SMALL EMPLOYERS TURN TO CAPTIVES TO MANAGE RISING DRUG CLAIM COSTS

Written By Caroline McDonald

With prescription drug prices expected to continue to climb in 2023, employers are planning ahead. Having become comfortable with the concept of captives, companies of all sizes are increasingly entering the captive market to control these expenses.

“Drug price inflation is a significant cost driver, along with an increase in specialty drug utilization,” said Shawn Lanter, vice president, captive business development at Berkley Accident and Health Group. “Expensive cell and gene therapies continue to gain traction in the market and will be a major factor going forward. The pipeline of high dollar approved drugs is expected to grow exponentially in the coming years,” he said.

Lanter observed that stop-loss captives are on the rise, with a higher than ever number of employers looking to self-fund.

Robby Kerr, senior vice president at Tokio Marine noted that more stop-loss carriers, managing general underwriters, and program sponsors are entering this space. “In addition, group stop-loss captive programs are really coming into their own now, because they’re past the early adopter phase and we’re seeing proof of concept,” he said.

One reason captives have become so popular is that they allow employers with as few as 25 to 50 employees to become self-funded. An added feature of a captive is cutting down volatility, Kerr said.

“A 50 lives employer is going to be reticent to become self-funded, because what if they have a bad year and get hammered with a huge increase?” asked Tony Minnich, vice president, captives, at Tokio Marine HHC, stop-loss group. “With a captive we can mitigate both of those risks. It helps employers to wade into the water of self-funding.”

In their group captive, Minnich noted, there are about 1,500 employers. “They go up to 500 and as low as 25 employees, the average is 100-200,” he said.

Most of the captives in the stop-loss space are group captives, he added, explaining that many of the property-casualty captives are single entity, because multiple lines of business can be included in in the captive.

CAPTIVES FOR DRUG CLAIMS

Minnich said that organizations are increasingly using captives for high-cost drug claims because they have become a preferred risk pool for employers.

The reason, he said, is that being part of a captive puts them together with others who are like-minded, and “willing to spend a little up-front to generate savings on the back end.”

Captives can also help organizations that are trying to change the way their claims are placed, he said. In this case, "We're out there, unbiased, looking for whatever we can find to lower the cost of claims. And high-cost medications are certainly one of the top segments we're looking at," Minnich said.

MANAGING STOP-LOSS

To effectively manage stop-loss, employers in group stop-loss captive programs need to have a self-funding plan in place, Lanter explained.

"Being self-funded creates the opportunity to integrate risk management solutions on an à la carte basis," he said. "There are several progressive and effective programs in the market now that are focused on managing specialty Rx claims."

Many of these programs can lower the plan's spend significantly, "to the point of keeping an individual claim loss below the group-specific stop-loss deductible," he said. "If you're able to avoid stop-loss claims through risk management strategies like these, you're creating the opportunity for underwriting profit for the members within the group captive program."

Secondly, he added, group captive programs create another financial opportunity for members by taking on stop-loss risk that they otherwise could not take on.

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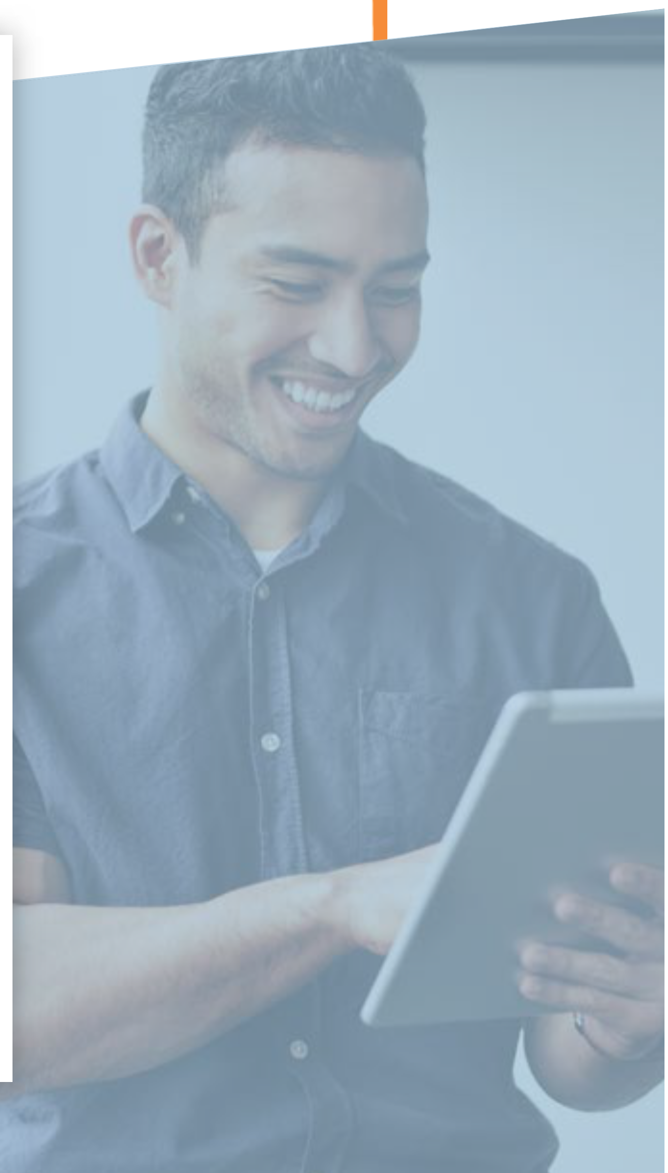

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"If the captive risk pool can manage potential catastrophic claims, such as specialty Rx, they're creating an additional level of financial efficiency and buying as little risk-transferred insurance as possible," Lanter said. Group captives "can also leverage the overall captive risk pool to help mitigate the ongoing exposure of high-cost drug claimants," he said, adding that a key benefit with group stop-loss captives is the opportunity to alleviate laser exposure – which is assigning a higher deductible for an individual with a known condition – "and the volatility that goes along with that."

And third, employers in group captive programs "can leverage their collective buying power to negotiate discounts with cost-containment vendors, such as specialty pharmacy benefits managers. As a group, they can negotiate lower pricing than they could individually," Lanter said.

INDUSTRIES

Captives in the early days, especially on the P&C side, were much more industry specific, Minnich said. "Often it would be for workers' compensation, so it made sense for concrete contractors to work together because they had, and understood, the same risks," he said.

With health benefits, however, this is not the case, he added, as injuries related to a particular industry are covered by workers' comp. "Ten years ago, we had a lot of industry-specific captives, now all our captives are heterogenous," Minnich said.

TRENDS

The current trend is captives in general, as more and more companies are exploring and forming them, Kerr said. "It's a tremendous way for people to buy insurance for their stop-loss. It's also easier for them to understand their insurance."

Minnich noted that another trend he sees is additional ways to obtain data."They call it artificial intelligence," he said. "It isn't Terminator II, but we're finding better ways to use the intelligence we have to make informed decisions."

While a company may not have a long claims history available, "We can see where they are, what they do, and there are a lot of demographic factors we can look at," Minnich said. That information can be used to make an informed decision "of where we think they will be. This helps smaller employers to be more comfortable moving into self-funding," he said.

As a captive, organizations have data that can be used for their benefit. For example, "They know that 29 members are taking blood pressure medication and six of them didn't fill their scrip that month," Minnich said.

While the company can't call these individuals out, and might not even know who they are, "They can hold a luncheon where they talk about how important it is to refill their medications," he said. "The idea is to be aware of the issues that affect claims costs and then do something about it over time, because being in a stop-loss captive is not a 12-month deal – it is a five-to-10-year deal."■

Caroline McDonald is an award-winning journalist who has reported on a wide variety of insurance topics. Her beat has included in-depth coverage of risk management and captives.

RISE OF DRUG COSTS

According to the Price Increases for Prescription Drugs report, 2016-2022 by the Assistant Secretary for Planning and Evaluation:

- In January 2022, the average price increase was nearly $150 per drug (10 percent), and in July 2022, it was $250 (7.8 percent). July increases tended to be for higher priced drugs than those in January, resulting in higher dollar increases but smaller percentage increases. Results in 2022 were affected in part by the high recent rate of general inflation. The Consumer Price Index for all Urban Consumers (CPI-U) increased by 8.5 percent between July 2021 and July 2022.
- In 2022, several drugs increased their list prices by more than $20,000 or by more than 500 percent.
- The Inflation Reduction Act introduced a new requirement for manufacturers to pay rebates to Medicare for Part D drugs whose price increases exceed inflation, beginning Oct. 1, 2022, which was designed to reduce the frequency and size of drug price increases.

There is much research and development involved in the process of creating new drugs, Minnich said, "However, we exist on a pretty thin profit margin in the stop-loss arena and some of the profit margins we see on drugs are pretty outrageous."

One of the reasons captives are more effective overall, he said, is that they are a different model. "Standard insurance is the insurer versus the insured—the member versus the carrier," Minnich explained. In a captive, however, "all three members of the equation are together, because they are all looking to keep overall costs low." ■