Gateway to Self-Funding and the Use of Medical Stop-Loss Captives

Medical Stop Loss

- A form of insurance that employers purchase to limit their losses when self-funding their employee's health plan
- Two Forms:
  - Specific Stop Loss
  - Aggregate Stop Loss

Specific Stop Loss

- Insures against a single catastrophic claim that exceeds a dollar limit – the specific deductible
- Protects against large individual claims
- Claim must be paid within a specific period of time
- Specific deductible determined by size of employer or as percentage of the expected paid claim
Aggregate Stop Loss

- Insures against total claims exceeding an estimated dollar amount plus a margin during the plan year
- Limits total financial liability of the plan
- Margin is typically 110% to 125% of expected claims, depending on size of health plan
- Usually offered with Specific Stop Loss

CICA Survey Results

Medical Stop Loss through a Captive

- Allows employer to control more of the risk and cost of self-insuring medical benefits:
- The captive provides a mechanism to spread the risk over a reasonable time period and across various entities or divisions
- Employer retains underwriting profit and almost all of the "expenses" that "cost" 25 to 40% of the premium
- Captive can structure reinsurance using the commercial market to protect it from catastrophic losses (or less than catastrophic losses)
Advantages of Using a Captive

- Cost Savings
- Losses can be higher than expected in any given year, but the overall cost will be less over a longer period of time
- Cash flow benefits from retaining premium dollars in the captive
- The captive has a lower cost structure

Advantages of Using a Captive

- Risk Diversification
- If medical stop loss is placed into a captive covering property and casualty exposures, risk distribution can improve because stop loss exposure is “unrelated” to those other risks
- Having unrelated risks insured together can reduce overall funding
- Any excess reserves in the captive can serve as the required capital for the stop loss insurance

Single Parent Structure

- Status quo approach involved fully insured medical stop-loss attaching at $300,000 per individual.
- Captive structure involves unlimited protection above $300,000 per individual with captive net retention of $700,000 excess $300,000 with $2,000,000 aggregate.
Option A - Fully Insured

- Significant rate increases every year, with little or no meaningful data
  Are you supporting the market, or being supported by it? Where do the premium dollars go?
- Buying cycle isn’t linked to true cost
- In 34 states, 70%+ market share controlled by 3 carriers
- Your available options:
  1. Change carriers
  2. Shift costs – by changing benefits or contributions

Option B – Self-Funded

Advantages of self-funding

1. Traditional Advantages
   - Cash flow advantages; no pre-funding of claims
   - Data transparency
   - Multi-state plan design; flexibility; ease of administration
   - Lower fixed costs
   - Exempt from premium tax
   - Retain carrier profit

2. Under ACA
   - Not required to provide coverage with minimum essential benefits
   - Not required to participate in a risk-adjustment system
   - Not subject to provisions, such as Medical Loss Ratio requirements and premium increases

Option B – Self-Funded

Challenges of Self-Funding for Midsize Companies

- Retaining risk
- Staying long-term focused
- Data overload
- Volatility and Lasering
- Resources to manage health risk initiatives
Option C – Group Captive

- Group Captives bring it all together by allowing smaller employers to act like large employers:
  1. Traditional advantages of self-funding
  2. Additional advantages with ACA
  3. Best practices for health risk management
  4. Collaborative financial strength
  5. Greater scale for predictability
  6. Buy less stop loss insurance (higher attachment point)

Ideal Employers Targets

- 50-500 employees eligible for health benefits
- Forward-thinking management
- A culture of communication with employees on health care costs
- Willingness to implement robust health management initiatives
- Financial stability and willingness to take on a portion of the risk for their employee health plan

Ideal Group Targets

- All employers >50 eees on each employer plan
- Broker/Agency Client Base (or Prospects)
- Group Purchasing Trusts / Affinity /Buying Affiliations
- Industries Impacted By ACA
- Industries with Unique Demographics
- Industries with unique stop loss structures
- Hospitals with Domestic Reimbursements
- Unique health risk management strategies
Stop Loss Group Captive Marketplace

- Captive Brokers / Intermediaries
- Direct Writing Carriers fronting and retaining excess
- Direct Writing Carriers fronting, excess and seg-cell turnkey with reinsurance
- Direct Issuing Captives using Excess Carrier

Employer Stop Loss Group Captive Program: Structure

Predictability and Probability
Sample Results By Layer

- Self-Funded Retention: 70%
- Captive Layer: 25%
- Collateral: 5%
- Expenses: 15%

Beating Expected Claims at SFR

Surplus at Captive Layer = No collateral draw
CAPTIVE LAYER SURPLUS

Considerations and Potentials

- Cumulative impact of retention = Long Term Plan
  1. Retain positive variability
  2. Spread negative variability
- Increased risk tolerance with experience/data
- Surplus potential also = collateral carryover
- “Pay yourself” leveraged trend
- Increase captive risk layer with scale
- Leveraged Vendor Pricing and Collaboration