Compliance Corner Webinar:

Captives – Not Just for Fortune 500 Employers Anymore!

May 18, 2017

Q: What if stop loss premiums are less than paid stop loss claims under a captive? And higher than reserves?
A: Reinsurance for both specific and aggregate claims attaches after all captive participants stop loss premiums and collateral is exhausted.

Q: What's the difference between a Captive and a MEWA?
A: Each participant in a fronted stop loss captive receives its own AM Best rated policy. All MEWA members receive a general promise to pay claims from an unrated pool of assets not regulated as an insurance entity. MEWAS are also assessable if collected premiums are less than incurred and paid claims. Captives if structured properly can avoid any assessments.

Q: Do you pick your pool?
A: Yes, except private pools are only available to the sponsoring organization.

Q: Is there a withdrawal liability if you want to get out of the pool?
A: Not in our public pools, but private pools can provide for a forfeiture of the exiting participants collateral and distribution.

Q: What is the average size group for the Captives?
A: 115 employees

Q: Does a captive have to cherry pick its risk to be successful? In other words what do we do with groups that have poor demographics?
A: No. We price them correctly.

Q: Could I use any TPA for everything but stop loss? If so, how are stop loss claims coordinated?
A: Yes. The TPA submits claims to MGU (Roundstone) as the stop loss claims adjudicator when the claims reach the stop loss policy coverage terms.

Q: Is it feasible for multiple employers (all small group) to collectively come together to join or form a captive?
A: Yes, that is typically what occurs in these group captives.

Q: He keeps referring to BUCA, what is that?
A: An acronym for the large managed care companies, Blues, United Healthcare, Cigna, Anthem and Aetna.

Q: At renewal do captives raise specific deductible levels per employee? Isn't this a laser?
A: No, raising specific deductibles is an option to lower fixed expenses, but it is not required. Specific deductible can be lowered as well. No, a laser is a specific deductible for an individual.

Q: Will a current captive participant group be not offered a renewal is running poorly?
A: Renewals are offered to all participants. Their pricing will reflect their experience.

Q: Can you talk about employers participating in a Captive - what percents those with very favorable claims experience from leaving captive?
A: The captive's retention is over 90%. Those with favorable experience are realizing tremendous savings above what the market can offer based on their own experience under the specific deductible and captive's return of underwriting profit. A favorable experience in these two layers would make any alternative less attractive from an upfront pricing perspective.

Q: Can you explain the methodology on how the upfront collateral is determined - and how often that is typically required - 1 year, 2 years, every year?
A: It's approximately 10% of the stop loss premium. We do not require it be stacked or paid twice so long as it was not utilized during the initial underwriting year.

Q: A lot of Captives are held off shore, what risk is associated with this and should we be looking at Captives held in US?
A: The assets of fronted captives are held onshore by the fronting carrier's bank. The offshore domiciles for captives are attractive from a time to execute and implement perspective. There are no negative consequences we are aware of to an offshore domicile. Onshore is more costly and time consuming for captive participants.

Q: How are captives affected by ACA? What does the reporting look like?
A: As a self funded ERISA regulated benefit of the employer plan sponsor, stop loss captives avoid many of the negative impacts of ACA. Taxes, community rating and costly state mandated benefits are avoided with stop loss captives. You receive quarterly financial statements reflecting the employer's activity and the overall captive's activity.

Q: How do you measure/vet the integrity of a captive manager?
A: Review its insurance licensing authority, length of time in the business, E&O coverage, experience of leadership, partnerships with reinsurers and fronting carriers.

Q: How are the required-reserves determined for Year 1?
A: These are medical expense policies that are reimbursing employers for paid claims during the policy period. Reserves held are no more than the premium and collateral remitted.

Q: Can you further explain the Fund A/Fund B and how some employers in the pool would receive a dividend and others may not?
A: Roundstone does not apply or manage stop loss captives with A funds and B funds. We feel that an employer wishing to retain more of its own risk (as the A fund) would be better avoiding expense to this retention by assuming the risk outside the captive program. If, however, an employer did participate in an A fund B fund captive, its own experience gives rise to any distribution from the A fund. Since the A fund is only the employers own risk, those that run well will get an A fund distribution and those who run poorly in the A fund will not. Again, Roundstone strongly recommends employers not participate in a stop loss captive with an A fund, B fund approach. It's an unnecessary application of expenses to the employer's own risk.

Q: Do your captives integrate with any electronic benefit administration systems, i.e. EE Navigator, bswift?
A: The TPAs we work with do, yes.

Q: Do you require MQAs for groups without experience?
A: No. MQAs are accepted to help refine pricing, but they are not required.

Q: Does the 19.3% first year savings account for the claim lag of transitioning from fully insured to self funding? What about second year savings?
A: Yes, the 19.3% is an average savings and includes both immature and immature contracts compared to fixed cost or fully insured alternatives available to the employers.

Q: Is it common to include ancillary lines in addition to medical inside a captive?
A: We do offer ancillary lines in a captive, but the captive does not commingle assets with the stop loss captive. They are two separate captives, but are available for both coverages.