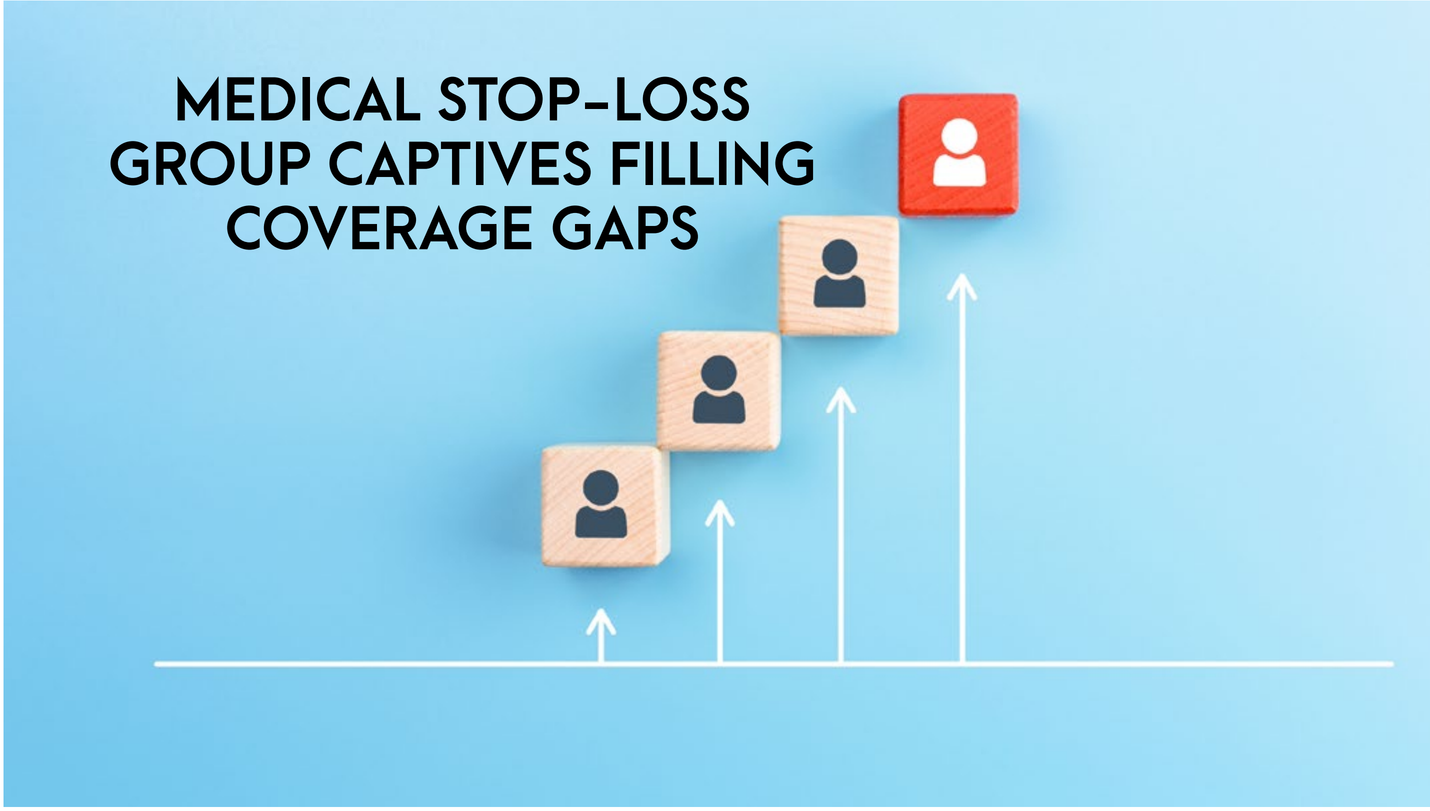


MEDICAL STOP-LOSS GROUP CAPTIVES FILLING COVERAGE GAPS

Written By Caroline McDonald

The rising number of medical stop-loss group captive formations has not been surprising to captive insurance experts. After all, 77 % of respondents of SIIA's annual captive insurance survey selected employee benefits/medical stop-loss as the area in which they have seen the most growth this past year.

What's more, 43.2 % of respondents reported group captives as the type of captive most formed in 2022.

While this trend has been building for the past decade, industry experts weren't expecting the sudden growth they're seeing.

"Right now, we're seeing higher interest than ever. I have more submissions than I ever have," said Don McCully, president at Medical Captive Underwriters in Chicago.

"They are very popular and that's what I spend 99% of my time selling," he said, adding that they are all medical stop-loss group captives, with employers as the plan sponsors, "and they unbundle their dollar completely."

McCully noted, "I've seen more companies entering the space than I was aware were participants in the marketplace. To see this explosion is fantastic."

WHY THE SURGE IN FORMATIONS?

Initially, the reason for interest in stop-loss captives, McCully said, "was passage of the Affordable Care Act, because that said captives would be regulated a certain way unless they went to self-funding."

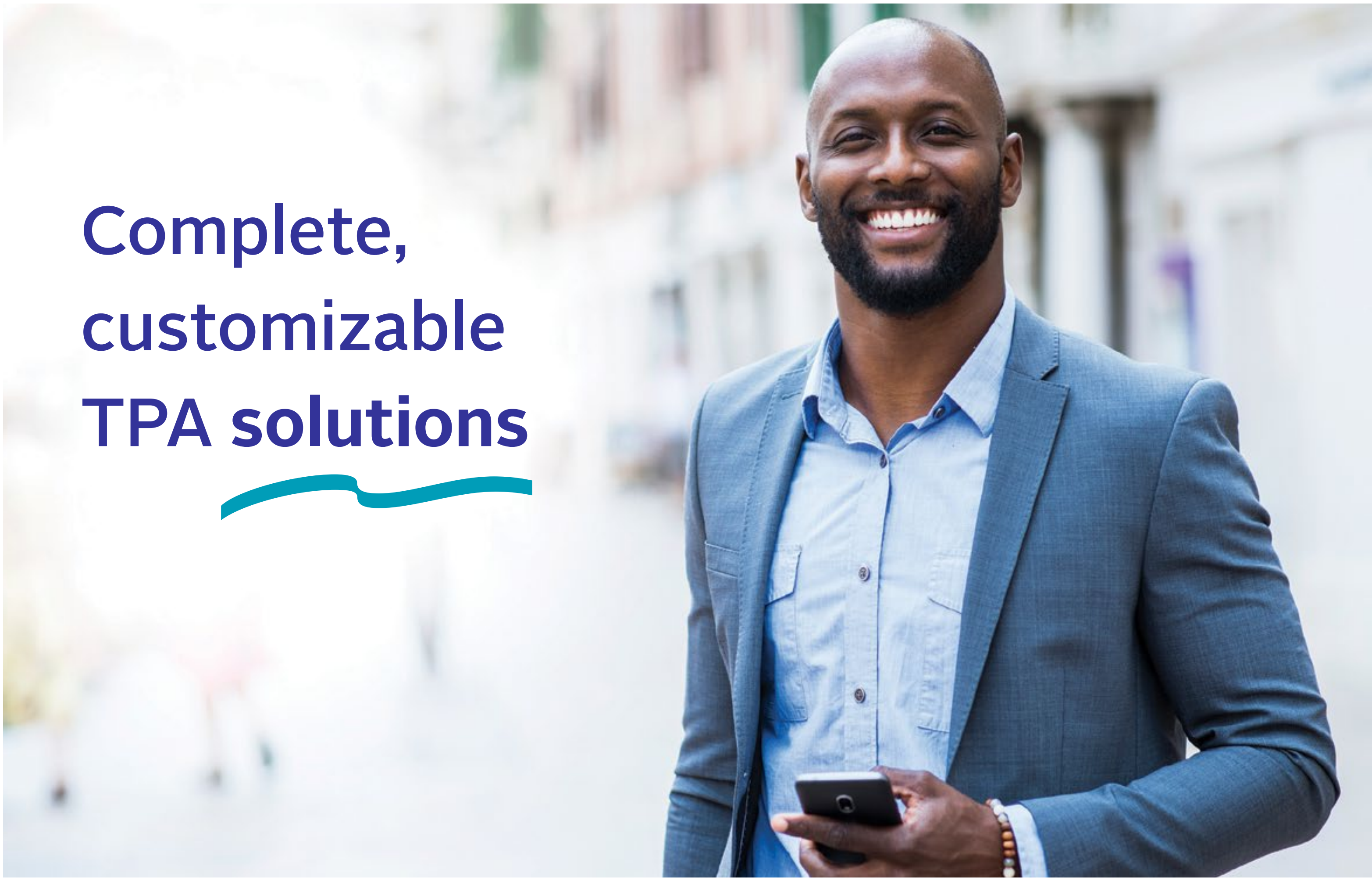
Also feeding the market is the fact that "you don't have to have your own captive to enter this space," he said. "Early naysayers talked about how expensive it was to own a captive or how risky it was to enter a group captive." Now, however, "neither of those arguments are being thrown about."

Another trend he is seeing is larger groups forming captives. "When I started this company in 2015, our average group size was 117 employees in the plan and now the average is about 150," McCully said.

About 20-30% of his groups are nonprofit federally qualified healthcare corporations or straight 501c3 "doing some form of advocacy with state and federal grants helping them out," he said.

What's more, "The market is ripe for even more growth," he said. There are enough employers out there that we can have more growth if we manage our programs right and message properly."

The types of organizations forming them also run the gamut. "We've got IT, we've got wholesaling, carpet cleaning. The term medical stop-loss means we are covering all employers," he said.



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RISING HEALTHCARE COSTS

Josh Bicknell, Director of captive initiatives at Captive Insurance Solutions noted that a large part of this growth is the rising cost of healthcare insurance and related lines.

This is happening, he said, "because of the traditional carriers and the prices they are passing on to companies of all sizes."

While it's believed that small companies are bearing the brunt of this, it is also impacting larger companies including Fortune 500 companies, he said, which ultimately impacts employees. "If you ask employees what they are seeing with their healthcare insurance rates, 10 out of 10 will tell you they have really gone up," Bicknell said.

He added, "When you talk to the risk management people within those companies, you understand what they are being faced with, what their brokers are coming back to them with in terms of premium offering, and the fact that the increases are outrageous."

Feeding into that are a variety of issues. One of which is the country's aging population. "You will have Medicare trying to offset the price of affordable healthcare for that population, and what that does to government rates and how that translates into commercial rates," Bicknell said. "If those commercial rates go up, they will affect other healthcare rates."

There are no winners here, he said. "Even a company with a good loss history can be hit with higher rates. It's not like the insurer can just drop somebody if they have a bad loss history."

If there is a catastrophic loss history, he added, "then you will see some healthcare providers drop certain industry lines or certain companies with catastrophic levels of loss."

WHY GROUP CAPTIVES?

Joe Parilli, senior vice president at Captive Resources observed, "We have been doing medical stop-loss captives for 14 years now, but in the last five years they have become more and more popular and the topic of conversation," he said.

The reason is that organizations won't be able to absorb the costs they will be seeing in the traditional marketplace. "There is no help for them regarding control of total spend, and the game of 15% increase—somebody goes to market and tries to get it down to a 9 or 10 and it starts at 20 the next year. It's unsustainable."

Group captives have increasingly been recognized for giving organizations the ability to partner with like-minded companies. "Not like-minded because they're in the same industry, but in the sense that they are employers, CFOs, CEOs, presidents, high level HR directors who are tired of the status quo," Parilli said.

This gives companies the opportunity to partner with like-minded groups. "They understand innovative ways to control spend so they're not passing it down to their employees," he said.

PROTECTING EMPLOYEE BENEFITS

"Where group captives have gained their popularity is not just the mechanism of what they are, it's the type of people who are joining them and doing it successfully," Parilli said.

At the end of the day, he said, it's unsustainable for companies to keep taking increases that they can no longer fund. "It's already the first or second biggest line-item they have.

Organizations have two options, to keep pushing costs down to employees, or to start cutting their plan. "You start cutting benefits and lose the sense of the term employee benefits. The medical plan has lost the idea of the benefit," Parilli said.

"When I look at the group captives we support, that is what the CFOs and others in the company are trying to get back,"

Parilli said. "They want to provide their people, the end users who are vital to their businesses, something that will work for them, and they are also trying to attract new talent, so they have to be competitive in the market with that."

Who is looking at these programs? The market is changing, in that traditionally self-funded or stop-loss was for companies with 100 or more employees, "Then it was 50 or more employees, now there are some consultants doing medical stop-loss for groups down to 15 or 20 employees," Parilli said.

In the case of a smaller company, “a lot of your risk may be concentrated in a small area,” Bicknell said. “If something were to happen in an established area where your operations are, you don’t have proper risk distribution. Risk distribution is a big box that you want to be able to check.”

This, he said, is what makes group captives so popular. “With risk captives and pooled captives, you can establish that distribution and participate in the benefits of captive insurance, but on a much smaller scale. You don’t have to worry about hitting millions of dollars of captive premium to do so,” Bicknell said.

When people see what’s happening in the traditional marketplace and understand that the captive market is no longer going to be the alternative funding mechanism, it will move to the lead funding mechanism in the next few years, in my opinion,” Parilli said.

Outside of the core mechanism of the program, he said, “Captive owners are able to go out and change their plan to find better ways to control the spend that they have.” Most importantly, he added, “They are no longer beholden to the insurance companies, they are actually taking control of what they are doing.”

2023 CAPTIVE SURVEY AND TREND REPORT FINDINGS

- Most respondents, 56.3 %, reported seeing an increase in captive interest in gap or medical stop-loss area. The 12.5% that chose “other” cited “property” most as an area with an increased interest in captive use. Next was cyber risk at 25%.
- Respondents, 43.2% reported group captives as the most seen captives formed in 2022. Next was single parent at 35.1%.
- Most Respondents (77%) selected Employee Benefits/Medical Stop-Loss as the area in which they have seen the most growth this past year. Interestingly, no respondents selected enterprise risk.
- Price inflation was reported as the most noticed trend in 2022 (34%). The most common response cited by the 4% of respondents that selected “other” was a reduction in appetite for certain risks. ■