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Employee Benefits: Group Medical Captive Insurance

Everything you need to know about self-funded captive health insurance

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Highlights

- *Group medical captive insurance allows small to midsize companies to share the risk of a self-funded insurance plan while saving money and gaining control of skyrocketing expenses.*
- *Self-funding with a group medical captive is a better alternative to traditional fully funded health insurance and even other self-funded solutions. It offers more transparency, control, stability, and savings than other options.*
- *A well-managed group medical captive model should offer your choice of third-party administrators (TPAs), prescription benefit managers (PBMs), and other cost-containment solution providers to help employers save on healthcare costs and optimize plan utilization.*

Introduction

Fully insured plans are not designed for small to mid-size businesses, which means you end up paying more without getting the plan your employees need. This model boosts the profitability of the big insurance carriers while putting your company and staff at a disadvantage.

Self-funded health insurance plans are different. They have been used for years by over 90% of larger companies who can afford to self-fund, but smaller companies haven't had the resources to do the same.

Group captive insurance plans offer a way for smaller businesses to take advantage of self-funding by banding together to manage risk while lowering costs. They can finally ditch the fully insured insurance carriers in favor of a more manageable and transparent self-funded solution.

What is Group Medical Captive Insurance?

Self-funding comes with potentially high claim volatility, so small and midsize companies have traditionally been unable to embrace this option. However, self-funded health insurance that leverages a group medical captive essentially bands together employers in a pool so they can have the same scale and resources of a large company and effectively share the risk.

By participating in a captive, employers pool a portion of their premium into a collective fund.

Each employer in the group medical captive benefits from economies of scale, so they enjoy more cost-savings opportunities. They benefit individually by spending less on claims, and they benefit collectively by being part of a pool that is performing well. The group medical captive is a more cost-efficient option that does not involve passing increasing costs on to employees.

How Captive Insurance Works

A captive insurance plan aims to reduce overall costs by shifting from fixed to variable costs. With fully insured small business health insurance plans, companies pay fixed costs for premiums each year. This means that they pay the full cost, regardless of whether their employees are submitting claims equal to or less than the premium.

Captive insurance, however, lets the employer keep unused funds from year to year. Fixed costs are only 15%, and the rest is variable. So, if a company's costs are substantially lower than expected, captive insurance gives you the potential of savings from the bucket of variable costs (85%). Group captive insurance works best for midsize companies between 25 and 500 employees.

There are Three Main Components to a Group Medical Captive

Self-funded claims: In practical terms, with group medical captive health insurance, self-insured employers pay for all out-of-pocket claims as they are incurred instead of paying a fixed premium to an insurance carrier like you do with a fully insured plan. Each employer participating in a captive plan will self-insure at least $10,000 of claims per member, per policy period. They only pay the amount employees spend.

Shared risk: Employers contribute premiums to the captive pool to cover claims between the employer deductible amount and $500,000. Each employer participating in the group medical captive pool is provided with an underwritten insurance premium that is determined through their demographics and risk assessment profile — traditional insurance methodology. If there are unused premium funds from all participating employers at the end of a plan year, they are returned to the participating employers via a pro rata distribution check.

Transferred risk: A stop-loss policy (also known as reinsurance) covers claims above the plan's retained claims. The role of the stop-loss is to cover all claims above these employer deductible levels. When stop-loss coverage is added to a group captive plan, it spreads the risk of catastrophic claims over all members of the captive, decreasing volatility and costs for all. This covers large claims from a single individual or higher-than-average aggregate claims for all of an employer's participating employees. Stop-loss protects against unpredictable losses. It prevents the captive participants from paying more than the maximum amounts presented in their proposal. The reinsurance layer begins at $500,000 and goes up without limit.

Benefits of Group Medical Captive Insurance

Improved Transparency

Trying to get information out of a fully insured insurance carrier about where your money goes and what services your employees access is challenging. With group medical captives, you control the policy, which only serves your interests and unique business needs. This gives you access to more data, such as urgent care utilization, high drug costs, and other key areas of impact that help drive down unnecessary costs.

Greater Control

In a fully insured insurance model, the insurance company controls everything, from how much you pay to what is covered in your plan and who your providers are. If something changes within your company, other than adding or losing employees, there's nothing you can do to address it until the start of a new plan year.

Group captive insurance allows you to design a plan that is right for your business and for your employees. You are not locked into a one-size fits all plan with benefits that you won't use. You have control over what your plan covers, ensuring your policies serve all employees and staff members.

Increased Stability

With fully insured policies, annual increases to your premiums are inevitable and often unpredictable. A recent Kaiser Family Foundation survey found that insurance premiums have risen 55% over the last decade, much faster than inflation and employee wages.

With group medical captive insurance, you control how much money you spend on healthcare, which means you can plan accordingly, ensuring greater financial health for your business and your employees. Plus, since you only pay for claims as they occur, you can significantly improve cash flow.

Reduced Costs

With the fully insured model, you pay monthly premiums to insurance companies, and 100% of those premiums are fixed. If your employees don't generate that amount in claims, the insurance company gets to keep the difference as profit in compensation for taking on the risk.

In a group medical captive insurance program, the guiding philosophy is to help employees become smarter healthcare consumers. Because only a small percentage of your cost is fixed, the rest of your money is paid out as your employees file claims, which means that any "profit" at the end of the plan year stays in your pockets.

And with plenty of cost-containment solutions in place — including data analytics as well as wellness and concierge programs — you can reduce costs in a number of ways that are seamless to implement and create a positive experience for employees.

Risk-Sharing

Risk-sharing is the key to making group medical captives feasible for smaller businesses. When you band with other small to midsize businesses in a group captive, you share the risk of volatile claims over a larger pool of members. This allows small businesses to provide the same level of health insurance as Fortune 500 corporations.

Better Profit Potential

A good group medical captive plan can do more than help save money; it can become profitable. A wel-run group captive plans returns excess funds paid into your premiums so you can reinvest them wherever you want. Rather than worrying about annual double-digit premium increases, you can look forward to receiving a lump sum of the unused payments in your self-funded claims fund every year.

Conclusion

If you are one of those employers who is tired of the fully insured model with its lack of transparency and unsubstantiated increases year over year, it might be time to explore whether the group medical captive approach is right for you and your organization. Reach out to a member of the Starkweather & Shepley Benefits Team for more information at starshep.com.