same Pennsylvania market for a health insurance carrier that was losing groups to this consortium.

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He wondered what was going on.

The group's chief actuary explained to him the value of negotiating risk transfer up front for this collection of tens of thousands of employees with multiple stop-loss carriers in the market. Kopcha realized the power of self-insurance for smaller groups and eventually took over for the chief actuary when he retired.

"Our groups are getting better-than-market concessions on rate caps, no new lasers, no coverage gaps," he reports. "Everything that's wrong with an individual stop-loss policy, we're mitigating all that risk to the employers, giving them a best-in-class experience of being self-funded. We're allowing them to be self-funded safely for the long term. So, the employers are benefiting."

It's also worth noting that under this consortium arrangement, groups cannot be terminated for poor claim performance, and consultants can choose their own cost-containment solutions and not be beholden to a captive's requirement.

That same value translates for stop-loss carriers that are allowed to essentially view it as a block of business being priced to a mutually agreed-upon target loss ratio, according to Kopcha. Long term, he believes the carriers are protected from any one group member having experienced a bad year.

"Retention rates are higher than 85% on my blocks," he says.

Benecon's largest program, the VERIS Benefits Consortium, features more than 1,300 employers across more than 40 states with nearly \$600 million of stop-loss. Kopcha says the name combines Latin words for truth and strength – symbolic references to a herculean search for the true cost of healthcare and self-insured risk. In fact, the commitment to cost transparency cannot be overstated at a time when so many employers are seeking alternative risk transfer solutions.

MORE ENGAGEMENT

"What makes a stop-loss group captive so valuable is that it allows small and midsize employers to duplicate the capabilities of a jumbo employer in terms of gaining control over their health benefit costs, determining what is driving expenses, and using underwriting gains to lower the stop-loss attachment point," Konrad argues.

"Over time, those capabilities lay the groundwork for consistency with regard to claims experience. An ability to get back money in a good or bad year makes a stop-loss group captive particularly attractive," he notes. For that reason, he believes employers are more engaged in a captive than in a consortium because they will see tangible results.

When stop-loss premiums soar for a decent-sized company of 600 to 1,000 lives with some cash flow that experiences a year or two of bad claims, he says they have no choice but to absorb the increase. But a 50 or 100-life employer with large claims that's part of a group stop-loss captive will avoid a monster renewal because the entire block



that's being underwritten is more predictable. In essence, they're only on the hook for any amount up to their deductible. There's also the benefit of aggregate accommodation.

"Whether I have a good or bad year, I know that my renewal is going to be tolerable," Konrad says.

With a stop-loss group captive, there's no fretting about the member hitting its attachment point and depleting funds or incurring an ag claim. If the captive is managed and underwritten well enough with thoughtful vetting of prospective members, then he says everyone should get back at least one month's worth of stop-loss premiums.

Since the Affordable Care Act (ACA) was enacted in 2010, he says most captive managers and underwriters structure the arrangement so that a single policyholder shares in the spoils no matter how well or poorly the captive performed in a given year, unlike the salad days of captives. The vehicles he's been involved with have returned anywhere from 8% to 15% on average. "It's found money," he adds.

Konrad's entry into captives involved self-funded workers' compensation coverage, noting that there wasn't much opportunity in the group captive space for accident and health coverages, especially employee

benefits, until the ACA became law. He cites a compounded annual growth rate of about 12.5% or higher in group stop-loss captives since then, the majority involving small and middle-market self-insured employers.

Most captives allow self-funded members to pick their own third-party administrator and provider network, as well as whether to adopt reference-price pricing, he says. In addition, choosing a pass-through or transparent pharmacy benefits manager as part of a captive will enable the group to recover 95% of 100% of prescription drug rebates, he explains, whereas that's not the case in a fully insured or level-funded program.

Another consideration in the stop-loss group captive space worth mentioning is the possibility of building a captive outside of a pool of employers that absorbs any laser liability. "I've done that in the past for a group of 75 to 80 schools in a group captive that never has lasers, because if there is a laser opportunity, the other captive that sits behind the pool will absorb that cost since they have so many reserves from being in these pools," he explains.

Pondering what's next for stop-loss group captives, Konrad quips: "I got to wear sunglasses every day because this future is so bright for captives. Here's the reason I say this: I sent an email to a large producer that predominantly has a big, long-standing, fully insured and level-funded book who said the size of his book and the size of his average client shrunk, and we are having the opposite experience." ■

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