Captives - Not just for Fortune 500 Employers Anymore!

Presented by
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SOARING EAGLE

NAHU Leading Producers Round Table

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TODAY’S PRESENTER

David Konrad

- David Konrad has over more than 20 years of insurance and financial sales, management, and operations experience. As Program Manager for Roundstone, Dave is responsible for the program development, design, structure, sales, and marketing of various P&C and L&H captive programs.

- Dave holds a Masters of International Business Administration from Baldwin Wallace College and a Bachelor’s of Business Administration in Finance and International Business from The Ohio State University.

- Roundstone Management, Ltd. (“Roundstone”) based in Lakewood, Ohio, is an insurance organization focused on the development, underwriting and servicing of alternative risk products, including captives, rent-a-captives and specialty insurance programs. Roundstone offers intermediaries expertise in the captive marketplace with an unbundled services approach utilizing the facilities of Roundstone Insurance, Ltd.

AGENDA

Captives – Not Just for Fortune 500 Employers Anymore!

Now may be the time to slay the three headed fully insured monster and look at partial self funding with your Middle Market peers to reduce risk and share in the successful underwriting outcomes.

Join us as we explore captive models including live case studies of employers ranging from 20 to 1,500 employees.

After this presentation, you will understand how Middle Market Employers can gain control over their health care spend by joining together with employers on a local or national basis.

AGENDA

Captives – Not Just for Fortune 500 Employers Anymore!

What is an Employee Benefit Captive?

- The advantages and disadvantages
- Difference between a EB Captive and a MEWA
- Are all EB Captives created equal?
- What matters most when building a captive

How can Advisors and Underwriters Form an EB Captive for their clients?

- Homogeneous Opportunities
- Heterogeneous Opportunities
- Join Existing Captives

Three Headed Monster

How Fully Insured Employers Contain Costs

1. ***Shop*** carriers for a lower price
2. ***Shift*** more insurance premium expense to Employees
3. ***Change*** plan designs to reduce coverage

In 2016, more than 4 out of 5 Middle Market Employers called on the Three Headed Monster to control their health care spend

37% shopped

44% shifted

Don’t feel bad about this strategy, this is how F500s shopped their health care….. 20 years ago

What is an Employee Benefit Captive?

Employer's pool their Medical and Rx stop loss premiums together and share in the pool's positive underwriting outcomes.

How is approach different than traditional self funding?

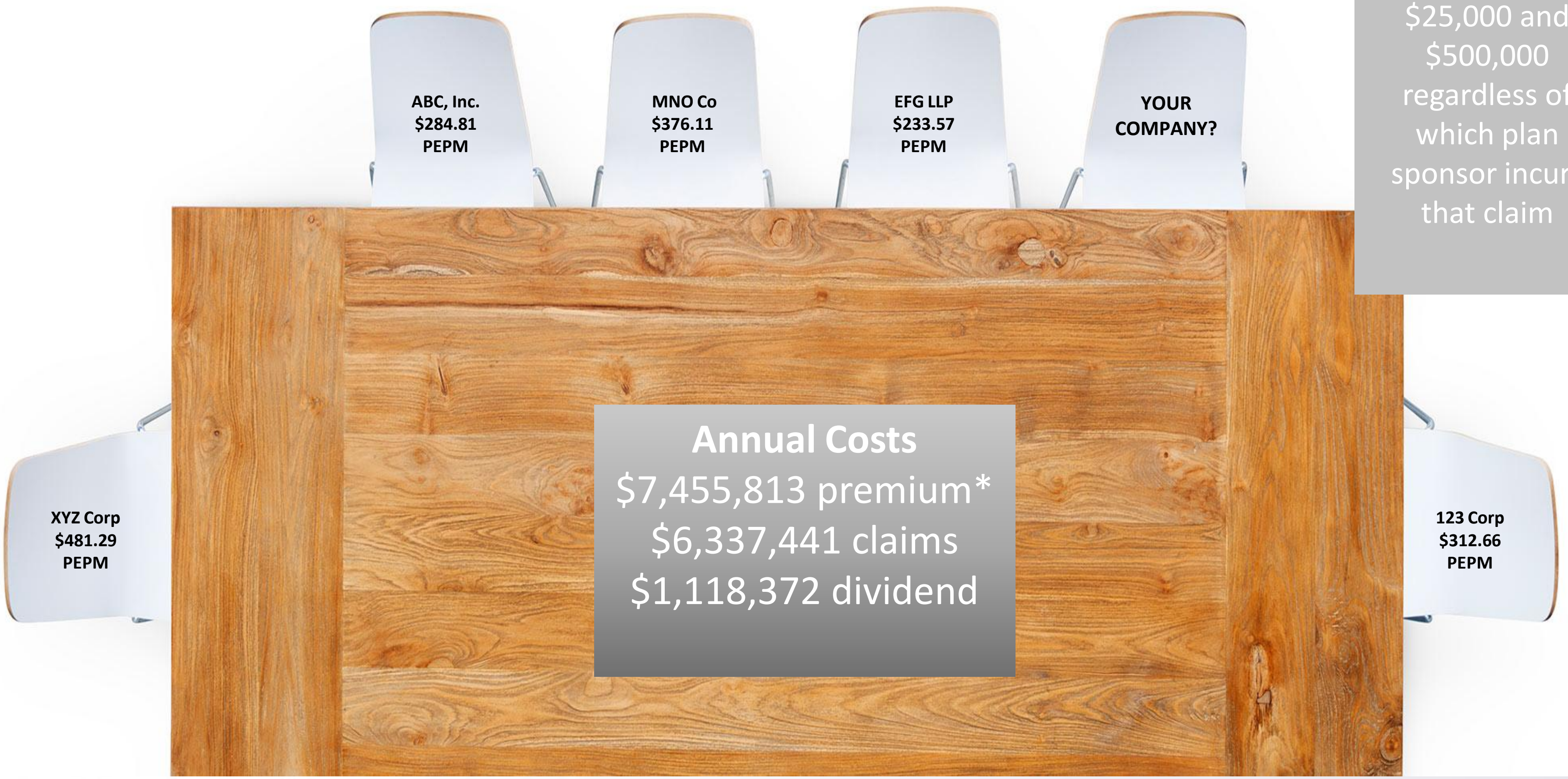
98% the of the answers to these questions are… *"Same as traditional self funding*." You can engage all of the standard levers and cost containment strategies utilized in traditional self funding.

Two Key differences:

1. Share in positive underwriting outcomes with other members of the pool. Return of unused premiums = dividends
2. Actual risk taking involves funding of pool's reserve account = collateral

How does premium sharing work?

*$7.5 Million is used to fund ANY claims between $25,000 and $500,000 regardless of which plan sponsor incurs that claim



Annual Costs
$7,455,813 premium*
$6,337,441 claims
$1,118,372 dividend

The Advantages… compared to <u>Fully Insured</u>

- Transparency
  - Claims Data
- Control
  - Plan Design
- Cost Containment
  - PBM
  - Telemedicine
  - Wellness
  - Concierge
  - Direct Contracting
  - etc.…
- Variable Costs
  - **85% versus 0%**

The Advantages… compared to Level Funded

- Transparency
  - Claims Data
- Control
  - Plan Design
- Cost Containment
  - Unbundled Cost Containment vendors accessible
  - **Receive cash versus a “credit”**
- Variable Costs
  - **85% versus 50%**

The Advantages… compared to <u>Traditional Partial Self Funding</u>

- Transparency
  - Stop Loss Financials
  - Access to SL Underwriters
- Control
  - Renewal of pool can smooth cycles
    - No lasers
    - Dividends
- Cost Containment
  - Peer to Peer sharing of ideas
  - Peer pressure to engage in plan education and utilization
  - Pool's Underwriting Guidelines
  - Purchase Vendor's Services at 10,000 EE rates versus 150 EEs
- Variable Costs
  - 85% versus 65%
  - **Able to increase variable costs without raising specific deductible (ER risk)**

The disadvantages compared to…

Fully Insured

- Max Cost often higher than Fully Insured premium
- Some Blues and Anthems do not play in this sandbox, network change may be required

Level Funded

- Max cost slightly higher than Level Funded maximum

Partial Self Funded

- Reserve requirements rule of thumb
  - 10 – 15% of Stop Loss premiums or 2-4% of FI premium

Difference between a EB Captive and a MEWA

A Multiple Employer Welfare Arrangement ("MEWA") means an employee welfare benefit plan established to offer benefits to the employees of two or more employers.

Captive:

- Each employer is underwritten separately and issued its own stop loss policy.
- The stop loss policies are issued by an A+ rated admitted carrier.
- The A+ rated admitted carrier reinsures a portion of its own liability with the group captive.
- The group captive does not issue a stop loss policy to any party.
- Captive can be written in 50 states

Are all EB Captives created equal?

The short answer is… “NO”

Advisor and Underwriter need to confirm:

A. Program expenses
B. Reserve Requirements
C. Administrative Experience
D. Accessibility
E. Structure
   I. A Fund B Fund?
   II. Pro Rata Risk Sharing?
   III. Pool’s Aggregate and Specific Limits
F. Program Underwriting and Management Experience
G. Is the MGU or Captive Manager Financially tied to the cost containment providers or networks

What matters most when building a captive….$

Turnkey program

- Do not require feasibility study fees

Expenses for underwriting and managing program need to be kept low. The lion's share of the ER's stop loss premium dollar needs to drop into the shared pool to pay claims.

- Target is 65-70 cents of every stop loss dollar makes it to pool

Keep the collateral requirements competitive so it does not require lines of credit to fund (P&C captives have this challenge)

- Target is 9 – 15 cents of additional reserves (compared to SL premiums)

What matters most when building a captive…. Administrative

Captives require numerous professional insurance services: Attorney, Accountant, Underwriter, Actuary, Reinsurance Broker, Captive Manager, Claims Adjudication, Auditor, etc… If you can keep as many of these functions under one roof and transparent, the program will be successful.

- Hand-offs from on service provider to the next can create delays of reporting and distribution
- Employers do not like “surprise” renewals
- Employers do not like “surprise” collateral calls

Employer’s expect reporting to be timely and accurate

- Captive Performance: 45 - 60 days after every quarter
- Annual Dividends need to be distributed 180 days after renewal

How can Advisors and Underwriters Form an EB Captive for their clients?

If joining an existing captive is not an option…

1) Find a stop loss carrier (or MGU) and captive manager engaged in the underwriting and management of EB group captives
2) Aggregate underwriting data from the pool of Employers
   A. Pricing, Plans, Census, and Claims (if available)
   B. Minimum of EEs with low specs or $2.5MM of stop loss premiums
3) Determine the underwriting guidelines for the pool
   A. Network, TPA, Wellness, Plan Designs, SIC codes, Entry and Exit, etc…
   B. What are the Risk Sharing guidelines
4) Underwrite each group and block as a whole, determine competitiveness of program

Homogeneous Opportunities

Homogeneity can be limited to the Employers are required to be in the same SIC code, For-Profit, Not-For-Profit. The Employer’s characteristics in terms of EE count and networks can be varied if necessary.

Most “private” pools, controlled by one Advisor, are homogeneous and utilize one network, TPA, and handful of plan designs with set rules on program underwriting guidelines for entry and exit.

The question we ask Employers.

Who do you buy paperclips, gas, or electricity with?

Are you a member of a local, regional, or national association?

If so, let’s talk to them.

Heterogeneous Opportunities

This is a catch-all pool. The Employer’s characteristics, EE count, and networks are always varied.

Most “public” pools, written by numerous Advisors, can utilize any network, any TPA, RBP, or cost containment vendor. Limited cost containment initiatives required and entry and exit are standard.

Are you a member of a local, regional, or national Chamber of Commerce?

If so, let’s talk to them.

Join Existing Captives

- Trucking
- Emergency Medical Transportation
- Law Firms
- Accounting Firms
- Private Schools
- Nursing Homes
- Physical Therapy
- Municipalities
- Colleges
- Staffing Firms
- Plumbing Part Wholesalers
- Beverage Distributors
- Craft Brewers
- etc….

Case Study: Homogeneous Opportunity

- Twelve State-funded non-profit agencies in New Hampshire.
- All fully-insured via national and regional carriers and networks.
- Twelve sets of plan designs.
- Limited experience with cost containment strategies.

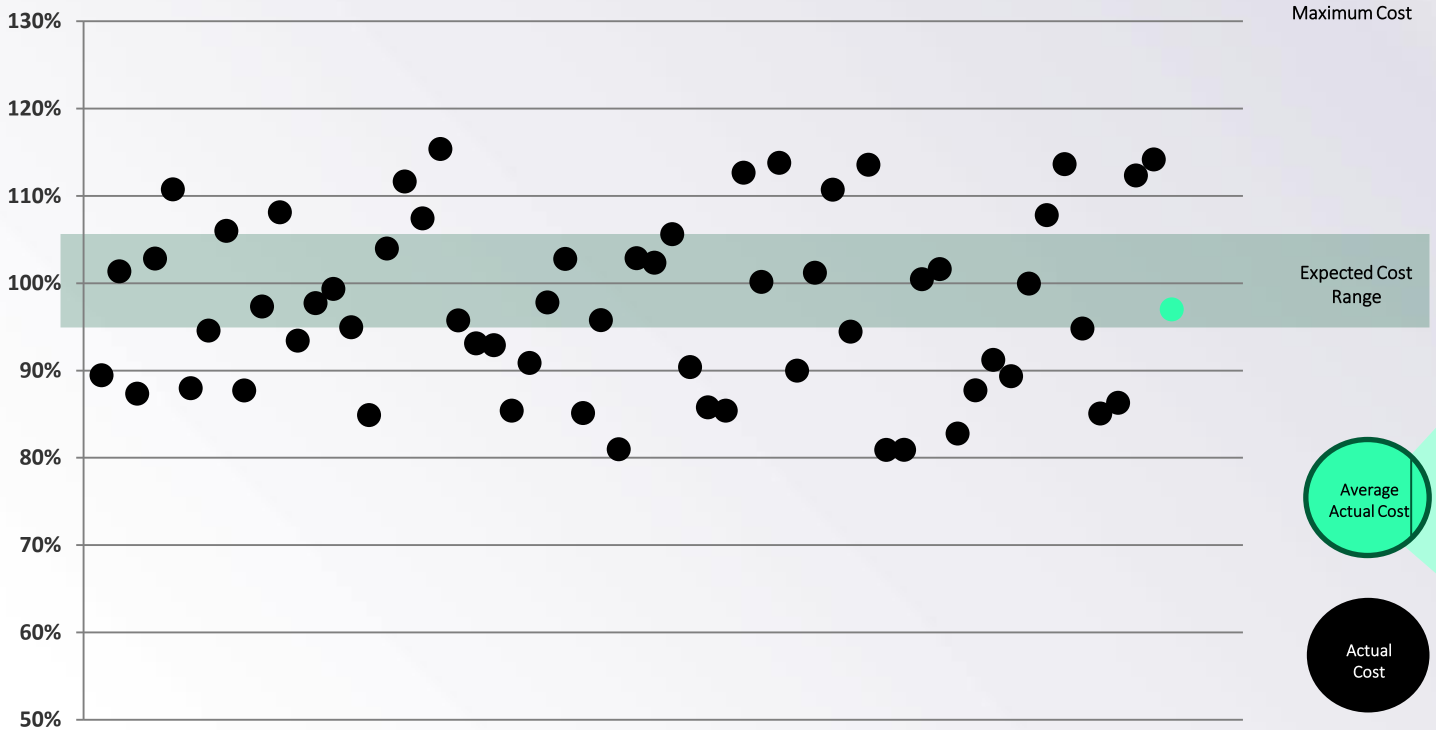
Case Study: Homogeneous Solution

- Non-profit employers banded together purchase a health care like one large organization.
- The captive model allowed for further customization and benefit:
  - Engaged a best-in-class wellness platform.
  - Implemented plan designs to steer EEs to high quality and low cost solutions.
  - Groups review data quarterly and strategically develop strategy to contain costs.
  - Peer to peer data sharing and EE education via monthly conference calls.

Case Study: Homogeneous Results

Fully Insured Renewal	**$ 15.5MM**
Roundstone Renewal	**$12.3MM**
First Year Savings with Roundstone	**$3.2MM**

Heterogeneous Case Study: Public Pool



97% of the Average Expected Cost

19.3% LESS THAN the fully insured option

RESOURCES

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