

EVERYTHING YOU NEED TO KNOW ABOUT HEALTHCARE CAPTIVES



WINTER-DENT

Nearly every organization needs a healthcare plan as a part of their benefits package - but not every organization has to be stuck with the traditional options that come from just a handful of insurance companies.

Being part of a captive is not just a way of thinking outside the box. It allows you to throw the box away altogether and start over.

A captive is a cutting-edge way of gaining control over more of both your risk and your costs while still maintaining the same good quality coverage (or better) as the big boys. Curious? Read on...

WHAT IS A CAPTIVE?

A captive insurer is a vehicle for taking more control of risk and is an alternative way to finance or fund the cost of it. Employers use this alternative for setting up their own insurance company rather than purchasing a traditional policy from an existing provider. While some larger employers may establish an insurance company on their own, small and medium size employers may join together to form an insurance company as a group. Although this strategy is not for everyone, some employers can reap significant benefits from being part of a captive.

Different types of captives exist. For example, a property and casualty captive (P & C captive) can be used to insure against general liability,

auto liability and at times even provide worker's compensation coverage, and can be created to fund a multitude of other risks as well.

Health captives are created to fund healthcare benefits for the employees of the companies who take part in a captive arrangement. This unique insurance funding arrangement allows employers to retain, share and at times transfer the financial risk for a self-funded insurance plan. For small to medium-size companies, a health insurance captive can make it possible to provide the same high-quality healthcare benefits as a larger employer while at the same time possibly capturing the underwriting profit that normally insurance companies keep.

A CAPTIVE IS A VEHICLE FOR TAKING RISK

It can be formed by a SINGLE COMPANY...



SINGLE PARENT CAPTIVE

... or MULTIPLE COMPANIES.



GROUP CAPTIVE

SINGLE PARENT CAPTIVES

A single parent captive is a captive formed by a single company. In most cases, this type of captive will be formed by a larger organization that

can afford to fund its own risks with minimal cost sharing or shifting to an insurance or re-insurance company.

GROUP CAPTIVES

A group captive is a captive that is formed by a group of companies joining together to share in the risk of the group collectively. This option is the most common solution and more frequently used choice for companies that are smaller to medium-sized and who have a desire to take more control over their own risk.

Group captives may be formed by companies of the same industry, or

they can be formed by companies in different industries. When a group captive is formed by companies within the same industry, they are known as “homogenous” or “closed membership” captives. Captives that are formed by companies from different industries are known as “heterogeneous” or “open membership” captives.

WHAT IS A GROUP CAPTIVE?

A GROUP CAPTIVE can be made up of companies in the same industry or different.



SAME INDUSTRY

Closed membership (homogeneous)



DIFFERENT INDUSTRIES, SIZES, OR REGIONS

Open membership (heterogeneous)

WHY DO HEALTHCARE CAPTIVES EXIST?

One of the biggest challenges in paying for healthcare is that there are no regulations on what doctors, hospitals and other providers can bill for their services. In fact, some for-profit hospitals may charge insurance companies more than 2.5 times of the amount Medicare will cover for their services. Studies indicate that, in some cases within the standard insurance company environment, those rates may even be a lot higher. It's important for companies to know that alternative options are available.

Group captives serve several purposes and offer notable benefits over other options, including:

- **Long-term Stability** - Joining a large pool of companies in a group captive allows you to not only save on expenses, but also increase the stability of your rates. In addition, because your renewal rate will be based on your company's claims history, being part of a captive can provide more predictability with regard to annual rate increases. With a traditional insurance carrier, on the other hand, rates can increase dramatically and without warning based on trends in the industry.

- **Cost Control Strategy** - With a traditional insurance plan, your out-of-pocket costs are fixed. This means that, when your insurance claims are low, your insurer keeps the profits and you spend more than necessary - and when claims are high, premiums may increase to adjust for the difference. However, with a group insurance captive, you can save

on overhead expenses by creating a more efficient system. With a low claim year, a group captive can provide dividends when predicted losses in a year don't materialize. Alternatively, when claims are high, a group captive can help diminish the impact.

- **Data Transparency** - Captive insurance programs give you greater access to your plan data, as well as data about your insured population. This access to data gives you more opportunities to tailor healthcare coverage to your employees' unique needs, ensuring that all employees get the care they need at the most affordable price.

- **More Customization** - Group captives give you considerably more control over your insurance coverage. Instead of simply purchasing a one-size-fits all plan, you can tailor your coverage to

match your business's biggest risks. Depending on your situation, you may also be able to customize your plan in a way that gives you access to specialized coverage that would have been too expensive in the traditional insurance marketplace.

- **Collaboration** - Being part of a group captive allows you to collaborate with other companies to create an insurance arrangement that offers the maximum benefit to your organization.

HOW DO CAPTIVE INSURANCE COMPANIES MINIMIZE RISK?

Group captives offer greater control, improved transparency and increased stability where all members can benefit. In addition, the true health risk management inherent in a captive provides opportunities that would never be available when purchasing insurance through the traditional marketplace.



WHAT ARE THE ADVANTAGES OF A GROUP HEALTH CAPTIVE?

Group health captives offer several advantages that make them a wise choice for employers looking to take control of their healthcare coverage and spend. Some of these advantages include:

1. Access to turnkey coverage solutions.

Group health insurance captives don't require you to start from scratch. In fact, joining a group health insurance captive gives you immediate access to established programs and solutions your company can use to improve healthcare immediately.

2. Relationship with top-tier carriers.

Choosing a group health insurance captive does not mean you will be receiving inferior coverage or benefits. In fact, for many companies, joining a group captive improves access to coverage. With a group health insurance captive, you will have a direct risk relationship with re-insurance partners who are typically very highly rated and stable partners.

3. Experience and flexibility.

When you join a group health

insurance captive, you can take advantage of all the knowledge and experience of the other members. You will also enjoy greater flexibility than you could ever achieve with traditional insurance options.

4. Reduced middleman expenses.

A group health captive allows your organization to purchase coverage wholesale, rather than retail. This means you can reduce some of the overhead expense by cutting out the middleman and making purchases directly.

5. Dedicated program services and support team.

You may worry that joining a group health insurance captive would leave you without the support you need. However, a good quality group captive, claims administrator and agency partner are all there to provide a dedicated support team,

as well as other services you need to manage your organization's healthcare insurance successfully.

6. Help with risk management.

Group health insurance captives offer their members customized risk management assistance, as well as access to leading industry strategies that can be used to improve how you choose to manage this area of corporate risk.

WHO SHOULD CONSIDER A HEALTH CAPTIVE?

A health captive is not the right choice for every organization. However, you may benefit from a health captive if:

- ☐ Your company has at least 50 or more employees who are eligible to receive health benefits
- ☐ You have a forward-thinking management team capable of handling an “outside-the-box” health insurance solution.
- ☐ You are willing to maintain open communication with employees about healthcare expenses.
- ☐ Your company is willing to implement robust health and wellness programs to improve the overall health of employees and reduce costs.
- ☐ You are financially stable enough to accept a portion of the health program’s risk.



REVIEWING BASIC OPTIONS FOR FINANCING YOUR COMPANY'S HEALTH PLAN

In general, there are two basic options for financing your organization's health plan: fully insured plans and self-funding. Captives fall under the heading of "self-funded plans."

About Fully Insured Plans

Fully insured plans are the most common option used by employers in the United States. However, there are disadvantages to fully insured plans that cause some employers to look for alternatives, such as captives. Specifically, these plans often subject your company to unpredictable increases in rates on an annual basis. In most cases, these rate increases are based on industry trends, as opposed to your company's own claims. This means that you may pay much more than you should for the coverage you receive, even when your company's

own claims are low. Fully insured plans take the good with the bad. Captives provide a better pool of risk and should perform better in the long-term.

When rate increases are too big to tolerate, you have only two choices: attempt to switch carriers or pass on the cost to your employees. Switching carriers may allow you to lower your costs temporarily, but the possibility of a rate increase the following year is always present. Passing the cost to your employees means that they will be forced to pay higher premiums and/or take on higher deductibles. This can lead to poor job satisfaction, diminished health among employees and even loss of good employees who leave your organization to find a position with better benefits.



SELF-FUNDED PLAN BASICS

Self-funded insurance plans offer several benefits that make them appealing. These benefits include:

- Cash flow benefits
- Data transparency
- Multi-state plan design flexibility
- Ease of administration
- Lower fixed costs
- Lower premium tax
- Ability to retain carrier profit

Self-funded plans provide even more advantages under the Affordable Care Act. For example, with a self-funded plan, an employer is not required to:

- Provide coverage that includes the minimum essential benefits defined by this law.
- Participate in a risk-adjustment system.
- Adhere to other cumbersome provisions, such as restrictions on premium increases and Medical Loss Ratio requirements.



SELF FUNDING AND LARGE ORGANIZATIONS

Self funding is easier for larger organizations. Thus, the larger a company is, the more likely it is to self-fund. In most cases, a large employer will choose a self-funded insurance plan because of the flexibility and financial benefits this

option offers. Large employers are also likely to self fund because their size offers them a greater level of claims predictability and, thus, lower risk. In addition, large companies have greater financial resources, which means they can assume a

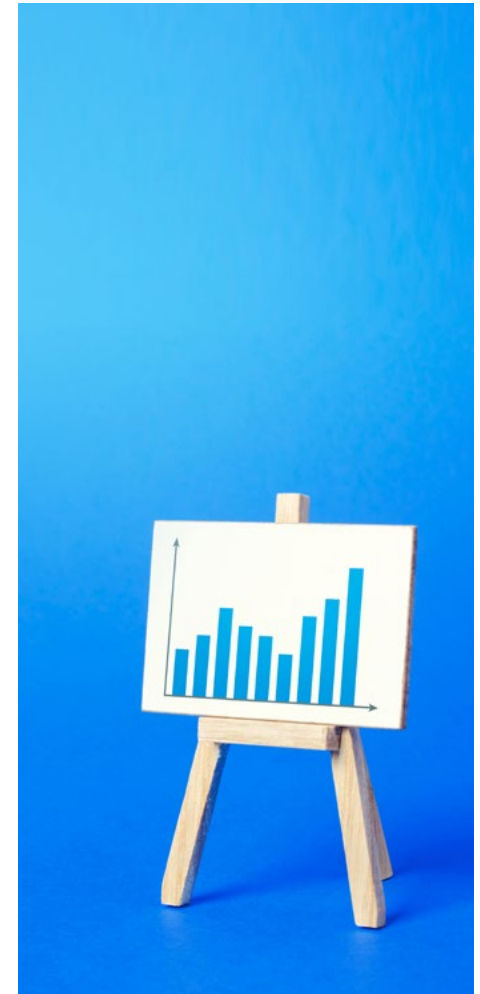
greater level of risk than a smaller company without putting their financial stability in danger. Higher levels of risk can be mitigated by Medical StopLoss with a higher deductible.

CHALLENGES OF SELF FUNDING FOR MID-SIZE ORGANIZATIONS

For mid-size companies, self funding of insurance can come with disadvantages that at times can outweigh the benefits. For example, mid-size companies may not have the same capability of retaining risks as a larger company, making the self-funded plan a financial threat to the organization and a source of unpredictability. Mid-size companies

may also lack the resources to properly manage a health risk program. Self-funded insurance plans offer great transparency and access to significant data, but this data may be overwhelming to a smaller company that doesn't have the ability to process and leverage it. In addition, mid-size companies have a smaller pool of insureds,

which means less predictability and more volatility. Even though certain types of risk can be carved out to keep the majority of the employees' cost manageable, the process of managing these situations can be confusing and daunting for mid-size companies to handle on their own.



WHY DON'T MORE EMPLOYERS SELF-FUND?

Self funding offers quite a few advantages, so why don't more companies do it? Many employers avoid self funding simply because they are not big enough to benefit in the same way as a larger employer would when using this strategy. However, with a group captive, small and mid-size companies can enjoy these same benefits, including greater control over healthcare coverage customization, enhanced transparency and higher stability. The health risk management that comes with a group captive can also be used to control costs.

Group captives bring it all together, allowing small and mid-size employers to act like a large employer. With group captives, less risk is transferred to an insurance company, and the organization is able to take advantage of all of the traditional benefits of self-funded insurance. Collaborative health risk management takes the load off the

smaller employer, allowing them to take advantage of industry best practices, customize their coverage to meet the needs of employees and keep costs as low as possible. In addition, group captives control volatility, making rate changes more predictable and easier to accommodate. Furthermore, under the Affordable Care Act, joining a group health captive offers even more benefits by eliminating some of the restrictions and provisions that have placed an unreasonable burden on small and mid-size employers purchasing traditional insurance policies.

Note: Keep in mind that a captive is a funding strategy, NOT a benefit plan design strategy. If you choose to be part of a captive, you will still need to make many decisions with regard to the structure of your plan and the specific benefits your employees will receive.



SHOULD YOUR ORGANIZATION BE IN A CAPTIVE?

After learning about group captives, the most natural question is “should my company take advantage of this option?” The answer for most companies is maybe.

Whether you should join a captive depends on many different factors, including your risk perspective and healthcare goals. To decide whether you should pursue this option, you need to have a clear understanding of where your company is currently and where you hope to go in the future.

The decision to join a captive is based on a careful evaluation of what's right for your organization. If, in fact, a group captive makes sense as part of your long term strategy, then it may be a fit. However, there may be several other options you should consider before ultimately coming to the conclusion that you want to join a group captive.

Winter-Dent has all the resources to evaluate your current position and help you structure a program that's right for you. We will walk you through the process every step of the way to make sure you don't face any unwanted surprises.

Our ultimate goal is to help your company succeed with whatever health insurance strategy is chosen.

If you decide that your organization should be part of a group captive, Winter-Dent has all the resources to evaluate your position and to help you get set up. We will monitor the process every step of the way to make sure it is working well for your company and that you don't face any unwanted surprises. Our ultimate goal is to help your company succeed with whatever health insurance strategy is chosen.

Winter-Dent is an expert on captives. We understand how they work, the advantages they provide and the drawbacks our clients may face when they select this option. Whatever your final decision may be with regard to your company's healthcare strategy, we want you to be aware of all of your options and understand how each possible decision will affect your company and your employees, both today and in the future. We are committed to bringing the best options, resources and information to the table, so that you can minimize your risk and maximize your control.

That's the Winter-Dent DIFFERENCE.

If you want to learn more about group captives, or if you'd like to discuss any other issues related to your company's risk management needs, please give us a call today.

