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Medical stop-loss captives make self-funding easier for mid-market firms

Arrangement makes self-funding easier for mid-market firms

March 10, 2013 - 6:00am

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What's This?

A growing number of midsize employers seeking to self-insure their health benefits for the first time are discovering that group medical stop-loss captives can provide them with some added protection from potentially catastrophic losses.

At the same time, some smaller and midsize employers that are experienced with self-funding recently have begun tapping into these special-purpose member-owned insurers as a way to smooth out the volatility that sometimes occurs in the cost of stop-loss coverage with specific deductibles below $250,000.

In either case, group stop-loss captives are helping midsize employers better manage their health benefit costs, experts say.

Since the first group stop-loss captive was formed in 2005, the market has grown to encompass more than 40 facilities domiciled offshore and in the United States.

That number is projected to surge as more small and midsize employers choose to self-fund health benefits as a cost-cutting measure.

“I think we are going to see phenomenal growth,” said Andrew Cavenagh, managing director of Pareto Captive Services in Conshohocken, Pa., which launched Contrarian Re on July 1, 2012, with 21 employer-members with groups averaging between 100 and 200 employees.

“Every employer is interested in everything and anything that might give them greater control and lower long-term (health benefit) costs,” Mr. Cavenagh said. “We have about 5,000 lives in our various programs. In two to three years, I predict that will grow to 50,000, and in seven to eight years it will be half a million. It's going from that "shiny-sparkly' thing that people want to talk about to playing a role similar to that of captives on the property/casualty side of the insurance industry."

"We have numerous inquiries about doing this," said Ben Krambeck, a partner with Benefit Captive Re L.L.C. in Des Moines, Iowa, which has placed more than 50 employer groups with 50 to 1,500 employees into group stop-loss captives in Vermont, the Cayman Islands and Bermuda since 2006. "The market is changing so fast due to" the Patient Protection and Affordable Care Act, which many employers fear will increase the cost of fully insured health benefits, he said.

Group captives provide a way for small and midsize employers to self-fund by serving as a conduit to medical stop-loss coverage, a form of excess insurance that pays claims above the employer's self-insured retention (see related story).

"Self-funding for employee medical for a long time has been the domain of companies with 1,000 employees or more. Until the last five years or so, self-funding wasn't doable for a 250-life company, and the options weren't great for a 500-life company," said Tris Felix, vice president of risk management at IMA Inc. in Denver, which began helping midsize employers pool their stop-loss risks via captives in 2009.

Part of the reason self-funding was out of reach for midsize employers was that it was difficult for those companies to purchase reasonably priced medical stop-loss coverage with specific deductibles of less than $100,000 per claimant, Mr. Felix said. But with a captive, "self-funding now becomes feasible for that midsize employer because it uses the scale of the group to fund risk in a way that it could never do on its own," he said.

A typical stop-loss arrangement begins with an employer's $25,000 self-insured retention.

IMA has 22 employer-clients with between 65 and 900 employees participating in three group stop-loss captives domiciled in Vermont, Delaware and the Cayman Islands.

Initially, employers that were self-funding for the first time were among those most attracted to group stop-loss captives. But recently, the captives have been gaining traction among employers that had self-funded previously, industry experts report.

In fact, all but one of the 27 employers participating in Well Health Insurance Ltd. already were self-funding, according to Doug Hayden, senior vice president at Captive Resources L.L.C., a Schaumburg, Ill.-based captive consultant that helped form the facility in Grand Cayman in April 2011.

Jim Knutson, risk manager at Acromatic Products Co. in Loves Park, Ill., said his company joined a group stop-loss captive in Bermuda in 2010 after deciding it no longer was feasible to purchase stop-loss coverage on its own for its self-insured group of less than 100 employees.

"We didn't feel the marketplace was able to give us something sustainable," Mr. Knutson said, adding that his company also was "motivated in a big way by PPACA. We were trying to manage the exposure through lifetime limits, and when those limits were removed, all of a sudden there was no longer any way to assess it."

"The group captive brings access to lower reinsurance rates and reduced volatility to the 100- to 200-employee firm," said Mike Schroeder, president of Roundstone Management Ltd. in Westlake, Ohio, which formed its first group stop-loss captive in 2005.

While the initial premium to join a group stop-loss captive is "not a lot different than traditional stop-loss, over time it is less expensive because stop-loss pricing includes some assumptions that don't always bear out," he said. "The captive is a financial mousetrap delivering the lowest stop-loss cost possible."

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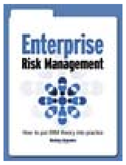

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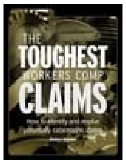

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