ROUNDSTONE

HOW TO SPOT THE GOOD AND AVOID THE BAD

# Stop-Loss Captive Proposal Comparison Checklist

The market is now flooded with new captives as more mid-market businesses seek to leave fully-insured and level-funded plans to take advantage of the savings and high-quality care that self-funding captives deliver. Here's a useful checklist for benefits advisors and employers who want to ensure a sound decisions that protect the balance sheet and employees.

## What You Want in a Captive Proposal

### LOW COLLATERAL

- Target ≤ 7% of stop-loss premium.
- Avoid programs requiring year-after-year collateral stacking.

### HIGH SHARED RISK POOL (RETURN FUND)

- At least 70% of stop-loss premium should go into the captive's shared risk pool.
- Ensure the proposal clearly shows how much stays in the pool.

### TRACK RECORD OF DISTRIBUTIONS

- Look for consistent returns over time. Roundstone averages 7% annually.
- Confirm the captive has a proven history, not just promises.

### STABLE RENEWAL INCREASES

- Renewal averages should trend well below industry norms, ~20%+.
- Target renewals closer to 5–8% for long-term predictability.

## CEO/CFO Quick Test – Ask these questions:

- How much of the premium goes into the shared risk pool?
- What percentage of premium is collateral, and do I get it back with interest?
- What is the captive's distribution track record?
- What is the average renewal increase?
- Are there hidden fees or forfeitures buried in the fine print?

## What to Avoid

### COLLATERAL

- Collateral requirements that are over 10% of premium.
- Stacked collateral obligations year-after-year.
- No return/interest on collateral.
- Forfeiting collateral when you don't renew.

### ADMINISTRATION

- No AM Best-rated fronting carrier.
- Multi-year contractual lock-ins.
- Lack of quarterly reports and executed documents.
- Small captives with poor risk spread – usually with 50 or less members.
- Forced, one-size-fits-all cost containment services.
- Losing choice of TPA, PBM, networks, or plan design.
- Unclear timing of captive closure/ distribution.

### DISTRIBUTIONS

- No history of paying distributions.
- Forfeiture of distributions due to exit or performance triggers.
- Distributions tied to your own group's performance, not pool results.
- Shared distributions with insurers or managers.
- Delayed payouts (beyond 18 months) or non-cash credits instead of cash.

### EXPENSES

- More than 30% of premium lost to fees.
- "Hidden" costs outside the stop-loss premium – for example, program or captive manager fees.
- Vendors sharing revenue with captive managers or insurers.
- Employer aggregate premium excluded from the captive.

## Key Takeaways

- **Don't just compare premiums.**
- **Look beyond specific deductible, aggregate deductible, and attachment point — the real traps hide in collateral, expenses, distribution rules, and administration.**