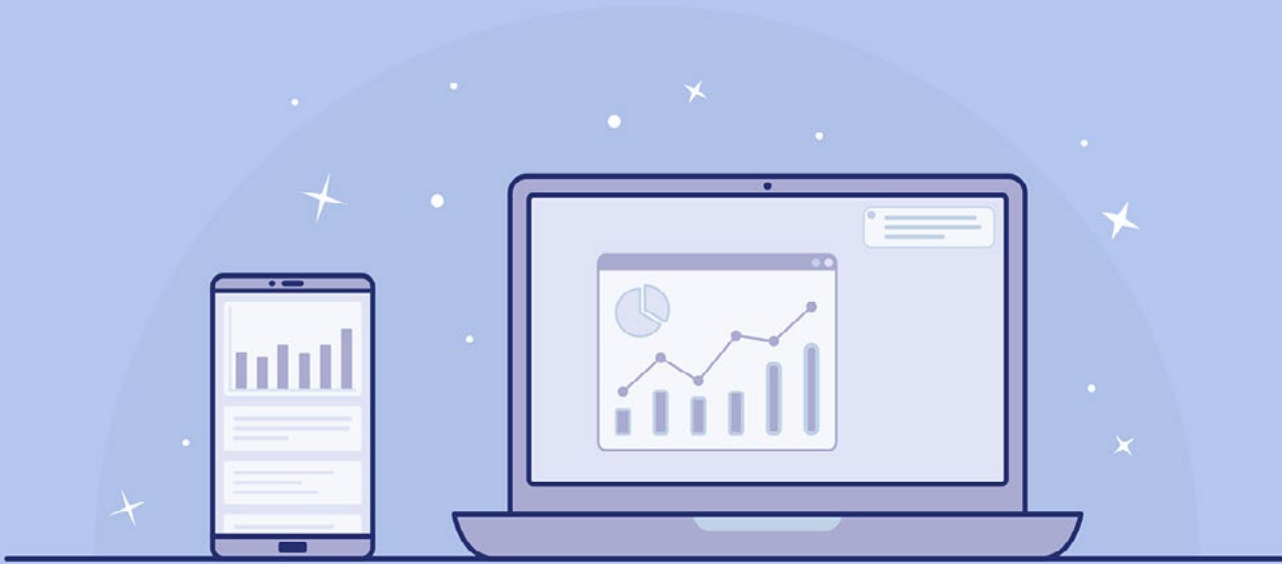
STOP-LOSS CAPTIVE PARTNERING IS A GROWING TREND



Written By Caroline McDonald

As organizations increasingly turn to captives for their insurance needs, more and more are using them for medical stop-loss coverage for employee health insurance.

"This is the fastest growing segment within employer-sponsored, self-funded health plans," said Steve Gransbury, President, Health Solutions at Captive Resources LLC. "It creates a shared layer of risk for the captive participants to manage claim volatility."

A group captive for self-funded employer health plans is a mechanism for the captive participants "to manage volatility and protect against the severity of risk," he said. "We're seeing employer-sponsored health insurance plans from all areas of industry."

In its Captive Trends and Insights report of 2023, Marsh noted that of its captives, traditional property-casualty coverages lead in growth, with 42 percent for property & Casualty, 25 percent for commercial life, and 20 percent for employee benefits – with 37 percent of those formed for medical stop-loss, and 13 percent for financial and other lines.

Every industry has claims of all sizes, and they all have health plans Gransbury noted. With a captive they can "open themselves up to the right partnerships to be able to manage and control costs."

Josh Bicknell, director of captive initiatives, captive Insurance solutions at GPW and Associates, Inc., noted that he is seeing a broad range of companies joining stop-loss captives.

"It's manufacturing businesses, beer distributors, drink distributors; it's school systems, banks and any industry where you have 100 or more employees," he said, adding that, "We also have some participants with even less. If you're in a wholly controlled stop-loss group, you could have 50 or 75 total lives in your business."

Growth is increasing in a large way, he said, as the commercial market has tightened. "While the property market is what you hear about the most, stop-loss group captive growth is expanding," Bicknell said, "as it has become extremely difficult to find affordable policies and health insurance and benefits coverage. Medical stop-loss has become very tight."

Every industry has a need for employee healthcare coverage, Bicknell said. With a group program, there is the benefit of many participants in the captive. "As a result, the fronting carrier issuing the paper for the health insurance can provide a lower, more competitive rate overall. Then there is the advantage of saving money while capturing underwriting profit," he said.

ADDED BENEFITS

"When someone buys a fully insured plan, that's the price," Gransbury explained. With a captive stop-loss program, however, there is the advantage of certainty of coverage. "It also introduces variability, so you can identify cost trends." For example, he said, if there is a high degree of muscular skeletal claims, "you have the potential for, maybe, infusion therapies. It allows you to pinpoint where your claim activity is coming from and a host of services and solutions to effectively manage that exposure."

When organizations are self-funded, he said, "they are able to offer the appropriate plan design to be able to attract and retain talent."

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CAPTIVE SETUP

Groups that choose to self-fund will have a specific deductible and they will have a carrier that issues coverage, Gransbury explained. "So, a stop-loss carrier issues their coverage and will cede a layer of risk above the specified deductible to the captive," he said. Within the captive mechanism is the retention, "and that can be a shared layer of risk. So, if a captive has 100 members, each one has a different deductible, say from $75,000 to $300,000." Each deductible is based on the risk the individual groups have, he added.

"Through their partners or contractors, they will buy a stop-loss contract or stop-loss policy." They will then cede a layer of risk to the captive. "So, the self-funded employer groups have the benefit of a filed stop-loss insurance policy from the carrier.

The captive, which is a separate legal entity, could have 100 different members," Gransbury said. "Say the carrier cedes to them a layer of risk, $200,000 excess the spec deductibles, and that $200,000 becomes the captive retention. The captive reinsures the cede and assumes that layer of risk. That layer is spread among the members."

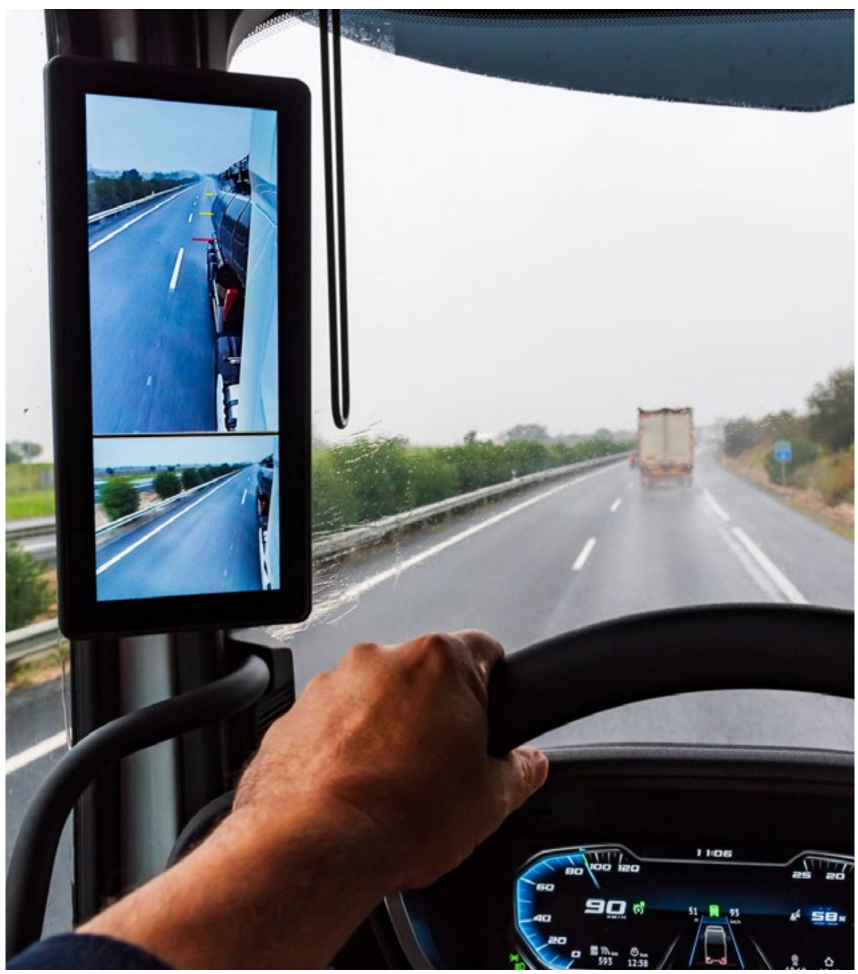
RISK MANAGEMENT

The other half of the story, Gransbury said, is bringing these like-minded members together in meetings and workshops for mitigating risk and finding cost containment solutions.

Bicknell noted that discussions about employee safety are prominent. "One group that I manage is a beverage distribution consortium with 34 beverage distributors involved in a group captive where they have workers' comp, auto and other coverages," he said.

At a group meeting to discuss safety, "They were talking about surveys of who is, and who is not using cameras within their distribution trucks," he said. "They said that it's been found that with cameras installed both in and outside of trucks, claims are going down."

The reason is that when employees are aware of being on camera, "they tend to be more attentive to what they are doing," Bicknell said. A big advantage is that "If there is video proof of problems being caused by another driver, it's an open and shut case and goes through mediation very quickly, versus other cases that can go on for years before they are settled," he said.



A CAPTIVE MEMBER'S PERSPECTIVE

"Like many organizations, our healthcare premiums were much like a roulette table, we weren't sure what the percentage was going to be," said Jon White, vice president of shared services at Stansell Electric, a third-generation contractor with about 300 employees. "If you got a single digit increase, you were supposed to celebrate that."

One year, they had a 32 percent rate increase, "which didn't seem right," he said. The next year, "We ran under a 70 percent loss ratio, and they gave us a rate pass. I said I wanted a rate reduction, and they said, 'We don't ever do those.'" From a cost standpoint, "It was out of control," White said, adding that this made it difficult to take care of their employees.

In early 2019, they met with Joe Perelli, Senior Vice President of Medical Stop-Loss at Captive Resources. "He had designed a captive that was a fit for our type of organization, so we joined in the fall of 2019, and we're now in our fifth year," White said.

"It's important for a company to understand why it enters a captive," White said. "For us, it was making sure we had the right priorities." At the top of the list is seeing that their employees "have access to the best medical care if they need it. So, we never entered the captive from the standpoint of saving, say, 10 percent."

Because of the captive, "We have expanded our offerings to employees tremendously." The company has added programs such as telehealth, White said, "which is currently running at about 200 percent return on investment every year. We've used some of the hard cost savings around premium and pharmacy to add things such as unlimited mental health counseling for all employees and dependents."

Being a construction company, he said, they also found ways to ensure the safety of employees without added expense to them. For example, "We do a boot allowance every year, where employees can get a great pair of boots for free," White said. They do this by working with a company, giving them "the parameter of the boot that is required, such as a six-inch leather upper," he said. When an employee chooses a pair of boots, "The company bills us, and it's all handled virtually."

Another important aspect of the captive, White said, is building friendships. "There are almost 100 companies now in our captive," he said. "I would tell you that I have a great relationship with a lot of those people, and there are three or four people that I am friends with." The captive, White noted, "has been a blessing to be able to build business and personal relationships that help you take care of your employees in a time of need. And, to control costs in a time that has been historically uncontrollable." ■

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