# GROUP CAPTIVES: FROM MANY, ONE

Jim Hoitt, of Berkley Accident and Health, discusses the market and growth of medical stop loss group captives

With the fate of the US healthcare system in a seemingly constant state of flux, more employers are seeking alternatives to the way they finance health benefits. Self-funding a health plan ensures more control and transparency, but small and mid-size employers wrestle with the volatility of assuming the ever-growing increases in medical costs. The emergence of medical stop loss group captives has provided a balance between the desire to take control and the fear of poor loss experience.

## How group captives help small- to mid-size employers

Most large employers in the US self-fund their employee health benefits and purchase a high-deductible medical stop loss policy to protect themselves against catastrophic claims. However, if an employer has many claims during the policy year, the premiums may increase the following year. While large employers typically have a financial cushion to absorb this volatility, small- and mid-size employers do not. They require more predictability year-to-year, since they don't have the same resources.

This is where medical stop loss group captives can help. Traditional self-funded plans split an employer's health plan risk into two layers:

**Small, routine claims** *(see figure 1)*
- Risk retained by employer
- Funded by employer

**Large, unexpected claims**
- Risk transferred to a stop loss insurer
- Initially funded by employer, but reimbursed by stop loss insurer

**Jim Hoitt**

**Jim Hoitt** is an accomplished executive in the self-funded industry with over 20 years of experience. He is the senior vice president of captives at Berkley Accident and Health, where he directs all of Berkley's efforts related to group captive products. Hoitt has a diverse background including managing national distribution and marketing teams, as well as underwriting and third party medical administration.

A stop loss group captive programme splits that same risk into three layers:

**Small, routine claims** *(see figure 2)*
- Risk retained by employer
- Funded by employer

**Medium, expected claims**
- Risk shared with the group captive
- Acts as a shock absorber to minimise the effect on the stop loss coverage

**Large, unexpected claims**
- Risk transferred to a stop loss insurer
- Initially funded by employer, but reimbursed by stop loss insurer

What was just a concept ten years ago is now an established and vibrant industry. In Berkley's portfolio alone, the number of captive programmes that assume stop loss risk has grown fivefold in the last five years. That trajectory shows no sign of slowing in the coming months. The market is now maturing, resulting in the stakeholders spending more time and resources focused on health risk management rather than structural concepts. Thanks to that appropriate shift in focus, the results in these programmes have begun to open eyes, further fuelling the growth and development of other group programmes.

## Benefits to employers

In addition to the inherent benefits of self-funding, the power of the group captive provides a number of unique advantages to its members, particularly in the complex environment of employee health benefits.

**Stability:** The combined size of the group captive provides stability, since the captive's ceded risk premium acts as a shock absorber to mitigate the effects of any one employer's 'plan higher-than-expected' losses.

**Buying power:** The scale of the group captive also provides significant leverage when negotiating fees with service providers, as well as the clout to forge partnerships that normally would be available only to much larger, single employers.

**Collaboration:** As has been the case for all group captives, the collaboration and sharing of best practices is an enormously important benefit of membership. This collaborative environment becomes even more critical in the health risk management arena, where employee engagement is an evolving, trial-and-error strategy and fellow captive members share these experiences.

**Laboratory:** A secondary benefit of collaboration is the willingness for members to test unique or innovative initiatives as pilot programmes, on behalf of the rest of the membership. Members in the pilot programmes share results and suggestions for improvements, prior to the adoption by the larger member population.

### Market evolution

Many employers joining these programmes are entering the captive market for the first time, meaning that the captive jargon can be an added complexity to their already complicated health plan objectives. Fortunately, the market has matured to the point that many employee benefit brokers and consultants understand the basics. Much misinformation has been cleared up, such as the fact that stop loss group captives are not considered MEWAs (multiple employer welfare associations). Unlike MEWAs, group captives do not have any commingling of plan assets, and each employer retains full control over its benefit plan, funding levels, TPA and service providers.

The market evolution is also evident in the variety of structures that have emerged to fit each employer's investment resources, risk tolerance, and level of engagement. For example, wholly owned programmes are available for employers seeking more control and involvement in the risk vehicle. 'Turnkey' programmes with segregated cell accounts also exist that greatly simplify employers' costs, roles and obligations to the captive.

Today, there is a full range of programme types:

- Wholly owned captives
- Industry-based captives
- Rent-a-cell captives
- Regional or agency-based captives
- Turnkey, established captives

While each type has its benefits and drawbacks, employers should always consult a trusted adviser who is knowledgeable about the sometimes-subtle differences and benefits.

"The emergence of medical stop loss group captives has provided a balance between the desire to take control and the fear of poor loss experience"

### Real-life examples

In Berkley Accident and Health's experience, members have different goals and expectations, giving each group captive programme a unique "culture".

The following are actual examples from Berkley's portfolio, showing how each programme differs:

- One group captive programme that uses a wholly owned structure has 60+ self-funded employer members. The members have created a risk index scoring system that allows members to evaluate their health plan against their peers. Members share their scores and work with their own employee benefit brokers to enhance their overall health risk management. Committees were formed to provide guidance to the other members on risk, investments and other key elements of the programme.
- A segregated cell group captive programme with 15 members has negotiated its own prescription drug management formularies, specific to its own membership.
- A segregated cell group captive programme with over 40 members has partnered with a firm that provides transparency tools and steerage strategies, so that members consider the most cost-effective and high-quality locations for key procedures, such as surgeries. The vendor lowered its monthly fees by more than 15%, based on the combined size of group captive membership.
- A segregated cell group captive programme uses the services of an innovative data analytics company across all of its membership. The members track benchmarks and analyse trends, in order to develop their next slate of risk management initiatives. Members in this programme also share several initiatives designed to encourage covered employees to consider lower-cost alternatives, resulting in the entire membership to agree upon moving forward with similar approaches.

Just like any group of people or business, each group captive programme is unique. Its collective goals and objectives will vary, as will the level of autonomy of the individual members.

As the market continues to expand, more and more benefits will appear on the horizon, as members collaborate in new and creative ways. Used properly, stop loss group captives can be one of the most powerful tools for managing long-term healthcare costs.

## DATA | FIGURE 1 & 2