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# The Case for Captives

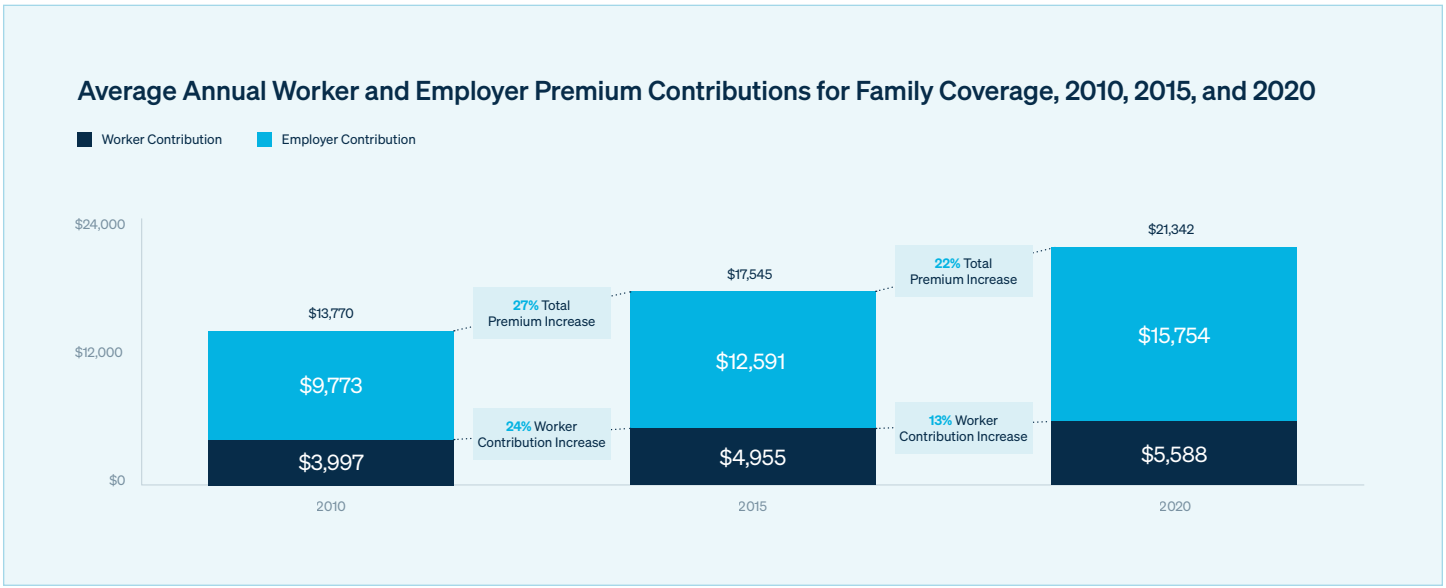
## Captives 101

Employer-sponsored health insurance covers approximately 157 million people in the United States and premium costs continue to increase year over year, with premiums for family coverage increasing 55% over the last 10 years.

In 2020, the average annual premiums for employer-sponsored health insurance were $7,470 for single coverage and $21,342 for family coverage, according to **the Kaiser Family Foundation (KFF) 2020 Employer Health Benefits Survey.** The average premium for both coverages increased 4% over the past year, while inflation rose 2.1% and employees' wages increased by only 3.4%.

As premiums for traditional group health plans continue to climb, employers are finding it increasingly difficult to offer a competitive benefits package to employees.

To overcome the pricing hurdles, some employers have started to evaluate if level-funded or self-funded health plans might better meet their needs by offering lower premium costs and greater transparency into spending. Often, a better view into costs can enable a company to make strategic benefit plan changes as well as educate members on more effective health plan usage—for example using generic instead of brand drugs and seeking non-emergency care in an urgent care setting versus the emergency room.




## How Do Self-Funded and Level-Funded Plans Differ from Fully Insured?

When an employer chooses a **fully insured** health plan, the employer pays a monthly premium to the insurance carrier. In return, the carrier is the administrator for the plan and assumes financial liability for all claims above the members' liability. For example, premiums collected for a year total $2 million, but employee medical claims total $1.5 million. The insurance carrier keeps the remaining $500,000 outperformance of expected claims.

In a **self-funded** health plan, instead of premiums going to the carrier, the employer deposits them into an account earmarked for healthcare expenses and hires a third-party administrator (TPA) to pay claims out of this account. The employer assumes the financial risk for any claims that exceed the amount of premiums collected and purchases stop-loss insurance to cover the potential of high-cost claims.

A **level-funded** plan is a hybrid of self-funded and fully insured health plans typically offered through a health insurance carrier for a monthly fee that includes these elements:

- An estimated monthly claims allowance that is placed in an account to pay employee medical expenses
- A set premium for stop-loss coverage in case claims exceed the amount paid into the allowance account
- An administration fee for managing the program on the employer's behalf

The employer pays the carrier a monthly fee (like premiums for fully insured) and the carrier pays claims from the stated monthly allowance. If the claims exceed the allotted funds, the stop loss coverage kicks in to pay the overages.

Alternatively, if fewer claims were made than expected, a portion of the excess allowance funds may be returned to the employer at the end of the year.

Each year, the health insurance carrier will evaluate how the group performed to help determine fees for the coming year. If claims didn't exceed the allowance, premiums could remain relatively stable for the next renewal cycle. If the claims exceeded the allowance, however, premiums are likely to increase to cover estimated future claims.

# What are the Advantages of Self-Funded or Level-Funded Plans?

The biggest advantages of self- or level-funding are greater transparency into overall healthcare costs and more flexibility to adapt to market conditions and employee needs. Typically, employers also have more healthcare choices, improved cash flow and the potential for substantial savings.

### Transparency

Reporting in a self-funded plan gives the employer access to detailed claims information, utilization trends, pharmacy and preventive care adherence rates.

This full transparency of how funds are allocated throughout the process allows employers to identify areas for improvement such as benefit offerings, wellness initiatives, provider networks, pharmacy benefits, etc. This data can be analyzed for future planning.

### Flexibility

Employers can customize a benefit package to meet their employees' needs rather than using a traditional one-size-fits-all approach. For example, there are various alternatives to a standard carrier network.

Self-funded plans also allow employers to choose a pharmacy benefits manager (PBM) which might offer better pricing to plan participants and/or share drug rebates with the employer.

### Cash Flow and Potential Savings

When an employer spends $2 million in premiums for traditional group coverage, the health insurance carrier has control of that money regardless of the amount paid in claims. If the employer has only $1.5 million in claims that year, the $500,000 surplus in paid premiums stays with the insurance company.

If an employer with a self-funded plan collected that same $2 million to cover healthcare costs, the unused funds would remain with the employer.

So why doesn't everyone opt for self-funding? Many employers are concerned about the risk of catastrophic claims that could exceed coverage and leave the company liable for paying large expenses. This is where stop-loss coverage is used to mitigate that risk.

# How Does Stop-Loss Insurance Work?

Stop-loss is essentially an extra layer of insurance that an employer purchases to protect itself from paying healthcare costs that exceed the allowable covered expenses under the self-funded plan.

Generally, there are two types of stop-loss coverage for an employer to consider: Individual (Specific) and Aggregate and most companies carry both types.

### Individual Stop-Loss Example

Individual, or specific, stop-loss insurance covers excessive claims for an individual member (e.g., employee, his or her spouse or children) covered by the plan.

Example: An employer has a $50,000 coverage limit per member, per year. An employee has a heart attack that requires emergency surgery and a hospital stay that exceeds the $50,000. The specific stop-loss insurance would kick in and cover the claims over $50,000.

### Aggregate Stop-Loss Example

Aggregate covers claims for an entire group when claims exceed a specified amount above expected claims. This amount is displayed as a percentage of expected claims.

Example: A carrier determines the group's expected claims for a policy period will reach $1,000,000 and the employer purchases aggregate coverage of 125% of expected claims. Once the group exceeds $1,250,000 (125%) in claims for that policy period, the carrier will cover the expense of all additional qualifying claims expense.

# What is an Employee Benefit Group Captive?

Traditionally, self-funding has been popular among larger employers because they have a bigger employee population to spread risk and absorb unexpected large claims.

A group captive simulates the risk profile of a larger employer by allowing multiple self-funded employers to pool their funds to pay for an additional layer of stop-loss protection. The pool is managed by a third-party firm on behalf of the groups, as illustrated here.

There are many variations in group captive structures and each program is unique to its members.


# Stealth Captive Solutions

### What are the requirements to join Stealth Captive Solutions?

Stealth offers a captive solution to clients of selected brokerage firms. The target market is fully insured groups with 50 to 500 eligible employees and a minimum of 50 enrolled employees. The ideal groups have a culture of health and wellness and are interested in driving premium cost reductions through greater transparency into their health costs. These groups take a specific interest in educating their members to take advantage of cost-effective healthcare options such as generic prescription drugs and annual wellness visits with a primary care physician.

Eligible brokers can submit a proposal request for a client and Stealth Partner Group will perform underwriting and risk analysis on the group to determine eligibility. There are no limitations on entry dates. Claims contract period must renew on a fiscal year basis.

### How does the Individual Stop Loss (ISL) work?

Each individual employer is responsible for a claimant's expense up to their selected Individual Stop Loss level. Once a claimant exceeds the ISL, they enter the captive layer. ISL levels are between $35,000 - $175,000. Exceptions may apply.

### How does the aggregate stop loss work?

The aggregate stop loss provides maximum liability for the entire program. Each group can choose between 110% and 125% of anticipated claims, while the captive layer is reinsured at 125% aggregate stop loss level.

### What is the collateral requirement?

Each participating group is responsible for posting collateral that covers the difference between total funds in the captive layer and 125% of expected claims within the captive layer. This will be a PEPM charge on your monthly TPA statement. The balance remaining in the collateral pool at the end of each contract year is returned to each group.

### Who is eligible for a surplus distribution?

This is determined by an individual group's claims performance within the captive layer. Any eligible surplus will be distributed approximately 180 days after the policy's year end.

## Ready to start saving?

Stealth offers a wide portfolio of stop loss solutions to meet the needs of employers in all industries. With our Captive Solution we are making cost containment and self-funding solutions possible for a broader population of employers. **Contact us** today to learn more about the options available to you.