THE NEW MATH FOR POPULATION HEALTH MANAGEMENT UTILIZING A CAPTIVE

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PHM = (C + R) (S)

Population health management solution = (captive + reinsurance) x (support services for captive risk assumption and population health management).

BACKGROUND

Captives are increasingly being utilized by health plans assuming population health risk and by groups of employers collectively self-funding their employee benefits programs for a common purpose.

Employers and health plans face exposure to financial loss due to unforeseen events. Most mitigate this volatility risk with the purchase of insurance or reinsurance. The purchaser trades the certainty of a small known cost (the premium) for the promise that the insurance or reinsurance company will pay for any contingent uncertain losses.

The removal of annual and lifetime limits on claim payments has resulted in greater exposure to catastrophic risk for self-funded employers and health plans with commercial Medicare and Medicaid risk. The increased frequency of catastrophic claims exacerbates this risk exposure.

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With many health systems and Accountable Care Organizations (ACOs) forming or acquiring their own health plans, assuming more risk from payers via ACO contracts, and even directly contracting with employers in a narrow network strategy population health management and protection from catastrophic medical claims becomes imperative. If a health plan or hospital has an affiliated captive insurance company, it has an effective risk management tool at hand.

Although an existing health plan captive may have been formed to accept medical malpractice or professional liability or other property and casualty coverages, it may have excess capital or access to capital that would allow it to assume additional types of risk. The captive insurance company may be well-suited to accommodate various levels of medical excess, provider excess, and/or employer stop loss risk.

KEY DRIVERS OF THE INCREASED USE OF HEALTH CAPTIVES WITH REINSURANCE

The following industry trends have contributed to an increase in health captives with appropriate reinsurance[1]:

- A growing number of healthcare entrants (e.g. providers, property and casualty insurance carriers, and venture capital investors).
- An abundance of low-cost capital has made reinsurance a cost-effective option for capital planning and management and catastrophic risk protection.
- New health programs requiring protection in early years (e.g. Next Generation ACOs) and unlimited maximum risk.
- A desire to draft custom insurance policy or reinsurance treaty terms and conditions.
- A desire to better understand fundamental risks and exposures and to access strategic partners to help manage risk.
- A desire for analytics to provide customers with insights and confidence to vary reinsurance buying patterns to mitigate and diversify risk.

ADVANTAGES OF A CAPTIVE

There are many advantages of placing employee benefits and other risks in captives. These focus on cost and control issues, as follows:

a. Coverage availability and flexibility – captives can provide coverage when commercial insurance markets do not provide the desired insurance benefits or charge unreasonably high premiums. The captive has more flexibility in the types of coverages it provides.

b. Control of essential services – the captive owners retain control of underwriting, pricing, investments and claim management. Loss control services and risk management can be focused on the unique needs of the parent organization and incorporate specific experience into the rating.

c. Information – comprehensive data provides a firm basis for loss projections and can help with establishing appropriate insurance or reinsurance coverage for a captive. A captive owner is not subject to the limitations of the information management provided by the insurer or reinsurer.

d. Stability of insurance cost – the captive allows an organization to realize insurance or reinsurance costs that are more closely related to its own loss experience and minimize fluctuations from year to year.

e. Appropriate reinsurance – a captive can provide centralized procurement after determining what coverage to provide and what levels of risk are retained and where to seek quota share or excess-of-loss reinsurance for the more volatile portions of the program. This allows it to match its

insurance or reinsurance coverage to meet its own specific needs. It also creates a consolidated repository of retained risk that may allow more risk to be held by the client and allows allocation of unique retentions by various lines of business.

f. Tax efficiency – an insurance company typically receives a tax deduction for loss reserves. This permits an insurance company to more closely match the timing of its revenues and expenses and allows for partial deferral of income taxes. A captive may allow a captive participant to receive these same benefits.

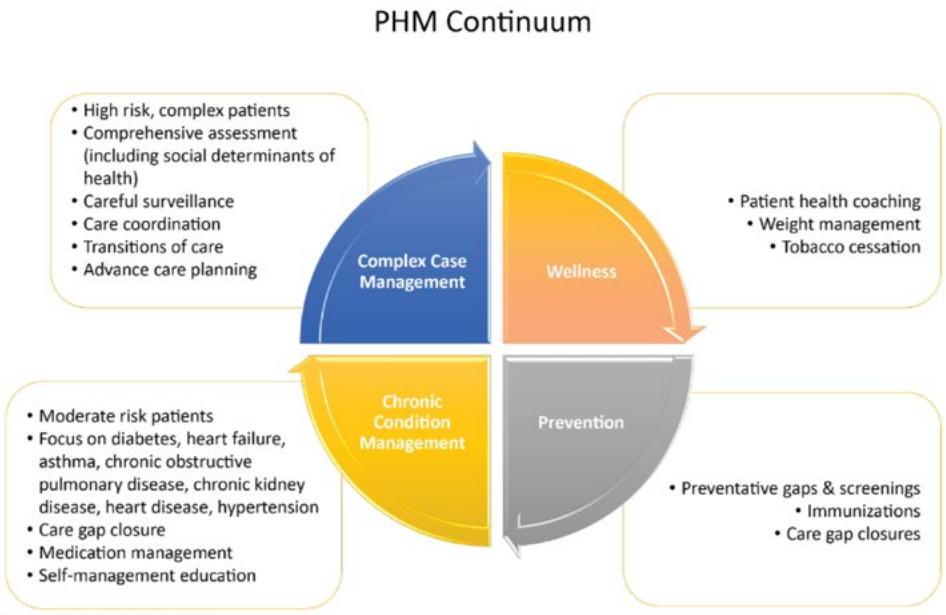
b. Capitalization – a captive requires capitalization as a risk-bearing entity (possibly at reduced equity levels). In addition, other forms of security besides cash may be acceptable, such as a letter of credit or parental guarantee.

A captive is neither a panacea nor a placebo. A captive insurance company may have some additional potential disadvantages or issues to be addressed by the organization wishing to participate in a captive. These can include:

a. Resources – captives need dedicated internal resources, such as underwriting, claim management and loss control. Internal resources and management still need to understand the risk they have assumed and manage it. Captives may need to employ captive management companies and other services such as auditors, accountants and actuarial firms, to comply with financial and licensing requirements.

MANAGE THE CARE AND MANAGE THE RISK

A population health management (PHM) model is customized for given populations based on the nature of the contract, the interventions needed to drive contract performance and the current state of the physician practice operations. It is further personalized for patients based on their disease states, utilization patterns, risk and socioeconomic factors and family situation. An effective PHM model gives providers strong incentives to address gaps in care and to utilize quality metrics when doing so.



Source: xG Health Solutions.

Any health plan assuming population health risk or any employer self-funding its employee benefits may look to partners or vendors for a wide variety of managed care programs and services desired to mitigate claim severity and frequency while providing high-quality, cost-effective healthcare to the designated population of insured members. They can access an array of managed care programs and services

to supplement and complement the PHM in the following areas:

These represent three (3) types of services:

1. Services to help manage certain types of claims (e.g. cancer, neonatal, transplant).
2. Services designed to review the cost-effectiveness of care (e.g. bill review or national preferred provider "wrap" network).
3. Other value-added services related to medical management program protocols and training needs (e.g. operations evaluations or benchmarks).

The goal of each service is to provide appropriate treatment paid at a fair price for services rendered. This includes positive identification of all potential high dollar catastrophic cases, verification of diagnosis, treatment plan validation and cost comparisons.

RISK IS UBIQUITOUS

A captive can also subcontract for various risk management services. Unbundled risk management services for captives include the following:

- Providing fronting services that allow a risk-bearing entity to cede risk to the captive via insurance policy or reinsurance treaty
- Appropriately pricing and underwriting stop loss coverage on medical risks placed into the captive
- Evaluating the actuarial adequacy of pricing of stop

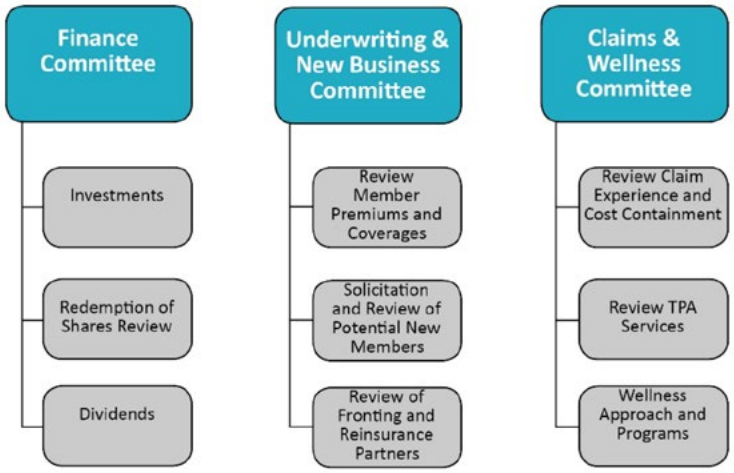
loss coverage provided through ACO contracts

- Providing medical case management support for excess medical risk on large claims inside or that leak outside a health plan's contracted provider network
- Calculating premiums and executing billing function for various employers and/or lines of business
- Adjudicating claims
- Obtaining quotes here and/or excess of loss reinsurance for non-retained risk.

AN APPLE A DAY...

The following is an example of a captive arrangement employing population health management techniques for employer stop loss risks ceded to the captive. The Pioneer ARU captive is a multi-employer captive open to brokers & agents nationwide that reinsures stop loss coverage for commercial employers self-funding their employee benefits plans. The committee governance structure is accepted prior to acceptance into the captive. (See Exhibit A.)

Exhibit A: Pioneer Captive Committee Structure



Source: Alternative Risk Underwriting presentation at Pioneer Annual General Meeting, Grand Cayman, 2019

It allows all employers to share a common vision, mission and goals for their employee benefits programs. Several options are provided to each employer:

1. Managed care network
2. Third party administrator
3. Specific deductible

Utilization metrics are provided to each group for their own experience compared to national benchmarks. This allows each employer and the captive in total to target the most needed population health management programs for each employee and their dependents. It also provides each employer the information it may need to consider customized plan design changes to its ERISA plan. Such utilization metrics allow the group to see their "spend" in various diagnostic categories relative to a national benchmark. (See Exhibit B.)

Wellness assessments and health hazard appraisals are required to participate in the Pioneer captive. The employers joining the captive share a strong desire to control healthcare costs while promoting wellness and consumer involvement. Disease management programs are focused in the areas where the population has the most potential for health improvement. (See Exhibit C.) Many of the captive members have selected a Medicare referenced-based pricing product as their employee benefits option. Referenced-based pricing programs require carefully coordinated communication and decision support tools for members shopping for healthcare. This includes both identifying lower cost providers and dealing with any balance billing issues with the higher cost providers.

Potential claim dollars avoided by lifestyle and health improvements are provided to each employer group. (See Exhibit D.)

AmWINS Group Benefits

ON YOUR TEAM.

At AmWINS Group Benefits our team of specialists wakes up every morning committed to bringing your team innovative solutions to the opportunities and challenges you and your self-funded clients face. That's the competitive advantage you get with AmWINS Group Benefits.

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AmWINS Rx
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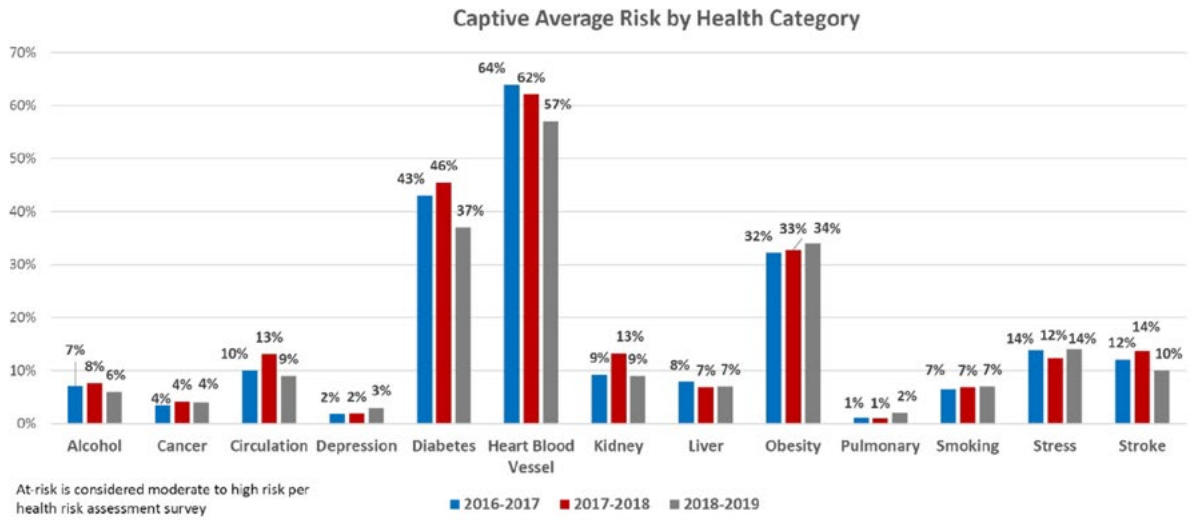
Exhibit B: Sample Pioneer Utilization Metrics

Utilization Metrics (Medical)				
ER Visit Utilization	**Metric Type**	**Pioneer Captive**	**National Marketscan Benchmark**	**PIONEER CAPTIVE Combined vs. National Benchmark**
ER Visits	Per 1000	130.8	223.6	-41.50%
ER Visits Resulting in Admission	% of ER Visits	8.6%	11.2%	-23.21%
Unique Patients with ER Visit	Per 1000	93.2	251.4	-62.93%
Admissions from ER	% of Admissions	21.2%	40.8%	-48.04%
Inpatient Admission Utilization	**Metric Type**	**Pioneer Captive**	**National Marketscan Benchmark**	**PIONEER CAPTIVE Combined vs. National Benchmark**
Inpatient Days	Per 1000	177.2	218.8	-19.01%
Unique Patients with Admission	Per 1000	45.1	87.5	-48.46%
Average Length of Stay	Average Days	3.6	4.0	-0.40%
Total Admissions	Per 1000	49.6	54.8	-9.49%
Medical Admissions	Per 1000	11.8	15.8	-25.32%
Surgical Admissions	Per 1000	8.0	17.9	-55.31%
Perinatal Admissions	Per 1000	26.3	17.0	9.30%
Behavioral Admissions	Per 1000	3.5	4.2	-1.40%
Re-admissions*	Per 1000	1.8	3.2	-0.70%
Inpatient Re-admission Rate	Rate	0.089	0.099	-0.10%
Imaging Utilization	**Metric Type**	**Pioneer Captive**	**National Marketscan Benchmark**	**PIONEER CAPTIVE Combined vs. National Benchmark**
CT Scan	Per 1000	26.5	91.5	-71.04%
MRI Scan	Per 1000	34.9	72.2	-51.66%
Office Visit Utilization	**Metric Type**	**Pioneer Captive**	**National Marketscan Benchmark**	**PIONEER CAPTIVE Combined vs. National Benchmark**
Total Office Visits	Per 1000	2,854.8	4,433.3	-35.60%
Regular Office Visits	Per 1000	2151.9	3,120.8	-31.05%
Preventive Office Visits	Per 1000	460.4	571.5	-19.45%
Behavioral Health Office Visits	Per 1000	159.6	531.1	-69.94%
Urgent Care Visits	Per 1000	122.0	125.0	-2.38%
Regular Urgent Care Visits	Per 1000	122.0	124.5	-2.01%
Preventive Urgent Care Visits	Per 1000	0.0	0.3	-100.00%
Other Utilization	**Metric Type**	**Pioneer Captive**	**National Marketscan Benchmark**	**PIONEER CAPTIVE Combined vs. National Benchmark**
Chiropractic Visits	Per 1000	202.7	445.0	-54.45%
Physical Therapy	Per 1000	316.8	867.0	-63.46%
Deliveries	Per 1000	15.8	11.8	4.00%
Dialysis	Member per 1000	0.3	1.5	-1.20%
Transplant	Member per 1000	1.0	1.0	0.00%
Utilization Metrics (Pharmacy)				
Other Utilization	**Metric Type**	**Pioneer Captive**	**National Marketscan Benchmark**	**PIONEER CAPTIVE Combined vs. National Benchmark**
Pharmacy Scripts	Per 1000	7,596.2	10,116.7	-24.91%
Pharmacy Scripts (Generic)	Per 1000	6,384.0	8,428.2	-24.25%
Pharmacy Scripts (Brand)	Per 1000	1,072.8	1,557.6	-31.12%
Pharmacy Scripts (Non-Drug)	Per 1000	139.3	130.8	6.52%
Pharmacy Scripts Mail Order	% Mail Order	19.4%	18.9%	0.47%
% Generic Drugs	% Generic	85.6%	84.4%	1.42%

*Re-admissions are calculated for medical and surgical admissions

Source: Pioneer data

Exhibit C: Risk by Category



Source: Pioneer data

Exhibit D: Clinical Indicator Savings

	Weight Management	Diabetic Management	BP Improvement	Cholesterol Improvement	Tobacco Improvement	Total
Company A	$2,318	$0	$0	$61	$0	$2,379
Company B	$38,664	$0	$14,130	$23,973	$0	$76,767
Company C	$141,076	$0	$19,418	$47,764	$3,383	$211,641
Company D	$107,118	$0	$16,697	$27,176	$0	$150,991
Company E	$52,738	$0	$2,348	$24,346	$0	$79,432
Company F	$168,677	$240	$10,411	$33,909	$0	$213,237
Company G	$36,133	$0	$7,220	$13,336	$0	$56,689
Company H	$1,733	$0	$0	$0	$3,383	$5,116
Company I	$24,554	$161	$4,852	$0	$0	$29,567
Company J	$45,711	$0	$10,765	$17,148	$0	$73,624
Company K	$138,471	$0	$8,462	$42,109	$10,149	$199,191
Company L	$0	$0	$0	$0	$0	$0
Total	$757,193	$401	$94,303	$229,822	$16,915	$1,098,634

Source: Pioneer data

CONCLUSION

Captive solutions can play an important role in successfully managing risks assumed by health plan providers as risk contractors and employers. A successful managed care plan should position itself to increase market share and drive volume to its affiliated provider organizations, while maintaining its financial viability through enterprise risk management and reinsurance. Health plans which include PHM for managed care risk within a captive vehicle have a winning formula for success. ■

References: 1) [Rob Fast, Willis Towers Watson, presentation on healthcare captives, Managed Care Organization (MCO) conference, Chicago, September 2017. Used with permission.]

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