

Using Group Captives for Health Insurance

by Jeff Fitzgerald

While the P/C market continues to create innovative single parent and group captive programs, the use of captives to insure accident and health risks has been limited. There have been less than 20 single parent health insurance programs established in the past 10 years. The cost of health insurance rises every year while the P/C market remains soft. Mid-size employers (more than 50 employees but less than 1,000) are most affected by health insurance increases and often unaware of alternatives. There is increasing interest from mid-size employers to proactively address their health insurance costs. Could a captive be the answer?

PERCEPTIONS

Many believe that captives do not apply to health insurance and should not be considered as a potential solution. These perceptions are usually due to a lack of information and understanding about captives and the role they play.

No Control

Perception: Employee benefits purchasers feel that they have no control over the health care events of their employee population. Purchasers often see themselves as victims rather than informed consumers.

Reality: Risk management techniques can be applied to health care costs as well as P/C costs. Preventative care and claims management can reduce the costs of claims. Risk financing techniques such as captives can provide more efficient financing mechanisms.

Lack of Size

Perception: Due to size, cost and regulatory constraints, mid-size employer groups cannot efficiently participate in a health insurance captive program.

Reality: While mid-size employers will probably be too small for a single parent captive, there is the possibility of a group captive health insurance program. The most common structure mid-size employer groups utilize is a group captive supporting a partially self-funded health insurance plan. Similar to the rise of group captives in the P/C market, individuals have found that sharing risk within a defined layer of exposure is an option when reviewing premium, access to the reinsurance market and homogeneity.

Unpredictability and Increased Risk

Perception: By sharing risk with others and participating in a larger pool, employers believe they are increasing their health insurance risk.

Reality: The smaller the group, the less predictable the medical claims. Fully insured mid-size employers are part of a larger underwriting pool overseen by their insurance carrier. The use of a group captive creates a structure where individual groups can share claims together in a manner that grants them transparency and greater predictability.

Increasing the size of a group does increase the total amount of risk. At

the same time, the volatility and unpredictability of medical claims decreases. Mid-size employers are better able to predict their claims and plan for them by participating in a larger group of like-minded employers.

ERISA and HIPAA

Perception: Single parent captive programs have had to undergo Department of Labor exemptions for the ERISA benefits in which they participate. Mid-size employers and their advisers believe they need to obtain the exemption.

Reality: This exemption is not necessary for a properly structured association, group and agency captive program. ERISA and HIPAA compliance is important, but employer groups can remain compliant in a self-insured solution that utilizes a captive.

Lack of Agent Understanding

Perception: The vast majority of captive professionals have an exclusive background in P/C lines of coverage. Many health insurance brokers are aware of captives but have no background in them. Most agencies that have producers on both sides are not aware that there are overlapping opportunities. This is not a criticism of insurance agencies, but rather a recognition of the newness of these programs and the separation between P/C and accident and health producers.

Reality: These programs are being created and the concepts and structures are familiar to those on either side of an insurance agency.

Additional Administration

Perception: Human resources departments face challenges regarding the





perception of further aggravation and administration when transitioning to a self-funded platform. The addition of a captive component can compound this anxiety.

Reality: While there is an element of participation in the health plan that does not exist in a fully insured program, many third party administrators are as sophisticated as a traditional insurance company and their implementation and ongoing enrollment should be seamless to the employee. Understanding the role of the captive and all parties involved can alleviate this. The role of a wellness group and TPA is to decrease the total number of claims, not increase the aggravation of the human resources department.

CONCERNS

Unlike perceptions based on a lack of information, there are quantifiable concerns when reviewing a group health insurance captive program. These concerns should be addressed directly so that groups may determine if a captive option is feasible.

Data Availability and Integrity

The viability of a captive solution can be constrained by a lack of available data regarding claims incurred and paid, usage, medical trends, program costs and the growing wellness portion of most health plans. Like P/C captives, health insurance captives require actuarial loss projections to develop appropriate premiums. Gathering, collating and analyzing that data can be burdensome for everyone involved. On top of this, there is little incentive for an employer's present carrier to share that information with an outside underwriting group. A lack of data or concerns

about the integrity of the data can lead to adverse results for the captive or prevent its formation.

Networks

Networks matter. Each insurance company has one and there are many rental options available as well. Networks determine the cost that the health provider will charge you and your employees for claims. A robust network presence provides effective coverage at an affordable price. Part of any feasibility assessment is to determine network options and how they impact the real cost of a plan.

Brokers and administrators should be trusted participants in the process and able to provide innovative network options that do not greatly disrupt employees or create an untenable increase in the cost of the company's health insurance plan. The role of a competent captive management group is to help the broker determine the feasibility of these solutions.

Claims

While they can be predicted, discounted and reduced by preventative care, health insurance claims are real. Employees are going to go to the doctor, get prescriptions and undergo medical treatment. No health insurance program can remove claims entirely. But just as wellness programs can decrease claims severity and frequency, a captive insurance solution can increase the stability of claims for the group.

A program that provides a defined claims cap and the potential to recognize when claims are not incurred can be an attractive alternative to paying an insurance carrier and hoping not to be punished for these claims. Captive insurance groups are focused on risk and claims modeling and management. Part of any feasibility study from a captive consultant group should be a detailed review of exposures to the individual and the group.

Time

There is time involved in plan transition, wellness initiatives and attending to the captive. This specific time may be difficult to determine but usually correlates with the enthusiasm the group shares for making changes to their program. To help determine if the investment in time is worth it, first determine if the group wants to, or believes it can, make a change in employee health. If the employer is not looking to invest in its employees and create long-term health care initiatives, then it may be best to remain in their current environment and work with new carriers every few years.

If the employer is serious about being part of a group that allows it to participate in its own health insurance, the company should interview the unbundled participants (broker, captive manager, administrator, enrollment group) as its competency and ability to work together will determine the internal aggravation the employer will face. ■