FIVE LESSONS LEARNT FROM A STOP-LOSS GROUP CAPTIVE

Jim Hoitt, of Berkley, shares with *Captive Review* the five lessons learnt from stop-loss group captives

More companies than ever are self-funding their employee healthcare plans. More than 60% of all US workers are now covered by self-funded plans, and even among companies that still have fully insured plans, 6% plan to self-insure next year because of the Affordable Care Act[1]. To reduce the retained risk and potential instability inherent in a self-funded plan, many small- to medium-sized companies will use a group captive.

Also known as medical stop-loss captives, Berkley Accident and Health was one of the first providers of employee benefit group captives in the US. We call our group captive solution EmCap. Today, Berkley Accident and Health's book of EmCap programmes is one of the largest, most mature and most diverse in this market space. We have seen a doubling in both total employer members and total lives covered within our captive programmes since 2011, and we believe that trend will continue into the upcoming year.

From regional and industry-specific, to heterogeneous models, Berkley expects to see more new programmes launch in 2014 than in any year before. Each captive programme is unique, as is each member employer that participates. As a market leader in this approach to healthcare financing, we are able to utilise a deep wealth of experience from our portfolio to ensure that each new programme benefits from what has worked and avoids what does not. As the product pioneer, we, and therefore the rest of our membership, also benefit greatly from the continued support and feedback of our early adopters and most engaged employers.

Written by
Jim Hoitt

Jim Hoitt is the vice-president of sales at Berkley Accident and Health. With over 18 years' experience in self-funding and stop-loss arrangements in the US, he is responsible for the distribution of Berkley's stop-loss and group captive programmes.

So, while no two EmCap programmes look exactly alike and each employer has a unique set of objectives in joining a group captive, there are clearly some consistencies that emerge. Over the years, our customers have shared a number of lessons learnt:

Lesson #1 – data transparency is critical

Unlike fully insured plans, self-funded plans give employers full access to their plan data. Depending on the size of an employer, claims data in a fully insured plan may not be made available, so employers don't know where their health care dollars are going. More importantly, once they see where their dollars are going, they can't adjust accordingly.

In a group captive, employers have full reign over their data. Employers can spot patterns and compare their results to the norms within the captive structure. The data helps to provide early intervention and allows employers to customise coverage and wellness tools.

The Daniel & Henry Co. is a risk management agency in St. Louis, MO. One of its EmCap members in the Midwest summed it up this way: "Employee benefit group captives have been the most significant advancement regarding true cost containment we've seen in years. The reports and information we receive has helped us understand our biggest cost drivers and guides us through custom plan changes. We are no longer tied to the arrangement of benefits which are all too often 'packaged' in the open market models."

Fredrick Reese of WCI, Inc. in Asheville, NC was one of the early EmCap broker partners to recognise the power of obtaining useful data for his prospective healthcare clients. Dave Clarke is one of Fred's EmCap members.

As president/CEO of Palliative CareCenter & Hospice of Catawba Valley, Dave makes clear how his participation in EmCap has changed the game for his company: "The EmCap programme provides detailed metrics about what is going on medically with our staff. This allows us the capability to offer preventive incentives to encourage employees to actively participate in their healthcare. This participation has helped us drive down costs. Our prior experience with previous private carriers was insufficient reporting that resulted in no real useful information about our group."

Lesson #2 – stability creates a viable long-term strategy

Over the long term, captives can make healthcare costs more stable and predictable. A captive can allow an employer to hold down the rate spikes that are the norm with fully insured plans AND smooth the claims volatility that is common among self-funded plans. These two dynamics make budgeting and risk management easier.

As Dave Clarke explains: "At the beginning of the plan year we know what our maximum exposure is and we can account for that in our strategic planning and budgeting processes. The results of having the information about our plan and educating staff about their healthcare, contributed to discounted premiums in our first year renewal. This is the first time in more than 10 years this has happened."

This is possible because a group captive with an existing base of members has built-in critical mass, with geographic and industry diversity. Over time, this provides a more stable, predictable risk structure.

According to George Huyler, vice-president of human resources at New York-based ConServe: "By participating in our [Berkley Accident and Health] medical captive, ConServe has been able to control pricing volatility that we would have faced in a traditional stop-loss environment. We had the support of our stop-loss carrier (Berkley), who is creative and supportive, as well as the other members of the captive to lean on, proving the strength of the structure and partnership of our member captive."

Lesson #3 – innovation needs to be constant

Captives open up new ways for employers to control costs. ConServe's broker, Bob Madden of Lawley Benefits in Buffalo NY, has set a clear risk management vision for his book of EmCap employer groups. That group of employers meets regularly to discuss best practices, set new goals and review if prior strategies need to be reconsidered.

George Huyler of ConServe explains: "To help improve future results, we have added incentive programmes to help our members select high-value providers to help us control our health care costs. The biometric screenings we introduced a couple of years ago have helped us identify the beginning stages of serious diseases, when treatment costs are lower and we (and our employees) have a shot at better outcomes."

"With the ability to make plan designs that fit your individual company and ongoing monitoring of the plan and its costs, it (our captive) has allowed us to keep the savings for claims that did not arise and bank the money for a later time when an actual claim occurs," says the president of another Daniel & Henry EmCap member company.

"We have also been able to hold our benefits levels and not reduce them, as we had to do almost yearly under our fully insured plan."

Lesson #4 – collaboration is powerful

Members of a group captive often share a similar philosophy – forward-thinking, entrepreneurial and accountable. As such, they can collaborate with other like-minded companies on health plan issues. Through regular interaction and member meetings, employers can share what works and what doesn't, becoming an incubator for best practices. The power of this type of collaboration can help smaller member employers plug into the resources typically only available to large companies.

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"The largest misconception today with employers looking to make their health insurance programmes self-funded is that they perceive that they are too small," notes Brock Hendricks of Daniel & Henry. "The real reason is that they are choosing the wrong advisor. They should choose a consultant that is looking at their company's risk profile and providing them the necessary tools to make better, more educated, decisions."

Similar to Lawley Benefits, Hendricks holds regular meetings throughout the year with his EmCap members to ensure they continue to evolve their total risk management strategy.

Berkley has also created unique platforms for collaboration to serve as a think tank for the various participating employers. Through sponsorship of an annual risk management symposium attended by EmCap employers and broker partners from across the country, the forum now exists each year for all parties to communicate and pilot new initiatives.

Dave Clarke adds: "The annual symposium promotes a very open dialogue with other companies in our captive. The discussions include what each organisation is doing that works and, as importantly, what has been tried that did not work so well. In addition, the quarterly captive reports indicate a benchmark of sorts to show where other groups are with their claims history."

Lesson #5 – control increases engagement

As with all financial decisions, the more control the buyer has, the more they are engaged in the process. To help employers, some captives offer their members specific guidelines or suggestions to follow. These guidelines are developed by the members for the members and can include things like: biometric screenings, health risk assessments, and wellness programmes with financial incentives.

Because their claim dollars are at stake, captive member management view the health plan as a true component of their greater business plan. The result of that engagement is a trickle-down effect to employees, essentially a culture change within these organisations. The CFO of an EmCap client of Daniel & Henry says: "We are even more at ease with the process and are implementing more wellness events that are enabling our employees to be active purchasers of healthcare services and products. The programme is successfully changing the way our employees look at health insurance."

The president of another Daniel & Henry member company observes: "The employee benefit group captive has allowed us to take far more control of our health insurance costs than can be done in the fully insured market."

[1] *Kaiser Family Foundation/Health Research & Educational Trust (HRET) 2013 Employer Health Benefits Survey, www.kff.org.*