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EMPLOYEE BENEFITS CAPTIVE: IT'S NOT YOUR TYPICAL CAPTIVE

DEBUNKING THE MOST COMMON MYTHS AROUND BENEFITS STOP LOSS CAPTIVES

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Captives sometimes get a bad rap.

When businesses hear the word "captive," they typically assume the solution is only for property and casualty, far too complex for their company or simply unnecessary to meet their needs. However, benefits stop loss captives provide undeniable cost-savings and are extremely simple to implement.

Healthcare costs continue to chart a staggering upward trajectory.

According to the Millman Medical Index[1], a family of four in the U.S. spends approximately $28,166 per year on healthcare and prescriptions on average, up significantly from $23,215 in 2014.

Employers continue to subsidize their employees' healthcare costs by paying an average of 56% of the total costs. As healthcare costs rise, this burden will only intensify, and companies need to find a way to contain these expenses.

Until now, there have been few financially feasible methods for mid-sized companies to self-insure and responsibly take the risk. Benefits stop loss captives allow employers to band together to purchase and manage their stop loss risk differently. This security can give mid-sized companies the kind of control and cost transparency enjoyed mostly by large employer groups. They can also help keep employee healthcare costs down and more consistent year over year.

Considering the state of healthcare costs today, benefits stop loss captives can serve as a powerful tool to protect self-insured companies from year-over-year volatility and to help fully-insured companies gain better control over their costs.

Yet many businesses still avoid using them. In reality, benefits stop loss captives are a great fit for many mid-sized companies.

[1] http://www.milliman.com/insight/Periodicals/mmi/2018-Milliman-Medical-Index/

In order to help shine a light on the benefits, we explain the truth behind four of the largest myths around benefits captives:

MYTH 1: THEY'RE TOO COMPLEX

There is much confusion about what exactly a benefits stop loss captive is. In simple terms, employee benefit group captives give small to midsize employers a way to gain control of the cost of employee benefits.

When employee claims are extensive, your group captive absorbs the shock. When employee claims are modest, you essentially pocket a portion of the profit that would normally have gone to an insurance carrier.

MYTH 2: IT'S TOO MUCH OF A CHANGE

Adding a captive to an existing self-insured structure or switching from a fully insured structure is simple and straight forward. In most cases, employers can keep their Third Party Administrator (TPA), their network, and their plan design(s).

The biggest change an employer will notice will be full transparency into claims and the various cost containment solutions now available to them.

MYTH 3: MY EMPLOYEES WON'T LIKE IT

Implementing a benefits stop loss captive is typically a smooth transition for companies. But it is an even smoother transition for employees, who likely won't notice any change at all. Under a benefits stop loss captive approach, employers contract with a TPA that handles all of the day-to-day logistics of the plan, including adjusting claims, providing ID cards, and providing both employer and employee customer service. If you're already working with a TPA, chances are you can keep them under the captive which means no change to the network of doctors and hospitals your employees see today.

In fact, employees will have no idea that you've moved to a captive model.

MYTH 4: THEY'RE TOO RISKY

Many employers are scared off by the fact that they'll be taking on a "risk they cannot afford." While it's true a fully insured employer will be taking on some risk, the employer is protected by the strong reinsurance contract provisions that protect from both large claims and high claim frequency.

Also, this structure represents inherently less risk than being 100% self-insured. One of the key advantages against a traditionally self-funded strategy is the captive offers a "no new laser" provision… *for as long as you are in the captive.*

AN EMPLOYEE BENEFITS CONSULTANT'S VALUE

Benefits stop loss captives offer employers the ability to gain clarity and consistency when it comes to their employee healthcare costs. But when transitioning to a benefits stop loss captive, it's important to go in with an experienced partner. Employers are wise to consult a broker that's knowledgeable in the intricacies of these structures and can advocate for you to make sure your needs are met. These professionals can make sure the process is seamless for your leadership and employees.

To discuss captive insurance solutions:

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