Stop-Loss Captive Programs
Applicability for SIGs

Speaker Bio

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• Experience in both P&C and Stop Loss Group Captives
The Benefits World

Can you imagine delivering a workers compensation renewal with a 15% rate increase, no loss runs, and no loss control?

Welcome to employee benefits.

Workers Compensation

• Coverages mandated by states
• Long-tail exposure
• Capital intensive
• Tax motivations
• Fee schedule
Employee Benefits

- Extreme flexibility on coverages
- Short-tail exposure
- Not capital intensive
- No tax motivations
- No fee schedule – everything is negotiated (“discounts”)

Challenges of Fully Insured Health Plans

- Constant price increases
- Limited claim data and transparency
- Limited risk management services and tools to address risk and costs
- State level regulation difficult for multi-state accounts
Stop-Loss Captive Programs

- Built on a self-funded platform
- Typically designed for small to medium employers (25 to 500 employees)
- Medical and pharmacy most common lines
- Typically doesn’t required DOL approval
- Approximately 50 programs in existence
- Growing rapidly

Self-Funded Health Plans
Advantages of Self-Funding

- Traditionally the province of large employers e.g., 1,000+ employees
  - Retentions offered by S/L carriers too high for smaller employers
  - Self-funded claim risk too volatile for smaller employers
- Allows employer HIPAA compliant medical and pharmacy claim data which is usually unavailable in fully-insured plans
  - Can’t address health risks without detailed actionable data
- Allows employer the ultimate control and ownership of its Plan and Plan services
  - Plan design – ERISA pre-emption allows employers to opt out of state mandated benefits
  - Select and customized precision buying of medical administrative services (e.g., TPA, PBM, DM, UR, etc.)

Plan Management: Self-Funding
Provides Control of Health Plan

- Unbundled Components
- Best Practices
- Captive Knowledge
- Transparency
- Cost Control
- Actionable Data

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<th>Physician &amp; Provider Network</th>
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<td>Stop-loss Insurance</td>
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Stop-Loss Captive Programs

Contracts

Self-Insured Benefit Plan

Employer

Captive

Stop Loss Carrier

Employees & Dependants

Plan Document

Operating Agreement

Reinsurance Agreement

Stop Loss Policy
Traditional Self-Funded Health Plan

Stop-Loss Insurance/Excess
Stop-loss insurance on claims >$100K per claimant and aggregate basis

Employer Claim Reserve/ Self-insured Retention
ER retains claim risk on a per claimant and aggregate basis

Aggregate Health Claims

Self-Funding with Group Captive

Stop-Loss Insurance/Excess
Stop-loss insurance on claims >$250K per claimant and aggregate basis

Captive
Members share claim risk on a per claimant and aggregate basis between $25,000 and $250,000

Employer Claim Reserve/ Self-insured Retention
ER retains claim risk on a per claimant and aggregate basis

Aggregate Health Claims
CAPTIVE INSURANCE STRATEGIES FOR GROUP HEALTH RISKS

Comparing Structures

Fully Insured Funding
- Capital
  - Insurance Company Claim Reserve
  - Insurance Company Administration Costs
- Premiums Paid

Captive Program Funding
- Capital / Collateral
  - Employer Claim Reserve
  - Captive Claim Reserve
  - Stop-loss Insurance Costs
  - Administration Costs
- Premiums Paid

Unused collateral and reserves retained by Employer and Captive

Capital / Collateral from investors expecting a ROI
Capital from owners/insured

Medical Stop-Loss

Status Quo
- Transferred to market through stop-loss contract
- Medical expense retained through working capital

Captive Approach
- Excess is reinsured to the commercial market
- Captive accepts buffer layer risk
- Medical expense retained through working capital

Positively SIIA. Positively Connected Connecting the Self-Insurance Industry for Positive Risk Solutions
Stop-Loss Captive Programs

Each Employer:

- Adopts its own “Self-Funded” health plan
- Buys stop-loss insurance policy with both specific and aggregate claim protection (e.g. $50,000 spec)
- Pays all claims within its specific and aggregate claim retentions – stop loss carrier pays all excess claims
- Posts collateral to group captive
- No sharing of “plan assets”
- Remains “fiduciary” of its own health plan

Group Captive:

- Reinsures stop-loss carrier for layer of claims, e.g., up to $250,000 per claimant
  - Captive purchases aggregate protection from stop-loss carrier
  - Captive exposure is finite and fully funded
- Effectively funds medical stop loss claims that no single employer could afford on its own
- Receives ceded premium from S/L carrier
- Posts “Gap” Collateral to S/L carrier
CAPTIVE INSURANCE STRATEGIES FOR GROUP HEALTH RISKS

Captive Program Candidates

- Each employer:
  - At least 50 enrolled employees
  - Willing to put up collateral for multiple years
  - Understands self-funding and risk-sharing
  - Embraces health management philosophy and willing to adhere to minimum auditable standards
  - Commitment is long term (3-5 years) and is not chasing price year to year

Regulatory Matrix

- States regulate:
  - Fully-insured programs (e.g. Blue Cross)
  - Stop loss policies
  - MEWAs
- ERISA regulates:
  - Self-funded programs
- Domicile regulates:
  - Captives
- SEC regulates federal securities issues
- States regulate state securities issues
Value Proposition for Employers

- **Ownership and Control**
- **Self-Funding - Cashflow/Savings:**
  - Employers keep funds longer - loss fund for losses remains with employer
  - Employers keep funds not needed to pay claims – contrast to fully-insured
- **Self-Funding - Plan Savings:**
  - **Actionable Data:** Self-funding allows employer to understand true risk drivers within its population
  - **Plan Design:** ERISA Preemption of state coverage mandates
  - **Health Risk Management and Wellness:** data-driven and precision targeted
- **Captive - Return of Premium:**
  - Employers keep underwriting profits traditionally kept by carrier
  - Underwriting profits can result in a premium holiday in future years

Case Study: Background

- 12 Employers banded together to reduce healthcare costs through a captive
- State funded non-profit agencies
- Currently Fully Insured
- Utilize Blues and other Large Regional Networks and Carriers
- Various plan designs
- Limited experience with wellness
- Mixed renewal dates for group
Case Study: The Final Results

- Group expects a savings of $3.2MM off of expiring premium (Deductible)
- Additional savings increased from underwriting profits projected to be greater than $475,000 (Group Captive Pool)
- Single employer projected to save more than $600,000 compared to their fully insured option

Case Study: Additional Benefits

- Group projected to grow by 100% in year first 12 months
- Bio Metrics for each group de-identified and shared
- Engaged in a best in class wellness platform
- Improvement in benefit design across most entities
CAPTIVE INSURANCE STRATEGIES FOR GROUP HEALTH RISKS

Predictions

- Exponential growth
- This isn’t a passing fancy
- Stop loss carriers supporting will grow
- Employers are increasingly realizing:
  - The only way to reduce costs is to reduce claims

Questions & Answers