

# MCCBOA



## Medical Stop Loss Captives

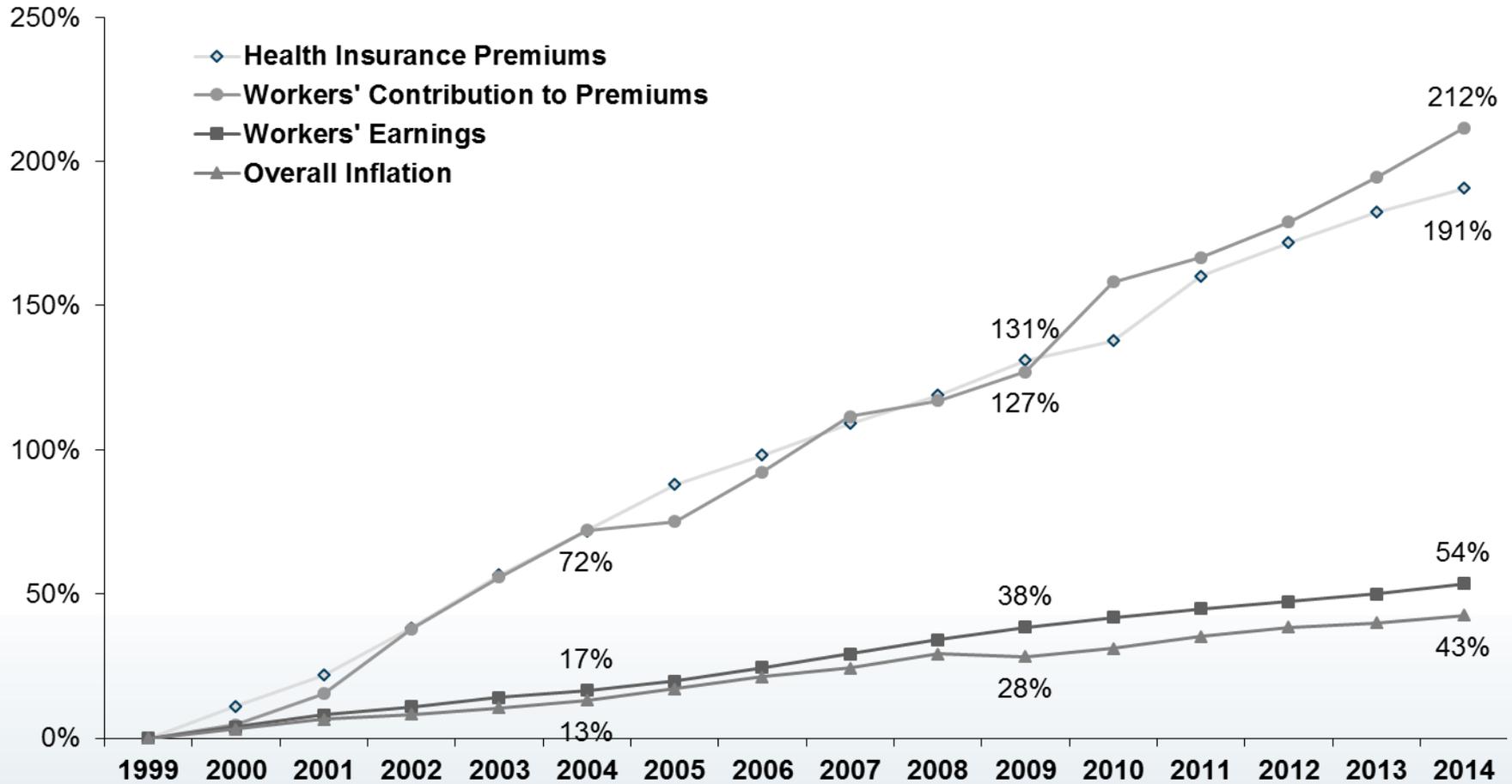


# Agenda



1. Market Overview / Fully Insured Limitations
2. Self-Funding Advantages and Challenges
3. Medical Stop Loss Captive – Objectives and Structure
4. Common Requirements to Participate
5. The Ideal Employer Profile
6. Education / Marketing Strategy

# Rising Employer/Employee Burdens



SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2014. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1999-2014; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2014 (April to April).

# Fully Insured Plans



- Annual rate increases without any meaningful data to understand “the Why”
- Premiums and experience are vaguely correlated
- In 34 states, 70% of market share is controlled by 3 carriers
- Potential responses to exorbitant renewal increases:
  - Switch carriers
  - Shift costs through plan design or premium share

# What can Self-Funding do to help?



- Access to claims data and analysis
- Avoidance of multi-state complexity applied to fully insured plans
- Premium tax reductions
- Some cash flow advantages
- Capture positive experience

# Self-Funding 101



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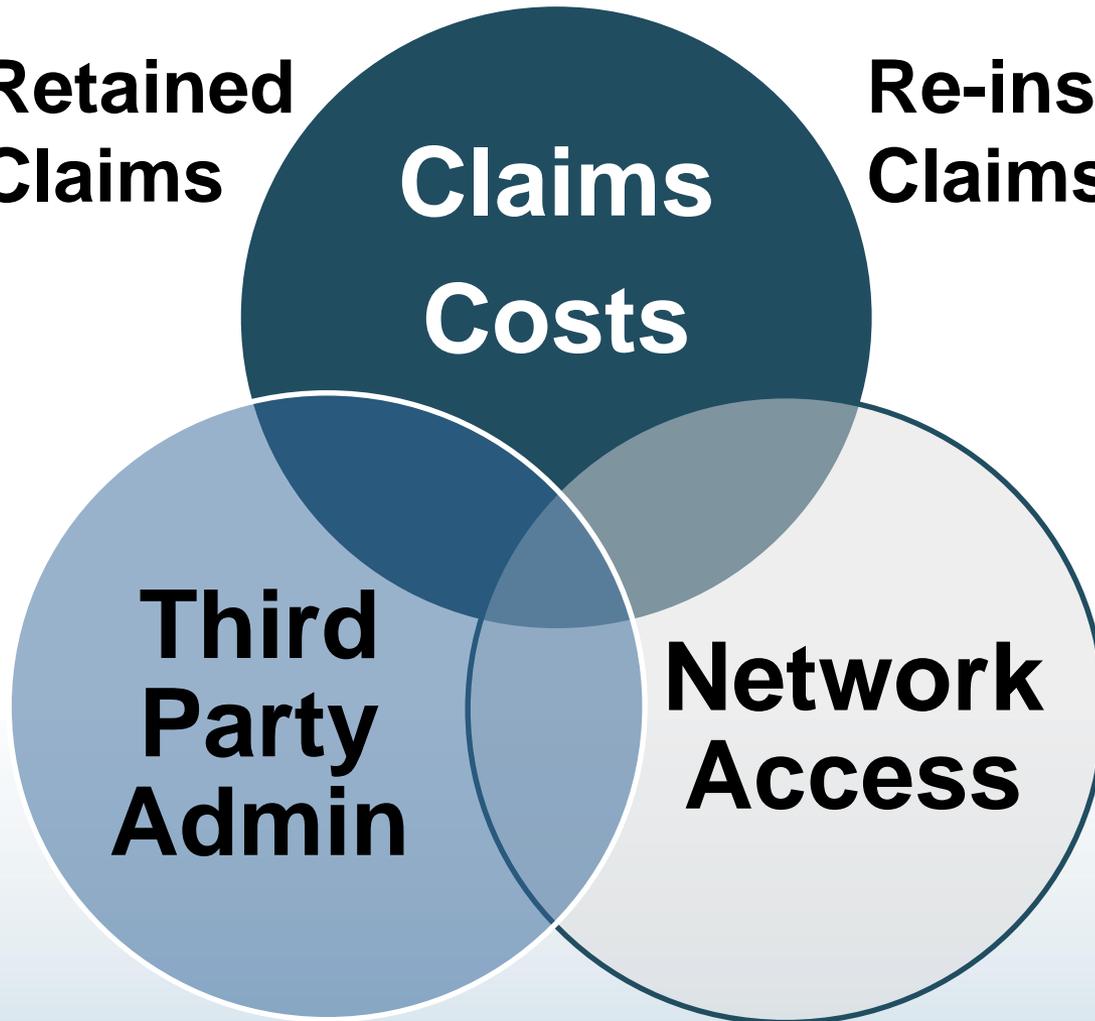
**Retained  
Claims**

**Re-insured  
Claims**

**Claims  
Costs**

**Third  
Party  
Admin**

**Network  
Access**



# Challenges of Self-Funding for Small to Mid-Size Companies

1. Lack of claims experience – leap of faith!
2. Claims volatility from year to year
3. Potential for Lasers
4. Staying long-term focused
5. Cash flow discipline



# How are Medical Stop Loss Captives Similar to Self-Insuring?

1. Capture the group's positive experience
2. Maintain flexibility of your own plan options
3. Gain access to your claims data
4. Some premium tax advantages and capture of health insurance company profits

# How are Medical Stop Loss Captives different?

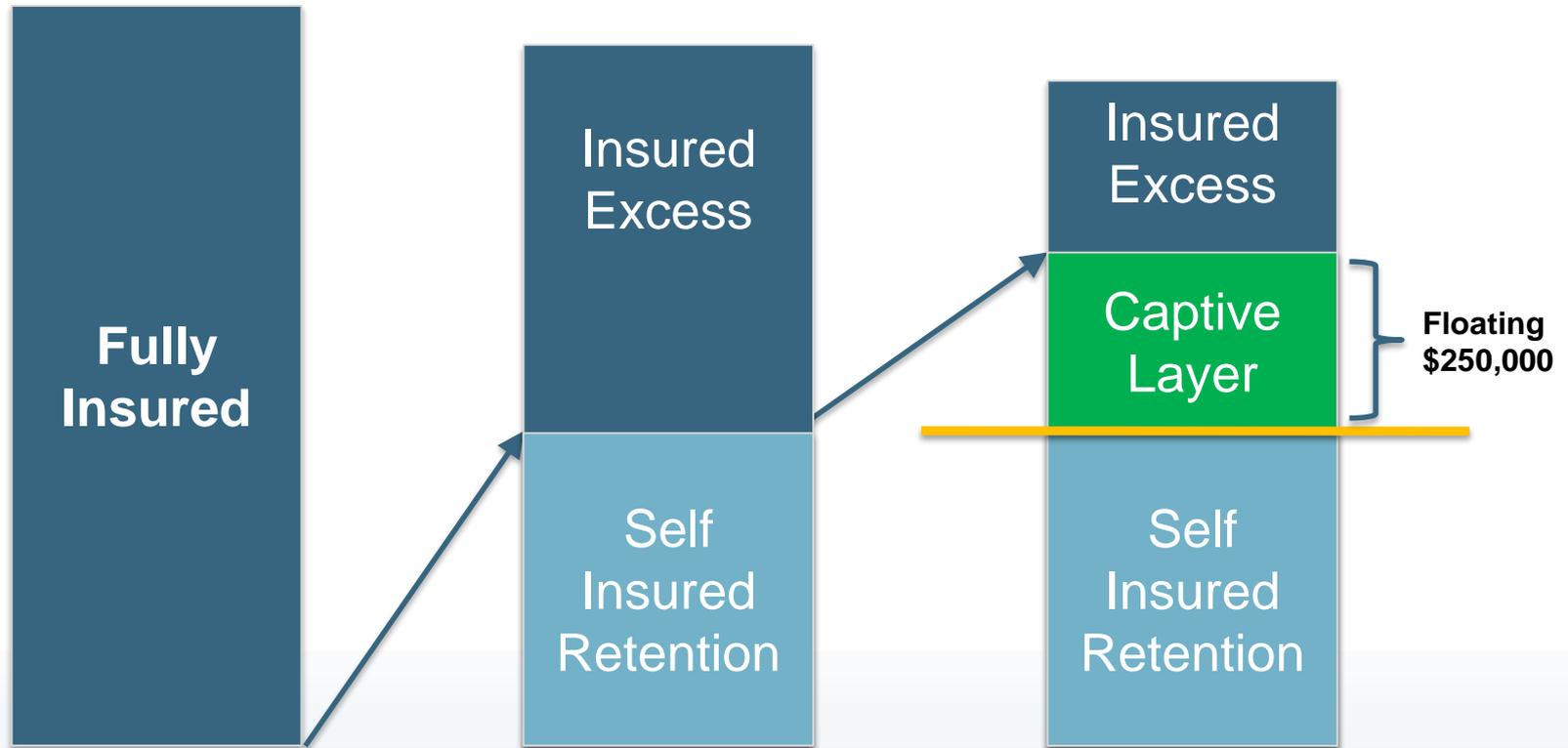
1. Participation in a preferred pool
2. Greater predictability of renewals
3. Smoothing of claims volatility
4. Capture of Stop Loss underwriting profits

# How Does a Group Medical Stop Loss Captive Work?

- Employers join a preferred pool of self-funded benefit clients and pay premiums to the stop loss insurer
- The stop loss insurer contracts with the captive for reinsurance
- The captive pools mid-size claims together to reduce volatility (10=7;2;1)
- Each employer maintains its own benefit plan design and is responsible for smaller claims and administrative fees



# Captive Risk Structure

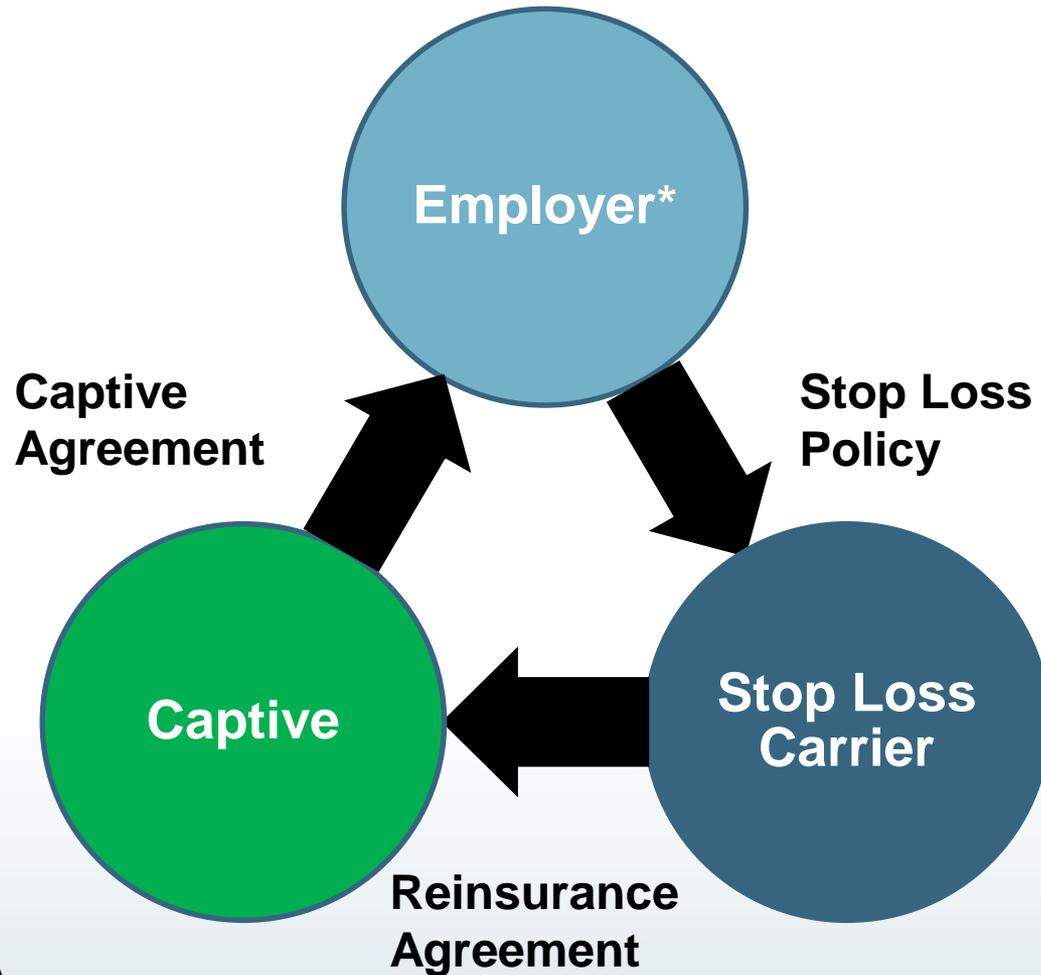


- Orange Line limit can vary by member based upon size and risk appetite
- Captive Layer of \$250,000 “floats” above each employer’s specific limit
- Captive Layer premium reflects chosen limit and number of participants



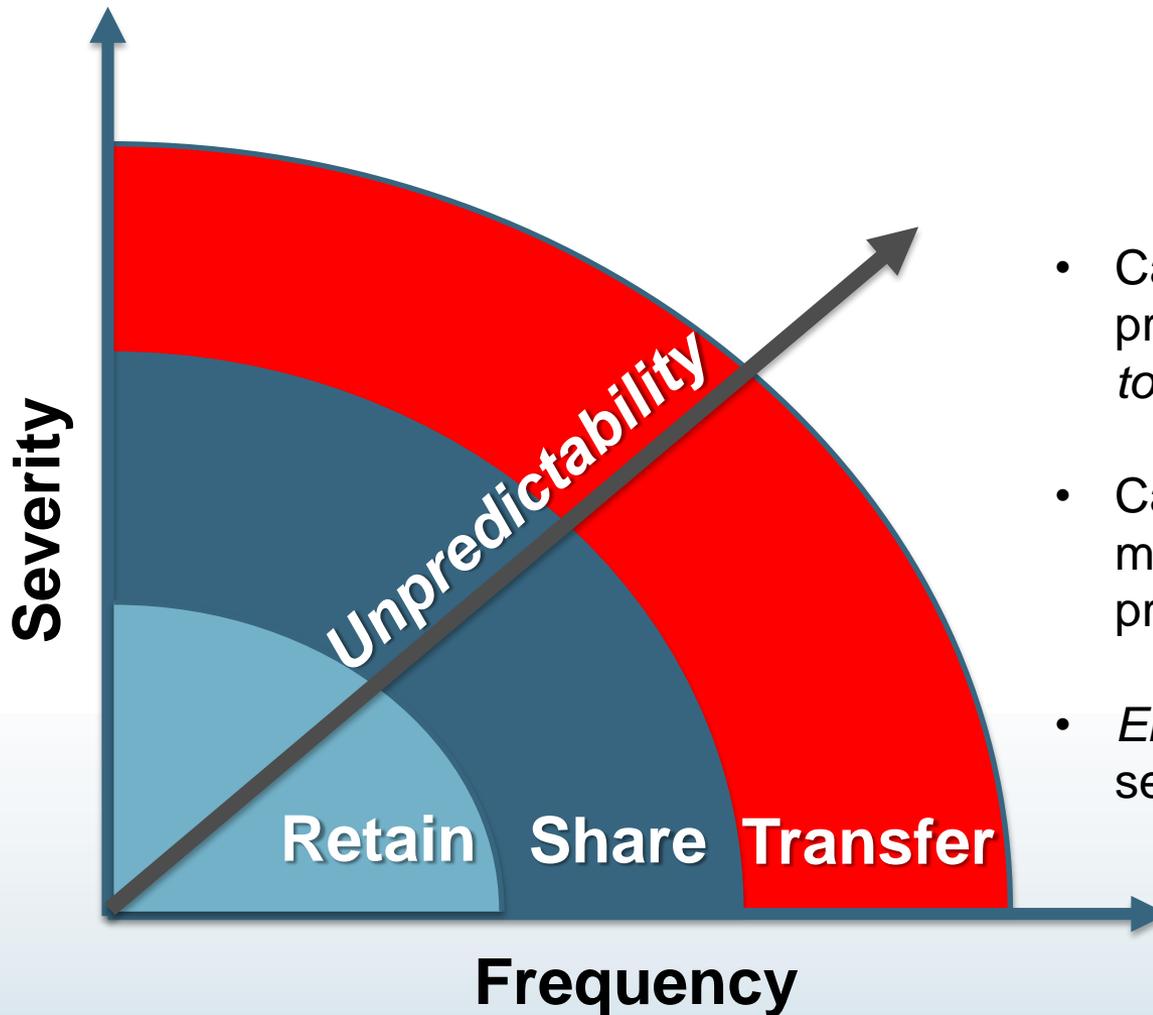
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# Relationship of Parties



\* Includes plan, broker, TPA,  
Risk Management Strategies

# Predictability and Distribution



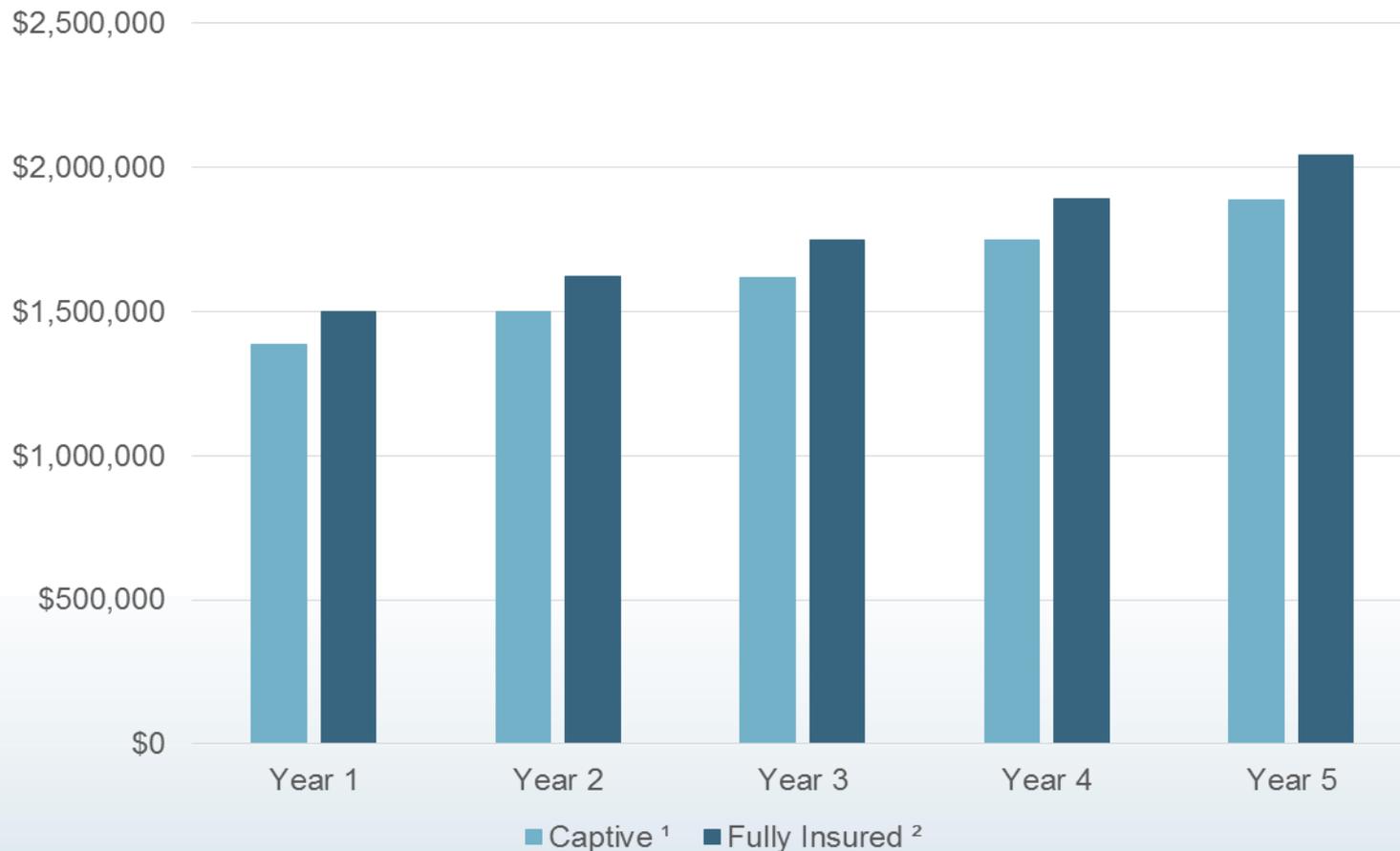
- Captive *transfers* the least predictable, most severe layer *to Reinsurer*
- Captive shares the moderately severe, somewhat predictable layer
- *Employer retains* the least severe, most predictable layer



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# Long-Term Financial Impact

**Five (5) Year Savings Projection: \$662,462**



■ Captive<sup>1</sup> ■ Fully Insured<sup>2</sup>

<sup>1</sup> Assumes no benefit from preferred population pool or population health management efforts (wellness, disease management, etc.)

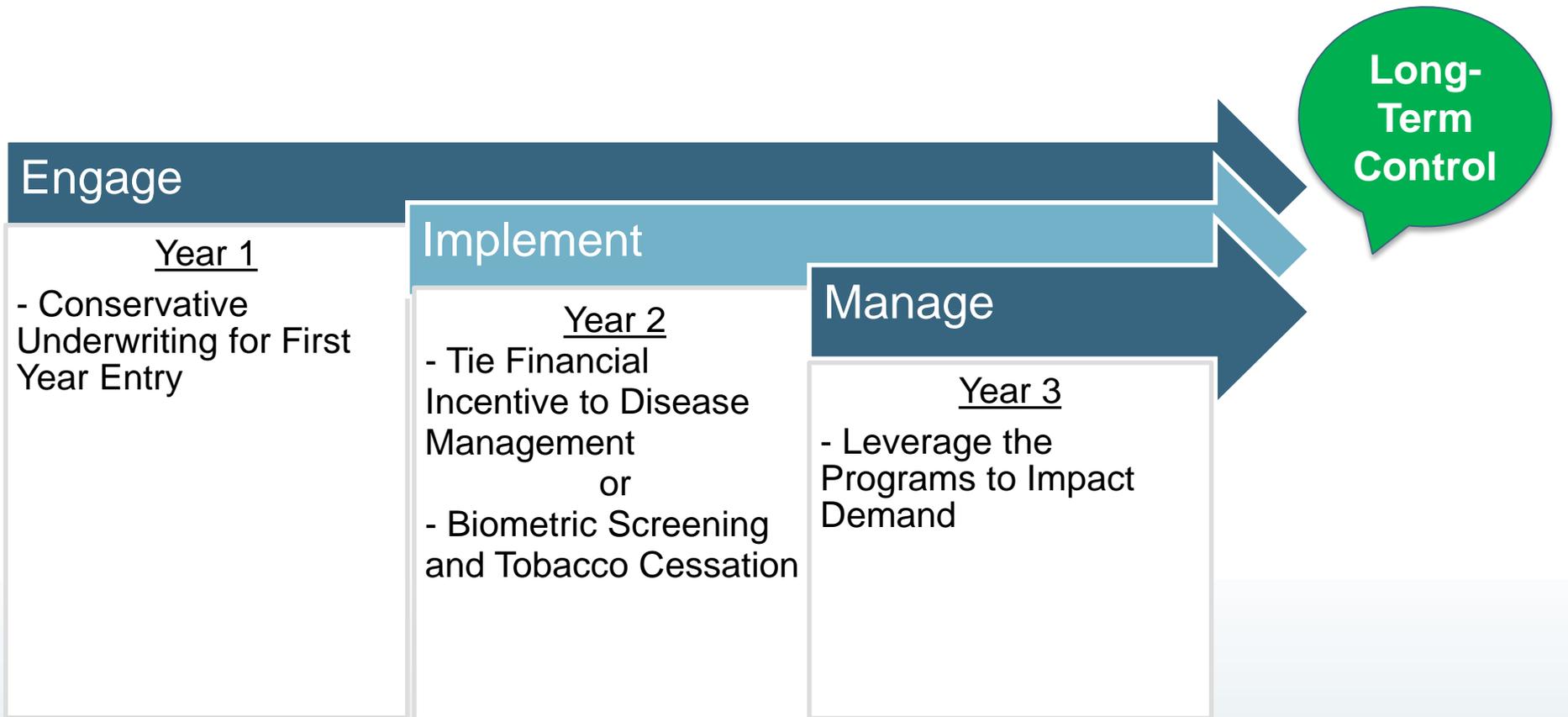
<sup>2</sup> Assumes renewal trend of 8% per year

# Sample Captive Performance



	Group 1	Group 2	Group 3	Group 4	Group 5	Total
STOP LOSS PREMIUM	\$475,000	\$100,000	\$300,000	\$200,000	\$625,000	\$1,700,000
RISK TRANSFER EXPENSES (Est. 40%)	\$194,750	\$41,000	\$120,000	\$82,000	\$256,250	\$694,000
CAPTIVE LAYER (Est. 60%)	\$280,250	\$59,000	\$180,000	\$118,000	\$368,750	\$1,006,000
INCURRED CLAIMS	\$149,000	\$45,000	\$142,200	\$165,000	\$285,400	\$786,600
PAID FROM CAPTIVE LAYER	\$149,000	\$45,000	\$142,200	\$118,000	\$285,400	\$739,600
CAPTIVE SURPLUS/DEFICIT	\$131,250	\$14,000	\$37,800	(\$47,000)	\$83,350	\$219,400
PRORATA DEFICIT SHARE \$	(\$14,883)	(\$3,133)	(\$9,400)	NA	(\$19,583)	(\$47,000)
PRORATA DEFICIT SHARE %	32%	7%	20%	NA	42%	100%
LOSS RATIO	53%	76%	79%	140%	77%	78%
NET PROFIT	\$61,120	\$12,867	\$39,256	\$25,735	\$80,421	\$219,400
COLLATERAL CONTRIBUTION (20%)	56,050	11,800	36,000	23,600	73,750	201,200

# Sample Participation Requirements





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# Captive Advantages

1. Access to critical healthcare data
2. Maintain independence of plan design, network and TPA selection
3. Capture immediate costs savings from taxes and health insurer profits (4-5%)
4. Reduce catastrophic claim volatility through captive pooling
5. Avoid possible lasers from stand-alone self-insured funding
6. Deploy long-term wellness and population health strategies
7. Share best practices with other fully engaged employers
8. Participate in profit sharing from captive underwriting
9. Lower the cost of your benefits program over time
10. Protect employees' (and employer's) share of wallet from unsustainable medical inflation

# Ideal Captive Employers

- *Self insureds desiring stability and profit sharing*
- *Fully insureds frustrated by lack of data*
- *Stable workforce of 50-500 Employees*
- *Strong executive leadership / vision*
- *Wellness culture*
- *Financial stability*

# How do we get started if we are Fully-Insured?

1. To receive a captive proposal, the following information would be required:
  - Copies of last three (3) renewals including current year rate development if available
  - Current Census, Desired TPA and Network
  - Contract Terms (12/15, etc.), Spec Level
  - Summary of Benefits, Wellness Info
2. Contact us to lead the process

# How do we get started if we are already Self-Insured?

1. To receive a captive proposal, the following information would be required:
  - Copies of last three (3) renewals including current year with all claims reports
  - Current Census, TPA and Network
  - Contract Terms (15/12, etc.), Spec Level
  - Summary of Benefits, Wellness Info
2. Contact us to lead the process



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# ABC Company

Effective Date:

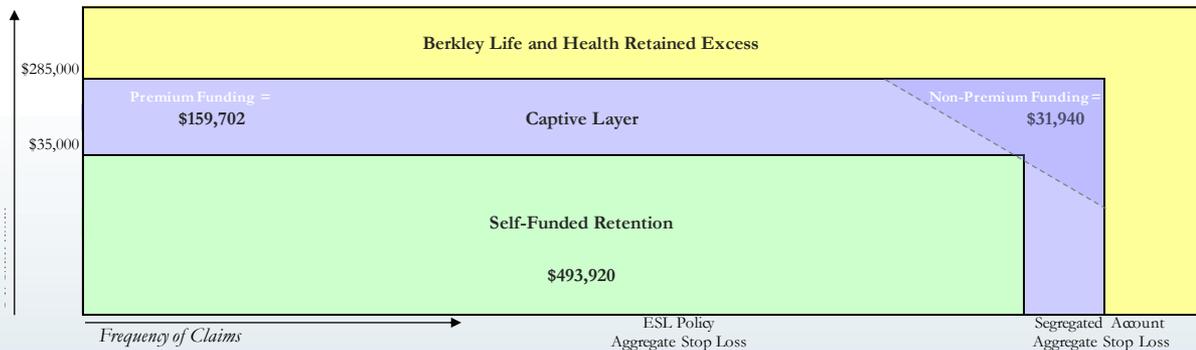


Specific Stop Loss Deductible- Per Individual	\$35,000
Captive Deductible	\$285,000
Attachment Point	120%
Proposed Specific Contract Type	12/15
Proposed Aggregate Contract Type	12/15
Aggregating Specific Deductible	\$0

	Maximum Annualized Cost	Expected Annualized Cost	* Potential Annualized Cost
<b>Self-Funded Retention</b>	592,704	493,920	370,440
<b>Estimated TPA Fees</b>	53,460	53,460	53,460
<b>Employer Stop Loss Policy Premium</b>			
<b>Policy Expenses</b>	140,331	140,331	140,331
<b>Captive Layer</b>	159,702	159,702	159,702
<b>Policy Premium</b>	300,033	300,033	300,033
<b>Non-Premium Funding:</b>	31,940	0	0
<b>Premium Distribution:</b>	0	0	(15,970)

\* The Potential Annualized Terms are based on the group running at 75% of their expected claims and the captive layer running at a surplus of 10%

Proposals provide Worst Case, Expected Case and Best Case Scenarios for consideration



Projected Cost	TOTAL	TOTAL	TOTAL
	978,138	847,413	707,963



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# Questions?



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Thank you!

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