EMPLOYEE BENEFITS REPORT 2015

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EMPLOYEE BENEFIT GROUP CAPTIVES PAY UNEXPECTED REWARDS

Jim Hoitt, vice president of Berkley Accident and Health, discusses the advantages of stop-loss group captives

Employee benefit group captives, also called stop-loss captives, have taken off in the US, aided by changing healthcare regulations. Stop-loss captives, which pool the risk from medical stop-loss coverage, are used by employers who self-fund their employee healthcare plans.

More than 80 million individuals – 60% of workers under the age of 65 – are covered by self-funded health plans, a record high. Many of these employers belong to a stop-loss captive, an increasingly popular way for midsized employers to smooth their cost of healthcare.

Growth of stop-loss captives

First created in the US almost a decade ago, stop-loss captives have grown by leaps and bounds over the past three years, spurred on by the higher costs and regulation of the Affordable Care Act. Today, top national brokerage firms and consultants, as well as insurance carriers and major self-funding industry associations, have incorporated group captives into their portfolio of risk solutions.

More than a simple funding tool

When stop-loss group captives were first formed, the main focus was on their financial benefits. Of course, there were other benefits as well, such as greater plan control and flexibility, as well as less regulatory creep, but the primary focus was always on the financial advantages.

In recent years, however, those of us in the industry have seen group captives grow into more than just a risk pooling tool. As memberships have grown, we've become increasingly aware of added benefits that are paying off, as group captives become a unique microcosm of free market health care. The key lies in the captive's ability to give employers a more credible set of data to evaluate, negotiate, and implement meaningful improvements to their health plan.

Written by
Jim Hoitt

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Layers of risk

How exactly does this work? Within a stop-loss captive program, each individual employer retains the largest, most opportune portion of their healthcare costs, making up close to 65% of their total risk.

This retained layer represents first-dollar health claims up to the stop-loss carrier's layer, as determined by the employer's stop-loss deductible. The captive, or pooled layer, reinsures the mid-level catastrophic claims from the stop-loss carrier, usually amounting to 25% of the health plan cost pie.

Finally, the largest claims, those rare events that are most catastrophic in nature, are transferred entirely to the stop-loss carrier. It is this combination of stakeholders, each aligned and incented to work together to manage the risk that has enabled captive programs to emerge as much more than a funding mechanism.

We have seen this happen in three ways:

1. Data: window into that middle layer

A single employer with a self-funded plan, along with its benefit consultant, must consider how its single plan results measure up and whether its recent claims activity is worthy of action. An employer that's part of a captive program has the resources of the stop-loss carrier at its disposal. The stop-loss carrier associated with the captive program can aggregate data and compare results from the entire program, eliminating outliers and anomalies.

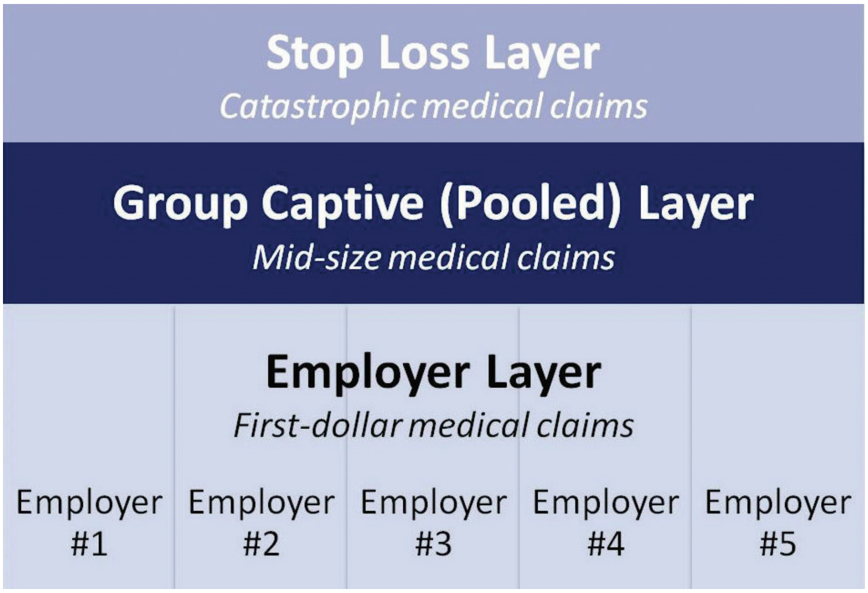
The single employer can focus on its own unique risks, and the collective members of the captive can put their group focus to managing those more credible risks. In this way, the stop-loss carrier becomes a critical centrepiece in developing the captive's blueprint for success.

For example, Berkley Accident and Health analysed the overall claims for three of its captive programs. In one program, the data showed that cancer was the top diagnosis, representing over 50% of the captive layer's losses. The members are now working with our clinical experts to modify their health plan design to include specialised strategies to target and lower cancer claim costs.

Similar data-driven solutions are playing out for other types of catastrophic claims in Berkley's programs, including high-risk maternity, elective surgeries, and emerging pharmacy advances.

2. Best practices: going viral

The culture of the group captive can also be a powerful tool in the total health risk strategy. While a single employer must become an astute buyer of services and advice, a member of a captive program acts both as buyer and advisor.



Regular meetings between captive members allow them to share best practices and discuss the health management tools that yield the biggest payoff. Employers can openly discuss successes and failures, how their employees respond to incentives, and vendors' fees and efficacy. Employers have an incentive to openly share their healthcare game plan, because this feedback can ultimately influence the results of the captive program.

In Berkley Accident and Health's case, we have created an annual three-day event to foster this type of dialogue. Captive members attend general educational sessions, as well as specific member meetings, that are built around the biggest claim risks facing the members. The focus of the conference is on best-practice approaches, innovative solutions, and in-depth case studies of recent pilot programs that are being tested. As a result, Berkley has seen its members implement cutting-edge price transparency tools, domestic tourism incentives, and reference-based pricing programs at a much higher rate than among our traditional, single-employer stop-loss customers.

3. Resources: working together

The third added benefit of group captives lies with the expertise and resources of the stop-loss insurer. Among best-in-class captive programs, the stop-loss carrier treats the pooled layer as if it were its own risk, investing its own expertise and resources to manage it well.

At Berkley Accident and Health, we have seen the best programs develop strong, three-way communication between the single employer, group captive, and stop-loss carrier. Of particular note is the relationship between the employer and stop-loss carrier. When employers belong to a captive program, they are essentially managing an insurance company at a micro level. As a result, it is essential for employers to have direct access to the stop-loss carrier's underwriters, actuaries, clinical expertise, claims adjudicators, and other resources.

We have seen this relationship grown to include other parties, including the employer's third-party administrator, case manager, and pharmacy benefit manager. These parties should be in lock step, always looking for ways to better coordinate claims and improve results in one or all of the layers of risk. In our case, Berkley's clinical risk management staff often becomes the primary glue that brings all of these parties together.

Stop-loss carriers can bring their risk management expertise to captive members by:

1. Tracking and targeting top catastrophic diagnoses on an annual basis

2. Negotiating with risk management vendors for discounts and favourable contract provisions, not otherwise available to a single employer

3. Identifying and bringing the latest developments to captive members, thereby allowing them to spend more of their time running their core business, not managing employee benefits

Here are two recent examples of this partnership:

• A captive member had an employee who was facing a costly stem cell transplant. The company's third-party claims administrator contacted Berkley Accident and Health to discuss possible cost controls. After a thorough evaluation of the available networks and hospital contracts, we recommended using a centre of excellence network that offered substantial savings, yet with the same high quality of care. By selecting this network, the cost for this expensive procedure was reduced by an incredible $995,000, in 2014.

• A captive member had an employee who was taking two tablets of a high-cost medication. We noticed the same dosage was available in one tablet at a much lower cost and told the member's case manager. The physician modified the prescription at the next refill, resulting in substantial savings to the captive program and the member, who was paying a substantial co-payment.

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Conclusion

Although stop-loss group captives started as a funding mechanism for employers, we have seen them grow into much more. While it's true that they create greater scale and increase the probability of positive results, we've seen that the entrepreneurial type of employer who joins a group captive in the first place also wants to manage their healthcare costs effectively, like a part of their core business.

When the first employee benefit group captives were first formed, no one could have predicted how they would evolve over time. Fast forward to today, and it only makes sense. Put a group of like-minded employers together and they will use the data, group collaboration, and available resources to customize a best-in-class solution that is tailored specifically to provide healthcare coverage to their most valued asset.