



EMPLOYEE BENEFITS REPORT 2017



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AN ASSOCIATION'S BEST FRIEND

Michael Schroeder, president of Roundstone Management, Ltd. talks about a solution for employee health benefit funding

Associations are available for any industry. Home builders, lawyers, printers, trucking companies, therapists, plumbing suppliers, beer distributors, and even association managers, are a few of the many thousands of associations in the marketplace.

Members of these associations pay a fee to gain access to newsletters, conferences, websites, training programmes, product discounts and current trends. But what is the fundamental buying motive for a business that considers joining an association? No business wants to be left out or left behind. There is an overriding desire among business leaders to learn what others in their industry are doing and to assure the best industry practices are being applied within their own businesses.

Health insurance pain

Is there a best practice for health insurance funding? I doubt there is any business that doesn't hope so. The health insurance expense is now in the top three of line item expense for employers. With the cost of health insurance growing to unsustainable levels, employers are desperate for a way to stop the skyrocketing expense. Health-care costs are predicted to reach \$30,000 for a family of four by 2020 according to a 2016 Benefits Benchmarking Survey. In a study of independent insurance agencies, the median in-network employee deductible increased 50% in 2016. Members of any association are clearly experiencing pain when they struggle to find solutions for funding employee health benefits.



Roundstone Management, Ltd. (Roundstone), based in Westlake, Ohio, develops and underwrites innovative captive/self-insurance solutions for a variety of exposures, including health insurance, malpractice, voluntary benefits, transportation, warranty and workers' compensation. For more information, please visit: <http://www.roundstoneinsurance.com>.

When an association can introduce a funding strategy that mitigates or reduces the health benefit expense, they get their members' attention. The recipe for a successful association is one that can increase member profitability and deliver on the association's value proposition by making best practices available.

Another area causing considerable pain for employers of all sizes is the challenge of recruiting and retaining top talent. A competitive benefit strategy is a requirement for companies looking to attract the best employees. Talent follows compensation and benefits. It is not hard to realise that an employee benefit funding approach that offers not only cost savings, but plan design creativity and responsiveness, is supportive of an employer's objective to recruit top talent. Is such a health insurance plan available?

The medical captive

Many associations today are introducing their membership to an insurance solution known as a stop loss or medical captive. The medical captive is a health insurance

plan that is controlled by its employer participants. Examples of industries with successfully implemented medical captive strategies are schools, trucking companies, contractors and accounting firms. The objective of moderating and reducing the cost of health insurance is realised when these pools of employers apply cost containment strategies that reduce claims both before and after they happen.

How does it work?

Employer members of the medical captive programme purchase insurance the same way they do in the standard market; they send in their underwriting information, receive a quote and bind coverage. Like standard health insurance, a medical captive programme requires infrastructure for the effective administration and reimbursement of claim payments. This includes a claims administrator, network of medical providers and an insurer to issue the policies. The medical captive also adds a reinsurance entity or captive that assumes and returns to the employers a portion of the underwriting outcomes that is typically retained by the insurer.

The medical captive then functions like any other insurance company and reports to its owners its financial performance with premium earnings, loss payments, expenses and investment performance activity. By applying innovative programmes designed to prevent and reduce medical expenses, the employers experience underwriting outcomes that most often deliver a return of underwriting and investment income.



These positive underwriting outcomes would take effect to the benefit of the health insurance company alone without the captive participation by the employer members. The return of underwriting and investment income obviously reduces the employer participants' cost, and it offers a cost advantage over traditional health insurance coverage.

Why does it work?

A medical captive delivers health insurance savings to participating employers for several reasons. First, by assuming risk in the medical captive, the insured members are able to retain a portion of the underwriting and investment income a traditional health insurance company receives. Second, the medical captive approach delivers transparency and control to the employers. Businesses know that fixing a problem with root cause analyses can only occur when the information or data is available. Not knowing where the costs are coming from effectively prohibits a solution to an employer's rising health insurance costs.

Participating members also realise results that surpass their traditional insurance experience because of their control coupled with the shared incentive the members have with each other. Unlike the traditional insurance transaction where you pay your premium and your losses are

“A competitive benefit strategy is a requirement for companies looking to attract the best employees”

largely irrelevant to you, when a captive member contributes capital to a risk bearing enterprise that is dependent on the group's claim experience, the incentive is for the member to police its claim activity more diligently. Cost containment efforts are stimulated as the medical captive

members share and apply best practices for the delivery of Rx, medical procedures, wellness and early identification of severe claims.

Phrases such as “peer pressure” and “skin in the game” are used to describe this after effect. Reduced administration and other pooled expenses such as reinsurance are realised by the medical captive members who exhibit claim experience more attractive than the overall health insurance marketplace. Shared incentives create shared expense benefits. This is a great reality for any association and its membership.

Conclusion

One of the many reasons associations exist is to offer their membership the opportunity to learn about and apply best practices. Associations with a commitment to delivering best practice ideas to their membership are a perfect fit with the employee benefit funding approach known as the medical captive. Who knows, this idea may even increase your association's membership. 