BLUEPRINT FOR SUCCESS: JOINING A GROUP CAPTIVE

Jim Hoitt, of Berkley A&H, outlines the steps and considerations in ensuring a smooth transition to a stop loss group captive

As the cost of healthcare in the US keeps rising, companies continue to search for alternatives to contain their employee health benefit costs. One increasingly popular option is a medical stop loss group captive, which can provide companies with potential savings and greater control.

In a medical stop loss group captive, companies retain control over their own self-funded health plan, benefits, administration and stop loss coverage. Just like a traditional self-funded plan, companies pay for the small, routine medical claims themselves. The largest, most unpredictable medical claims are covered by their stop loss policy. However, when a company joins a group captive, the difference is that there is a third layer of risk – sandwiched in between the small and large claims – that is shared by the captive. This middle layer acts as a shock absorber, bringing economies of scale to medical costs and shielding each individual company from the volatile ups and downs of medical claims.

This solution is ideal for small to midsize companies who want the advantages of self-funding but face challenges due to lack of size and scale. These barriers can be reduced with a group captive, where employers can join together with other like-minded companies to create a larger pool of employees with greater scale and reduced claims volatility.

Of course, captives are not right for every employer. They require certain characteristics and attitudes to be successful. As an adviser, it's important to recognise the qualities needed to ensure a group captive is a good fit. It's also important to spot the differences between captive providers.

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Because of the tremendous growth in stop loss group captives, there have been more and more new entrants in the US market. Some captive providers are further along the learning curve than others. Here are some points to consider when recommending group captives:

Before joining

Prior to recommending a group captive, advisers should ensure their clients are a good fit. Be sure to evaluate:

Size

Does the company have a critical mass of covered employees in order to self-fund and join a stop loss group captive? Recommendations vary, but, as a rule of thumb, a company should have at least 50 covered employees before self-funding and between 50 and 500 employees when joining a captive.

Financial stability

Does the company have solid financials? Switching from a fully insured health plan to a self-funded one means accepting more risk, in exchange for potential rewards. Payments in a self-funded plan will fluctuate from month to month, making it more challenging to plan and budget. Companies should plan to have a financial cushion, because they will be paying first-dollar claims and assuming risk in the group captive by funding collateral. In addition, potential members will undergo a financial review by the group captive programme. Employers with weak or unstable balance sheets may not be able to join a captive.

Long-term outlook

Does the company have reasonable expectations and know the goals they are trying to achieve? Do you as an adviser know the top issues they are struggling with right now? Joining a group captive is not a panacea; it will not automatically lower costs. Many companies see first-year savings due to the timing issues with medical claims and a reduction in taxes and associated fees, but results can vary each year. Companies should have a three-to-five-year commitment and a clear set of objectives.

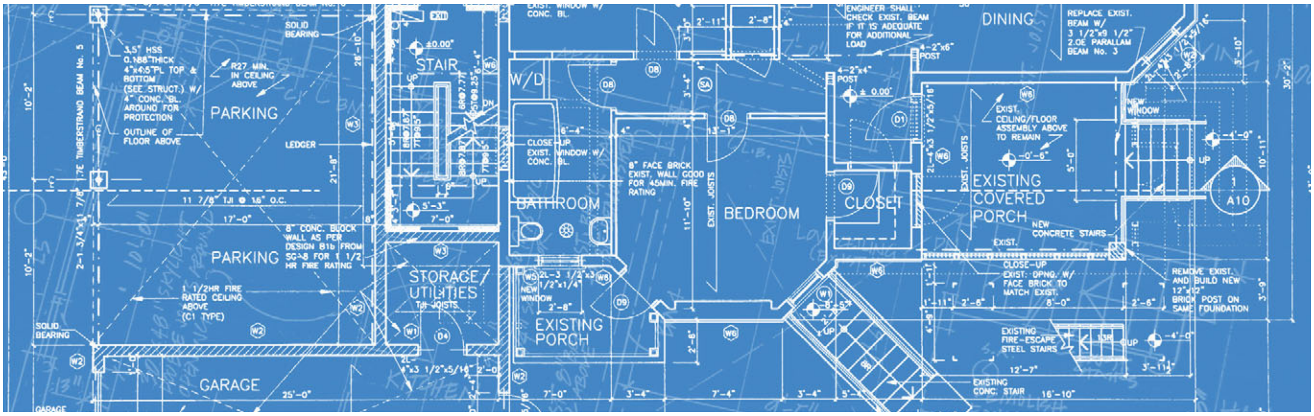
Forward thinking

Is the company comfortable with thinking like an 'owner' of their health plan, rather than just a 'buyer'? Self-funding and group captives represent a shift in thinking and stepping outside the comfort zone of a fully insured plan, in order to enjoy the benefits of greater control, transparency, stability and financial opportunity.

Some companies are willing to disrupt the status quo even further with health plan innovation. Cutting-edge tools, such as: telemedicine, biometric screening, employee incentives, reference-based pricing, onsite clinics, and medical tourism, can help self-funded employers maximise savings within their self-funded plan.

Community-minded

Is the company willing to learn from and share with other companies? Joining a group captive means connecting with a



community of like-minded employers. The captive is managed by its members, for the good of its members. This means a company may need to provide input or participate in meetings on a regular basis. Successful captive members must be willing to collaborate and share best practices.

Eyes wide open

Does the company understand the time and resources that may be required to join a captive? As an adviser, you should become familiar with the requirements of joining a particular captive and ensure your client understands them. For example, group captives may require prospective members to share their financial statements prior to joining. Some may require the company to appoint a designated point person to interface with the captive, listen in on conference calls, and attend annual meetings. If the captive's claims are higher than expected, members will be required to provide additional funds in the form of collateral, or non-premium funding.

When joining

Once a good candidate has been identified, advisers should guide their clients through the process of joining a group captive:

1. Pick a trusted partner

It's important to select an experienced, reputable captive provider. Pick a partner with a track record of designing, developing and managing successful programmes. Ask about: tenure in the market, number of programmes and clients, financial results, and member retention rates. An inexperienced provider may not have created the infrastructure and account management support needed to deliver a top-quality customer experience to your client.

In addition, since a stop loss group captive programme includes stop loss coverage, be sure to ask about the ratings, reputation and experience of the stop loss carrier. You will want a stop loss carrier that can honour its claim obligations.

2. Know who the other members are

Ask about the other members already in the group captive programme. Since your client will be joining a risk pool with other companies, make sure you understand who they are and what their goals are. Does the provider share information about them, and are you comfortable with what you learn? What is the long-term goal for the captive programme's ultimate size and member demographics?

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3. Know thyself

Talk to you client about expectations and designate a point person to work with the captive. This person will receive communications and reports, and possibly be asked to attend member meetings and provide input.

After joining

Once clients have joined a group captive, they should receive support and ongoing communication from their captive programme. As their adviser, be sure to ask about:

Financial transparency

Your clients should not be kept in the dark about expenses, fees and overall financial results. The captive programme should disclose everything with full financial transparency and provide sample reports. Terms should be defined, and financial results explained. Make sure you are comfortable with the frequency and level of financial reporting.

Risk management support

A captive programme should help members focus on improving their risk outcomes. Is there a data and results-driven strategy to do this? Risk management will vary by programme, depending on the specific goals, but each programme should have a strategy aimed at refining its risk management over time. Is there a long-term vision for the captive's risk management?

Account support

A captive programme should offer dedicated account support and resources to ensure members receive high-level service. Ideally, support should be available on a regular basis, as well as an ad hoc basis, when questions arise.

Community building

A captive programme should schedule time for its membership to meet, collaborate, and make decisions when needed. Meeting objectives should be clearly communicated prior to the event. Some captive programmes even offer educational opportunities for members to learn about healthcare risk management and emerging cost-saving tools.

Conclusion

Although joining a group captive is an investment in time and resources, it is an investment that can pay off with greater control and the opportunity to better manage costs. While there are risks, there is also the potential for reward. The best strategy is to identify good candidates for a group captive and to ensure that a group captive is one part of your client's overall employee health risk strategy.