



EmCapSM

*an employee benefit
group captive solution.*



Transparency, **Control,**
Stability,
Reduced Costs.

Coverages are underwritten by Berkley Life and Health Insurance Company or StarNet Insurance Company, both are rated A+ by A.M. Best. Berkley Accident and Health, LLC, Berkley Life and Health Insurance Company, and StarNet Insurance Company are member companies of the W.R. Berkley Corporation.

EmCapSM

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EmCapSM provides medium-sized employers with access to an alternative risk management tool typically utilized by large employers. Large employers use a combination of self-funded health benefit plans and stop loss insurance coverage to manage the cost of providing health care to their employees. Berkley Accident and Health, LLC (“Berkley A&H”) established EmCap to provide medium-sized employers with similar control over their health care benefit costs. EmCap enables employers that would otherwise remain with a fully-insured health insurance an option to consider a self-funded health benefit plan. EmCap provides medium-sized employers with greater **transparency** and **control** over their health benefit plans which yields **stability** and the opportunity to **reduce costs**.

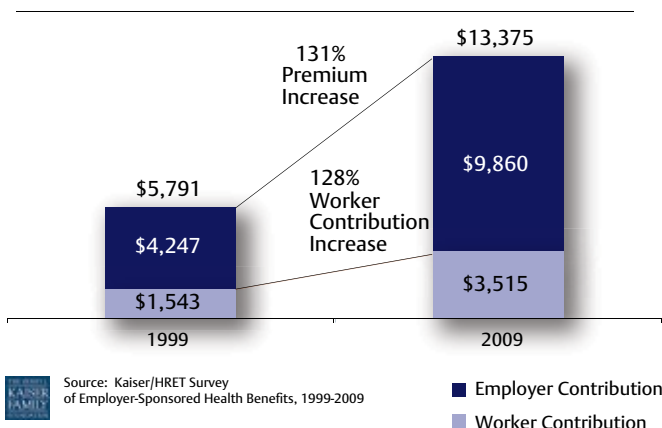
Marketplace

For many fully-insured employers, the cost of health insurance continues to rise and is now the second largest expense item, trailing only payroll. The average annual cost per family is greater than \$13,000 per year.¹ Medium-sized employers are in a difficult position. They have few stop loss coverage options to manage catastrophic claims in a self-funded plan, and they have very little information or control over the drivers of their fully-insured premiums. They don’t know what claims they have or where their premium dollars go. The lack of transparency inherent in a fully-insured plan prevents employers from taking control of the cost of providing health benefits. The only thing clear to employers is the annual increases they receive year after year.



Average health insurance costs for family coverage is greater than \$13,000 per year.

Average Health Insurance Premiums and Worker Contributions for Family Coverage, 1999 - 2009



¹ **Employer Health Benefits 2009 Annual Survey**, (#7936) The Henry J. Kaiser Family Foundation, September 2009



An EmCap program affords employers the opportunity to reduce the volatility and cost associated with providing health benefits to their employees.

EmCap Programs

An EmCap program assumes three separate and distinct contractual arrangements:

- 1) A separate stop loss policy issued to each employer by Berkley Life²,
- 2) A reinsurance agreement between Berkley Life and a group captive, and
- 3) An agreement between a group captive and each of the employers that elect to participate in EmCap.

The stop loss policy is an insurance contract between Berkley Life and the employer. The policy does not provide any coverage or benefit to the employees of any employer. Each employer in EmCap receives its own stop loss policy; there are no shared policies or shared limits between any employers. Each stop loss policy is individually underwritten based on the specific characteristics of the employer. There is no rating or underwriting of stop loss policies between employers.

Employers that participate in an EmCap program form or join a group captive. The group captive reinsures, or assumes, risk from each stop loss policy. Since the group captive reinsures the risk of multiple policies, the risk assumed by the group captive is a larger and more diverse risk, and, therefore, more predictable. Reinsuring the working layer of risk from multiple stop loss policies to a group captive is intended to replicate the experience of a larger single employer. In this way, an EmCap program affords employers the opportunity to reduce the volatility and costs associated with providing health benefits to their employees.

An EmCap program can include a variety of employer groups such as:

- Existing Group Captives, Workers' Compensation Self-Insurance Groups, or Risk Retention Groups
- Clients of an Agency or Broker
- Trade Associations
- Franchisees
- Portfolio Companies of Private Equity Firms

² Coverages are underwritten by Berkley Life and Health Insurance Company or StarNet Insurance Company, both are rated A+ by A.M. Best, and referred to as Berkley Life for illustrative purposes.

Ideal EmCap employers have forward thinking management who are focused on control and are willing to lead change.



Berkley A&H will work with distinct groups of employers. Each group of employers will participate in the economic results of their group captive.

Launching an EmCap program requires a minimum of three or more employers with a total of 400 or more employees. A minimum of 1,000 employees is suggested by the end of the first program year.

Ideal EmCap Employers

EmCap involves the sale of separate stop loss policies to medium-sized employers. An employer must have, or intend to establish, a self-funded health benefit plan and have more than 50 employees. The stop loss policy issued to an employer is partially reinsured to a group captive. The group captive is created and funded by a minimum of three (3) employers participating in an EmCap program.

The ideal EmCap employers are:

- Employers with 51 to 400 employees eligible for the company's self-funded employee benefit plan.
- Employers with forward thinking management who are focused on control and are willing to lead change.
- Employers willing and able to communicate with their employees about the importance of being pro-active in lowering the costs of health care benefits.
- Employers currently purchasing fully-insured products.
- Employers with the financial resources to assume a portion of the risk associated with their employee benefit plan.

Self-Funding

Each employer in an EmCap program has its own self-funded employee health benefit plan. In a self-funded employee benefit plan, the employer creates a customized plan that provides benefits to employees. The employer is responsible for paying benefits covered by the plan. The employer contracts with either an insurance company for an Administrative Services Only (ASO) plan or a Third Party Administrator (TPA) to provide administrative services. These services include, but are not limited to, customer service, enrollment, ID cards, network access, and claims adjudication.

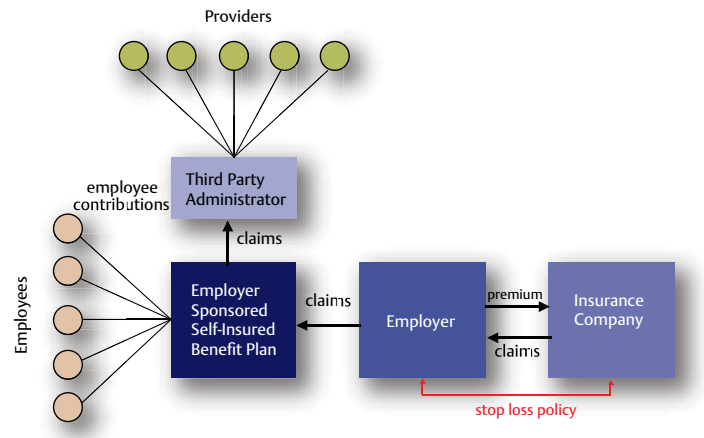
A self-funded plan has many advantages over a fully-insured plan, including:

- Employers can maintain a single plan across all states, potentially decreasing administrative costs.
- Employers have greater access to claim and behavioral data, in a HIPAA compliant manner, which allows them to promote healthy activities and decrease costs.
- Employers can assemble an ‘all-star’ team of vendors instead of being forced into the ‘one size fits all’ approach of the fully-insured market.
- Employers will pay lower state premium taxes in a self-funded plan.
- Employers may experience better cash flow.
- Employers can choose to eliminate or reduce some of the state mandated benefits.
- Employers with a better than average risk profile often achieve additional savings.

A self-funded plan has many advantages over a fully-insured plan.

Stop Loss Options

In order to protect themselves from unexpected financial loss, most self-funded employers purchase a stop loss policy that provides them insurance against both large individual claims and an aggregation of small claims.



Many medium-sized employers want the benefits of a self-funded plan, but dislike the inherent trade-offs associated with such plans. If a medium-sized employer elects to form a self-funded plan, the options and their trade-offs are often as follows:

- Purchase a stop loss policy with a low specific retention (e.g. \$25,000) which keeps the risk exposure manageable, but tends to be quite expensive and may not be widely available. Additionally, it means that most cost savings associated with moving to a self-funded plan will be realized by the stop loss carrier, and not by the employer.
- Purchase a stop loss policy with a high specific retention (e.g. \$150,000) which tends to be relatively inexpensive, but increases the risk exposure. Thus, the employer’s costs of providing health care benefits can be extremely volatile.

For most medium-sized employers, both of these options have drawbacks. Therefore, they continue to purchase fully-insured products.

EmCap Methodology

Berkley A&H designed EmCap to allow an employer with a self-funded plan the ability to purchase a stop loss policy from an admitted insurance carrier. EmCap also attempts to replicate the cost efficiency experienced by a larger employer by partially reinsuring a layer of risk to a group captive. The group captive is formed and funded by a minimum of three (3) employers participating in an EmCap program. As a result, the risk retained by each employer is more manageable and less volatile.

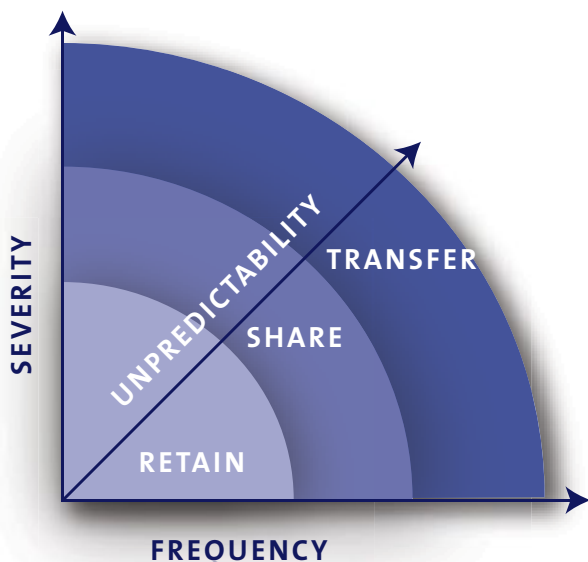
EmCap accomplishes this through a unique risk and reward structure:

Each employer retains its predictable portion of risk through a self-insured retention. The employer limits its risk by purchasing a stop loss policy, which provides both specific and aggregate coverage, from Berkley Life. Through the stop loss policy, each employer transfers the risk of unpredictable and catastrophic losses to the stop loss carrier.

The stop loss carrier reinsures a layer of risk to the captive. All employers within an EmCap program share in the economic results of the layer of risk between each employer's specific and aggregate retentions in their stop loss policy and the group captive's specific and aggregate retention.



EmCaps attempts to replicate the cost efficiency experienced by a larger employer by partially reinsuring a layer of risk to a group captive.



The flexibility of EmCap allows each program to be designed to meet the needs of employers.



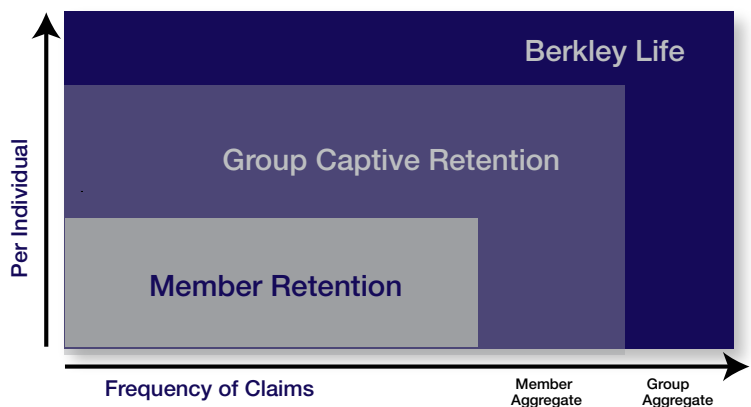
Captive

Employers participating in an EmCap program can form their own wholly-owned captive or use a segregated account captive. This flexibility allows each group of employers the ability to design an EmCap program to meet their needs. Berkley A&H will perform due diligence on any proposed captive and has the right to veto or exclude any captive. Each EmCap program can have different employer self-insured retentions (example: \$25,000 per individual) and different group captive retentions (example: \$250,000 per individual). The stop loss carrier will cede a portion of the policy premium to the group captive. The premium for the layer between \$25,000 and \$250,000 per individual is a large portion of the overall stop loss policy premium. This also means that this layer will likely contain a large portion of any cost savings associated with a self-funded plan. In addition to the premium, the captive will be funded with collateral, or other non-premium funding, provided by the participating employers. The amount of collateral, or other non-premium funding, will vary for each individual employer. It is typically 15-20% of each employer's comparable fully-insured premium, and can be provided via letter of credit or cash. The collateral, or non-premium funding, is needed if the losses for the overall captive are worse than expected.

Unused funds in the captive are typically returned to the employers on a pro-rata premium basis.

The captive acts only as a reinsurer of the stop loss carrier. It is not a primary or direct insurer of any self-funded health benefit plan, the employees, or the employer.

In all situations, the stop loss carrier remains responsible for paying all covered claims under the stop loss policy. It then seeks reimbursement from the captive.



This brochure depicts a typical program. Since a variety of captives can be used, the actual terms and the timing of distributions will vary by program and/or captive.

Cost Savings

An insurance company typically charges an insured the losses it expects to pay, plus a risk premium. The risk premium is based on volatility; the more the actual losses can vary from the expected losses, the greater the risk premium. An insurance company collects risk premiums from multiple employers and insures uncorrelated risks. This diversification decreases the volatility that the insurance company assumes, and means that actual losses for the insurer are more likely to reflect expected losses. As the group size increases, the probability that actual losses approach expected losses increases, and the risk to the insurer decreases. Therefore, the risk premium charged by the insurer is more than the risk of its portfolio which is how the insurer makes money. From an individual employer's perspective, the decision to insure all claims over \$25,000 is fairly simple assuming losses above that threshold are unpredictable. Many employers will pay the risk premium to transfer the volatility to an insurance company, even though the cost for this risk transfer is significant.

The losses in the layer between \$25,000 and \$250,000 are unpredictable for an individual medium-sized employer, but are more predictable for either a large employer or a group captive that reinsures the risk of many medium-sized employers. By retaining both the premiums and the risk associated with this layer, the captive is able to retain the risk premium normally transferred to an insurance company in a fully-insured scenario. The employers participate in the unused premiums from this layer as long as the actual losses, plus expenses, do not exceed the combination of the expected losses and the risk premium they would have otherwise paid to the insurance company.

The real objectives are transparency, control, stability, and retention of cost savings. EmCap can help achieve these objectives.

Individual Employer Perspective

Each employer within an EmCap program will have its own self-funded health benefit plan and its own stop loss policy. The employers will have a common stop loss carrier (Berkley Life) and reinsurer (captive). The employers participate in the economic results of the captive, but

- There are no shared plans; each employer maintains its own single-employer plan.
- There are no group policies; each employer is issued its own stop loss policy.
- There are no group rates; each policy is individually underwritten.
- There is no co-mingling of plan assets; each employer is responsible for its own plan assets.
- There is no joint and several liability amongst employers for their self-insured retentions under the stop loss policy.
- The employers are not acting as reinsurers; they are participating in the economic results of a reinsurer (captive).

Value Proposition

The objective behind EmCap is simple. Provide medium-sized employers with the advantages of self-funding their health benefit plans while potentially decreasing volatility, and their risk premium, for catastrophic claims.

Participation in EmCap is a means to an end. The objectives are transparency, control, stability, and reduced costs through the retention of cost savings. EmCap can help achieve these objectives.

Participation in EmCap is not for all employers. Some employers may prefer to remain in a fully-insured product, while other employers may be perfectly comfortable with the volatility of a stop loss policy with a high specific retention (e.g. \$150,000).

EmCap programs are not a panacea or miracle cure for the high costs of health care benefits. They are a tool to help employers gain more control over their cost of providing health benefits. Any self-funded health benefit plan must be coupled with a long term commitment to reducing cost drivers.

Frequently Asked Questions

1 Will each employer have its own self-funded benefit plan design?

Yes. Since each employer maintains its own self-funded health benefit plan, the plan designs can and usually do vary by employer. The employer designs its plan to meet its objectives; these can be a PPO, High Deductible, HSA/HRA, and an HMO-style plan. Each employer can determine the amount that employees contribute and the manner in which they contribute to the plan (e.g. HSA, FSA).

Most employers participating in an EmCap program may, however, wish to take a common approach to preventative care and wellness programs. Employer selected program benefits typically include a strong emphasis on meaningful financial incentives for medical management, prevention, and wellness. The potential changes should benefit employees: lower plan costs, lower employee contributions, improved service, and a greater commitment to improved health.

2 Who provides administration of the self-funded health benefit plan?

Employers either contract directly with an insurance company for an Administrative Services Only (ASO) plan or a Third Party Administrator (TPA) to provide the plan administration, including issuance of ID cards, plan information, and claims processing.

3 What TPAs are used in these programs?

A variety of TPAs and ASOs are used. The appropriate service provider depends on the preferences of the employers. TPA partners that have broad networks compared to the covered population, deep discounts, and superior medical management programs are ideal. Berkley A&H reserves the right to veto any TPA, but remains willing to consider suggestions by employers or their brokers.

4 Is pharmacy included in the program? Where can employees fill prescriptions?

A pharmacy benefit is typically included in most employer self-funded health benefit plans, and a stop loss policy will typically reimburse the employer for these expenses. The design of the health benefit plan is a decision for each employer.

5 Is a collateral or other non-premium funding contribution required?

Yes, each Member will be required to make a collateral, or other non-premium funding, contribution to the captive.

6 Who is the stop loss insurance carrier?

The stop loss policies are issued by Berkley Life and Health Insurance Company or StarNet Insurance Company, both are member companies of W. R. Berkley Company and rated A+ by A. M. Best & Company, and referred to as Berkley Life for illustrative purposes.

7 Who underwrites the individual stop loss policies?

Each policy is underwritten by Berkley A&H, on behalf of Berkley Life. Coverages are subject to conditions, limitations, and exclusions as contained in the employer stop loss policy. Product availability and structure may vary, or may not be available, depending on state laws.

8 What prevents good employers from leaving an EmCap program?

Each employer is individually underwritten so their premium should be reflective of their risk, and should therefore be market competitive. This decreases the odds of a large variance with another stop loss or fully-insured carrier and, therefore, the financial incentive to leave the program. However, a group captive program typically requires continued employer participation,

including the purchase of insurance from a ceding insurance carrier, for the employer to maintain a right to participate in any economic results of the group captive. Because each employer is individually underwritten by Berkley A&H for stop loss coverage, there can be no assurances that any employer will continue to obtain stop loss insurance through Berkley Life or that the rates offered to employers in EmCap are or will be competitive with the rates or terms that may be offered by other insurance carriers. Rates will vary.

9 What happens at renewal if an employer has a bad year?

Each employer is individually underwritten each year. Premiums are based on the expected losses of each employer, and there is no guaranteed renewal of coverage. It is important to note that actual losses can and do vary from expected losses and that the underwriting is based on expected losses. Said another way, just because an account has bad losses in a given year does not necessarily make them a bad account. Losses vary, which is why employers buy insurance.

10 Does the structure help stabilize the impact when a single employer has an unexpected large loss?

Berkley A&H established EmCap to provide medium-sized employers with the advantages of self-funded health benefit plans while decreasing volatility normally associated with self-funding. By participating in the economic results of the captive, an employer may have lower costs in a year where it had a large claim than it would have had in a traditional self-funded plan.

11 How long does it take to form an EmCap program?

There are many variables, but it typically takes three to six months to form an EmCap program.



The concept behind EmCap is simple: Provide medium-sized employers with the advantages of self-funded health benefit plans while decreasing volatility normally associated with self-funding.

Berkley Accident and Health, LLC is an innovative provider of insurance solutions, committed to delivering superior value to our insureds. With our broad market expertise and outstanding financial strength, we offer a diverse range of accident and health products tailored to the needs of our customers.

The Group Captive Division structures employee benefit group captives. The Group Captive Division was formed in 2010 to focus on this expanding niche in the marketplace.

Contact Us

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