



The CFO's Guide to Managing Escalating Healthcare Costs

An Innovative Funding Model with Captive Insurance



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The Current State of the Healthcare Benefits Market

As a CFO, naturally your main responsibility is to protect your company's financial health, with a strong focus on cutting costs. This is especially important for small to midsize businesses (SMBs), where careful expense management is key to growth and stability. Balancing the budget ensures the health, prosperity, and future of the business.

A prime focus area is healthcare costs, which are often the second-largest expense for companies after payroll. Managing these costs is critical to maintaining your organization's health and ensuring long-term prosperity.

In 2022, expenses for private health insurance soared to almost \$1.3 trillion, a 5.9% increase from the previous year. Prescription drug expenditures simultaneously increased, jumping by 8.4% to nearly \$406 billion. These costs are continuing to escalate and present a major challenge for smaller companies striving to offer competitive employee health benefits.

THE BRUTAL REALITY

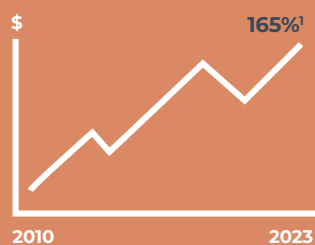
Employers are facing unsustainable cost increases

Healthcare has become a top expense...

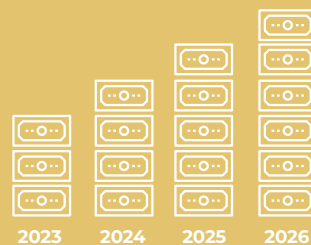
TOP 3 BUSINESS EXPENSES

- 1) Payroll
- 2) Healthcare benefits
- 3) Overhead and Operations

...has been steadily increasing...



...and is projected to DOUBLE in 4 years!²



What most employers get for paying more:

LESS SATISFACTION

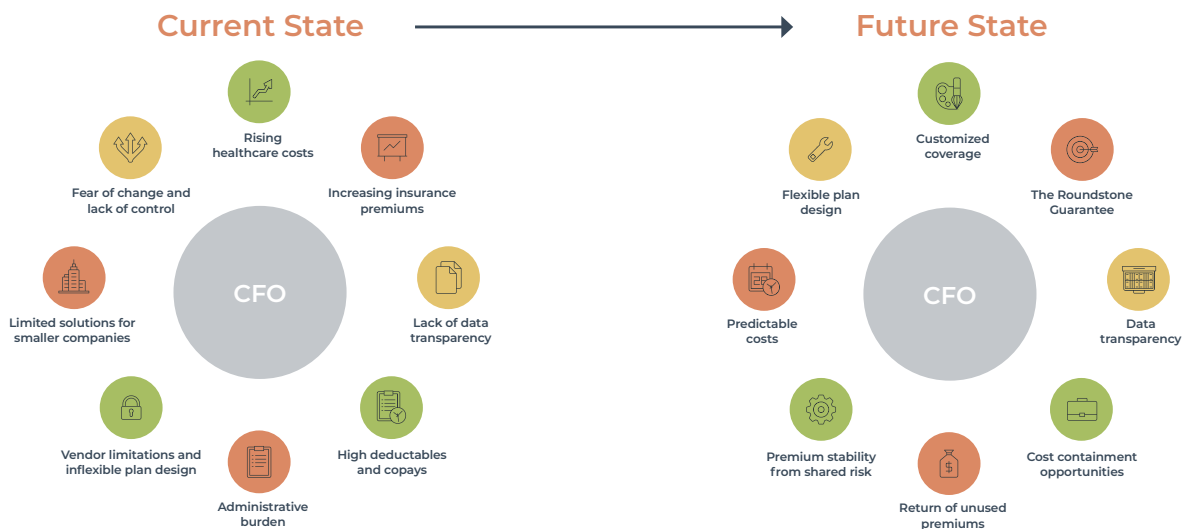
Employers aren't just paying more. Their employees are, too.



Small to midsize businesses are trapped between a rock and a hard place: They want to offer high-quality benefits that employees increasingly demand, but how can they afford to do so in an era of increasingly escalating insurance costs?

Adopting a self-funded plan through a group captive offers a strategic way to manage rising healthcare costs. This can lead to savings that you can use to invest and grow your company.

The Solution: Captive Insurance



A captive for self-funded health benefits is a collective insurance model in which companies pool their resources and manage health insurance risks together. Each member company contributes financially to a shared pool, which is used for paying claims, covering operating expenses, and building reserves.

Pooling resources helps distribute risk among all members, reducing the impact of high-cost claims on any one company. For further protection, members purchase stop-loss insurance. This coverage steps in to pay for catastrophic claims over a specific limit, capping potential losses.

Employers get direct access to claims data in a group captive, allowing them to manage costs more effectively through detailed analysis and data-driven cost saving strategies. Members can also participate in key financial decisions, like managing investments and reserves, helping meet company goals, and improving cost efficiency and financial stability.

Healthcare premiums for many traditional plans typically increase by 20% to 30% each year. This trend is expected to persist, with costs likely to keep climbing in the foreseeable future.

For CFOs, the unique funding and savings model of a group captive as part of a self-funded model is a greenfield opportunity to positively impact the business. It also allows you to partner with your HR team to drive decision-making regarding a new, cost-effective plan for your employees that doesn't compromise on care quality.

Is Your Company a Good Fit for Captive Insurance?

Before jumping into a group captive arrangement as part of a self-funded plan, you need to assess whether your company is a **good fit for the group captive model**. If your size, values, budget, and financial approach align with the following criteria, group captive insurance might be right for you.

- You are a small to midsize business.** The ideal size is 25 to 1,000 employees, though smaller companies can benefit in some cases.
- You want more transparency.** You're looking for clear insight into how every dollar is spent on health insurance, including fixed costs, like third-party administrator (TPA) fees and reinsurance premiums, as well as variable costs, such as medical claims and prescription drugs. You expect regular, detailed reporting to help you identify and seize cost-saving opportunities.
- You value certain cost considerations.** Health insurance is a major business expense for you, and skillfully managing it is a top priority. You're interested in potential annual savings of up to 20%, retaining unspent premiums in profitable years, and keeping pharmaceutical rebates.
- You desire flexibility and control.** You want to customize your health benefits plan to suit the needs of your company and employees, including selecting your service providers, like TPAs and networks. You are excited to have the freedom to enact cost-containment measures and analyze financial reports to maintain control over expenditures.
- You want a long-term, sustainable strategy.** Your approach to health insurance is strategic, focusing on long-term benefits and integrating health and well-being as central values of your organization. You plan to manage and potentially reduce healthcare costs by educating employees so they are informed and engaged healthcare consumers.

See What You Can Save Over 5 Years

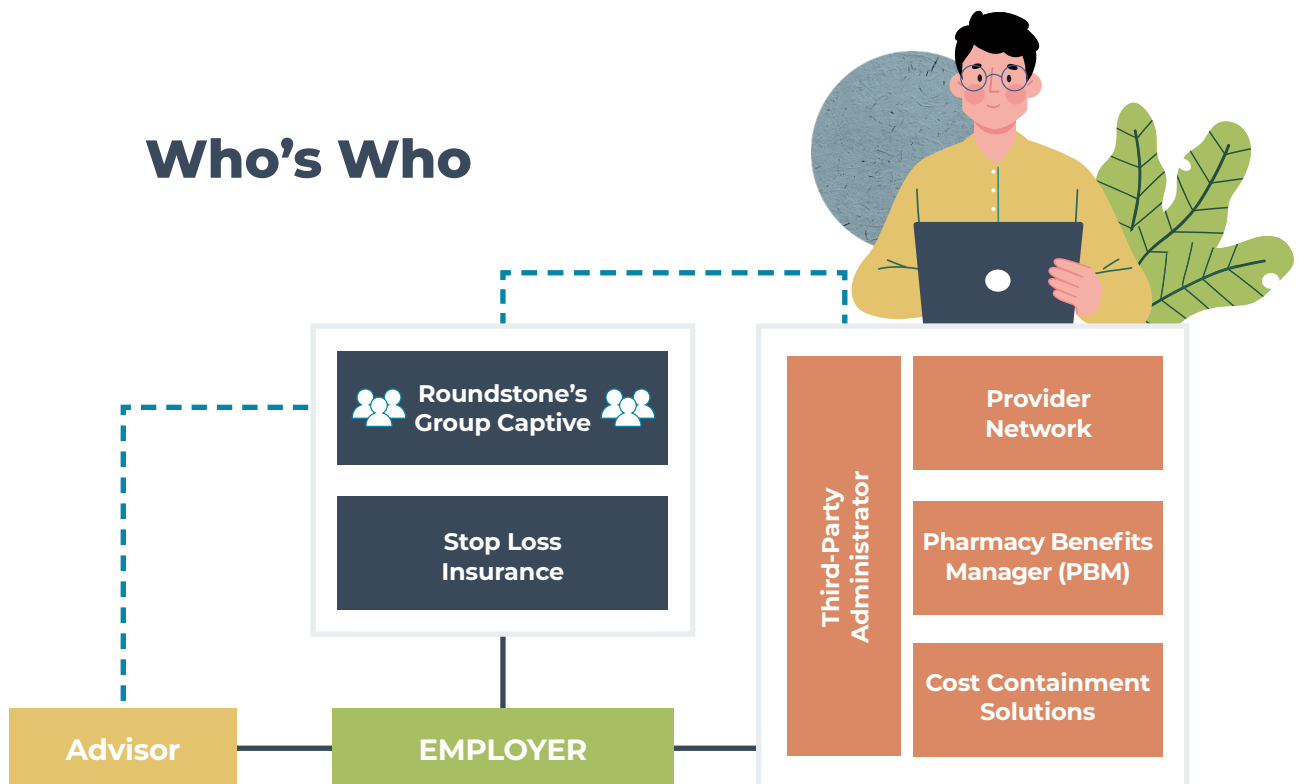
Try our cost-savings calculator now.

[Show Me the Savings](#)



Who's Who in a Self-Funded Plan

In a group captive self-funded health plan, various roles contribute to successful plan management and optimization. Here's a closer look at who you will partner with to ensure the plan runs smoothly and cost-effectively.



Your Benefits Advisor

In your group captive self-funded plan, your benefits advisor helps you manage healthcare benefits. They focus on getting you the best rates and discovering cost-saving strategies that fit your company's specific needs.

Unlike a typical once-a-year meeting schedule, your advisor is available to help you adjust elements of your plan at any time throughout the year. This ensures you have the flexibility and support needed to optimize your plan benefits when issues or opportunities arise to stay on top of your spending goals.

Your Stop-Loss Carrier/Captive Manager

Your group captive plan includes a captive manager and stop-loss carrier. The stop-loss carrier mitigates financial risk by covering claims that exceed individual deductibles and overall plan limits, protecting the group from large, unexpected expenses.

Your captive manager oversees the captive's operations, ensuring competent risk management and regulatory compliance. Together, they provide a strong framework for managing individual and collective risks, securing the financial health of your group.

“Typically, you’re not able to self-fund, but with the captive and the stop-loss on top of your self-funding mechanism, [you can] control those first-level costs while also protecting yourself from any of those catastrophic claims or large aggregation of claims that you might find in a fully insured model.”

— Jonathan McCorkle, CFO, Roundstone

Your Third Party Administrator (TPA)

A TPA handles the essential day-to-day tasks of your health plan, including processing claims, managing employee enrollments, and ensuring smooth operations. Select a TPA specializing in captives. This expertise ensures your plan meets regulatory standards and operates efficiently, maximizing your cost savings.

Partner with a TPA that shares accurate claims data with your captive manager so you can gain insights into your healthcare spending. With detailed claims knowledge and real-time analysis, you can engage in cost-saving strategies to respond quickly to cost trends and member needs.

As a member of a group captive with Roundstone, you have access to [Bywater](#), our in-house TPA, a unique option when working with us designed to meet your needs and ensure ease of use.

Your Pharmacy Benefits Manager (PBM)

A Pharmacy Benefits Manager (PBM) organizes and administers your group captive plan's prescription drug benefits. They negotiate with drug manufacturers, wholesalers, and pharmacies to secure medications at contracted prices.

In a group captive setting, you have the flexibility to choose a PBM that offers a transparent pass-through model. This ensures that any negotiated savings on medications are passed directly to the employer. Choosing the right PBM can reduce pharmacy spending, improve access to medication, and contribute to a healthier workforce.

“Anybody can gain control of pharmacy within six to nine months. You can work with your PBM... you’re going to see savings, and that’s where you’re going to feel some success. That’s where I found mine... we are performing 57% under the national average on pharmacy spend.”

— Shawn DeCraemer, Finance Manager, JJ Safety



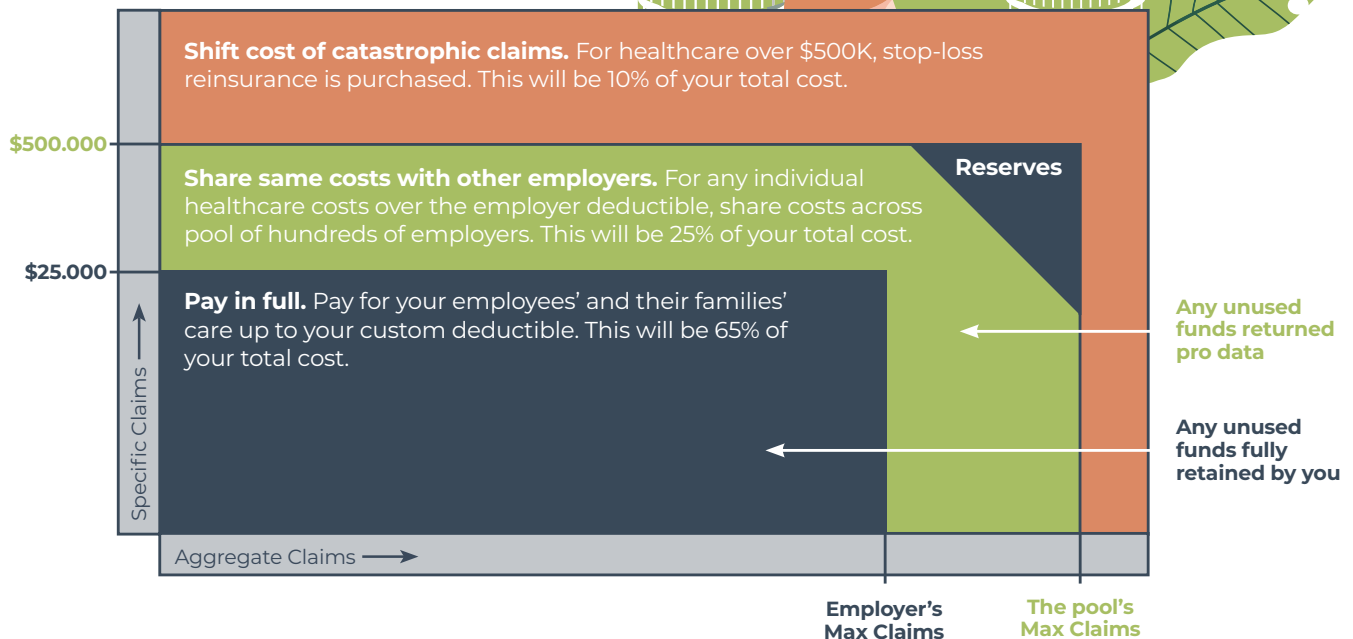
Funding Strategies and Savings Opportunities with Self-Funded Insurance

With a focus on finances, you want to know where your money is going for a group captive plan in a self-funded solution. Two simple analogies help illustrate how the costs are broken down as part of this solution: the Layer Cake and Three Buckets.

The Layer Cake: Financial Management

Self-insured plans are often visualized as a layered cake, each layer representing a different aspect of the financial management of the plan.

The Layer Cake: Financial Management



Layer 1: Pay in full. This layer accounts for about 65% of your total costs. It covers the expenses associated with paying for your employees' and their families' healthcare up to your custom deductible. This includes all predictable and direct costs of managing a self-insured health plan.

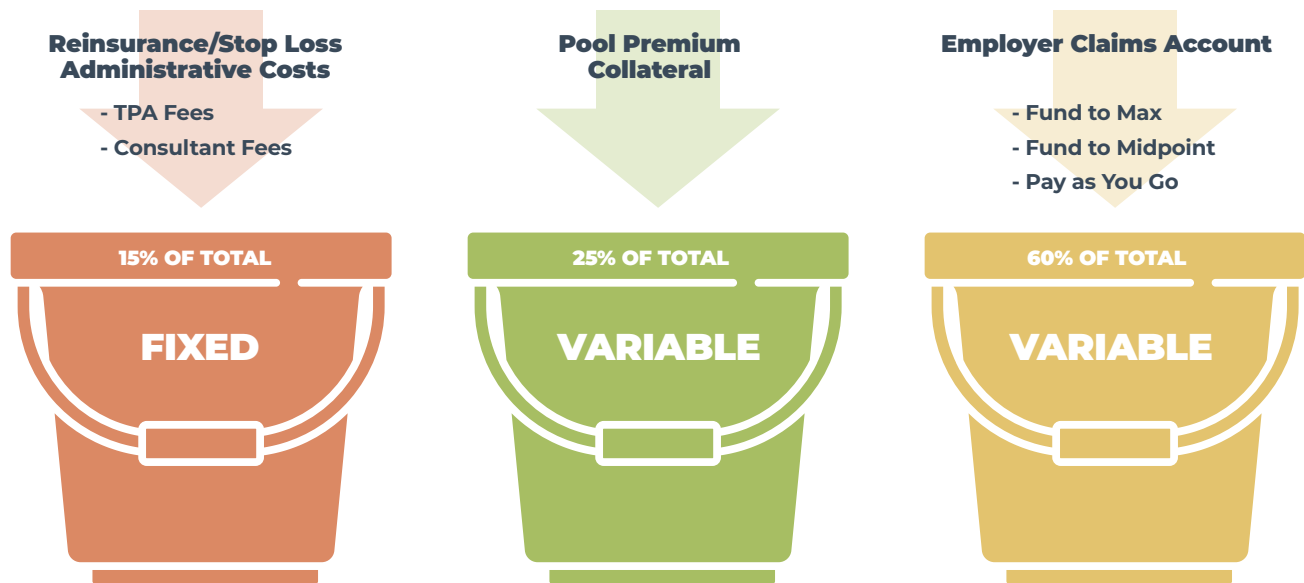
Layer 2: Share costs with other employers. The middle layer comprises approximately 25% of your total costs. This portion includes costs that vary based on plan utilization and the performance of a captive insurance pool. For any individual healthcare costs exceeding your employer's deductible, expenses are shared across a pool of hundreds of employers. These variable costs can be reduced, further improving the savings of your plan.

Layer 3: Shift the cost of catastrophic claims. The top layer represents about 10% of your total costs and involves purchasing stop-loss reinsurance to cover healthcare expenses over \$500,000. This helps protect your plan from unpredictable, high-cost claims. Any unused funds from this layer, as well as from the reserves, are returned to you on a pro-rata basis at the end of the year, providing a direct financial benefit when claims are lower than anticipated.



Three Buckets: Allocating Resources

Where Does the Money Go?



Within the variable costs layer of the cake, your finances are segmented into three primary buckets, which help manage and allocate resources where they are needed most:

Bucket 1: Stop-loss and administrative costs. Closely associated with fixed costs, stop-loss insurance acts as a safety bucket. It protects against catastrophic claims by covering amounts that exceed your predetermined liability thresholds. This cushions your company from financial impact even in the face of unexpectedly high claims.

Bucket 2: Pool premium account. This bucket includes the premiums that are pooled together in the captive arrangement. It covers shared risks among all members and is used to offset the costs arising from pooled claims, providing a layer of financial protection and stability.

Bucket 3: Employer claims account. Directly tied to the health claims made by employees, this bucket is where you fund the expected claims costs. The actual amount in this bucket will vary based on the healthcare needs of your employees throughout the plan year.

How to Budget for a Self-Funded Plan

When planning a budget for your group captive in a self-funded solution, there are several approaches you can take. Here are the advantages and disadvantages of each.

FUNDING METHOD	DESCRIPTION	ADVANTAGES	DISADVANTAGES
PAY AS YOU GO	Cover healthcare claims as they arise without pre-funding.	Cash flow benefits. Only pay for services used, improving cash flow.	Claims monitoring. Requires careful monitoring to ensure all claims are covered.
FUNDING TO MAX	Establish a maximum budget for healthcare expenses and distribute funds accordingly.	Predictable budgeting. Provides a fixed budget, similar to being fully insured.	Upper limit risk. Need to manage funds efficiently to avoid exceeding the maximum budget.
FUNDING AS EXPECTED	Base claims estimates on historical data and projections, setting aside funds to cover anticipated costs.	Data-driven estimates. Uses historical data and projections for more accurate budgeting.	Unexpected costs. Requires stop-loss insurance to mitigate the risk of higher-than-expected claims.

No matter which funding method you select, maintain an escrow account to separate employer and employee contributions. This practice ensures compliance and prevents the mixing of funds. Begin with a conservative approach by overestimating expenses in the first year to help cushion against financial shortfalls and cover unforeseen costs.

Additionally, maintaining a surplus can help stabilize cost sharing and improve financial predictability by protecting against cost fluctuations. It's essential to ensure that assets set aside for benefits are used appropriately, which helps uphold the plan's integrity and compliance.

Cash Flow Considerations

When managing cash flow in your group captive in a self-funded insurance plan, focus on setting reasonable expectations for claims costs and payment timings. By accurately forecasting and carefully planning your finances, you can stabilize cash flow and ensure smooth operations throughout the year.

CONSIDERATION	WHAT TO EXPECT
BUDGETING FOR THE INITIAL YEAR	<ul style="list-style-type: none"> • Expect low claims costs (and positive cash flow) in the first few months due to the lag between a claim's incurred date and its presentation for payment. • It's advisable to reserve this positive cash flow for future claim obligations. • Adjust expected claims costs based on enrollment changes. For instance, a 10% increase in enrollment implies a 10% increase in expected claims, prorated. • Calculate future claims monthly based on PEPM (per employee per month) estimates and pre-fund a separate bank account for these costs.
BUDGETING FOR SUBSEQUENT YEAR	<ul style="list-style-type: none"> • Consider any surplus from the initial year for future claims costs. Apply the surplus before calculating the new PEPM estimated claims costs for monthly pre-funding.
SPECIFIC REIMBURSEMENT CLAIM ADVANCEMENT	<ul style="list-style-type: none"> • If claims exceed the deductible, you can file for specific reinsurance claim advancement to avoid financial strain by paying claims upfront and waiting for reimbursement. • Thresholds for filing vary by TPA, so check with your provider.
CLAIM REIMBURSEMENT: ACH VS. CHECK	<ul style="list-style-type: none"> • ACH payments are encouraged. They take 1-3 weeks less than physical checks and eliminate risks like loss or misplacement of checks. • Check if your TPA offers ACH payments for a fast, secure reimbursement.

“You’re not going to know that until you’ve been in it, until you have at least a year or two years in the self-funded world. That’s when you start to understand what a captive can do.... The ROI is not going to happen in the short term. This is a long-term investment. This is a long-term strategy.

— Shawn DeCraemer, Finance Manager, JJ Safety

How to Assess a Captive

Remember that not all plans are created equal when transitioning to self-funding through a group captive. To find a trustworthy managing company that prioritizes your needs, consider evaluating the following characteristics and features of a plan.

Here's what differentiates the Roundstone Captive from others.

FUNDING METHOD	DESCRIPTION	ADVANTAGES
COST	Less expensive, greater returns. Collateral requirement: 7-10% of Stop Loss premiums. Credits toward future underwriting years.	More expensive, less value. Collateral requirement: 11-15%, up to 25%. Can be "stacked" (paying two years in a row).
RETURN FUND	Accounts for 68-70 cents on the stop loss premium dollar; highest in the industry. Returns to participants after the captive is closed.	Standard: 50-65 cents on the dollar. Less money back to employers due to higher fixed costs.
UNDERWRITING	In-house underwriters (managing general underwriter). Control over turnaround times, premium pricing, and underwriting outcomes.	Underwriters of respective reinsurers. No control over turnaround times, premium pricing, or underwriting outcomes.
COST CONTAINMENT SOLUTIONS	Many solutions to reduce high-cost claims, recommended but not mandated.	Mandate cost containment solutions, potentially leading to unnecessary costs. Conflicts of interest with vendor partners.
UNUSED FUNDS	Returns 100% of unused dollars in cash to participating employers 6-7 months after the policy year concludes.	Unused dollars placed into a fund for collateral or future obligations. Can take 12 months or more to return funds, if at all.
RENEWAL PROPOSALS	Guarantees renewal proposal and no forced exits from the captive.	May not offer renewal to some clients, forcing them to shop for a new health plan each year.
GUARANTEES	Guarantees savings in the first 5 years or the difference made up in cash.	No such guarantee.
REPORTING	Provides quarterly reporting to all participating employers.	Limited or no reporting in some cases.
PROPOSAL DELIVERY	Delivers stop-loss proposals in 3-5 business days.	Can take weeks or months to deliver proposals or other documents.
CARRIERS	Utilizes three A.M. Best A-rated carriers: Standard Life Insurance Company, Granular Insurance Company, Nationwide Insurance Company. Identical stop-loss insurance policies.	Often changes carriers year over year with vague and varying agreements.

Join Roundstone's Group Captive Today

Roundstone is an innovative employee health benefits company. We help small and midsize businesses offer competitive benefits at a lower cost by self-funding health insurance through our group medical captive. The Roundstone Captive enables companies to self-insure safely by pooling hundreds of employers together to share risk and save money.

With easy onboarding and personalized support every step of the way, the Captive offers control, flexibility, and transparency and returns all savings back to employers where they belong. We believe in always aligning with the employers' best interests and remain committed to our mission — quality, affordable healthcare and a better life for all.



**Self-Funded
Saves Money.
We Guarantee It.**

You'll save money in the first five years,
or we'll make up the difference.

[Learn More](#)

Meet Roundstone
Quality Affordable Healthcare
and a Better Life for All

**Launched 1st Group
Medical Captive in 2005**

90%
Retention
Rate

Total healthcare
spend covered
\$1,500,000,000

10.4%*
Average distribution to
captive participants

1000+
Number of
employers



160+ employees
dedicated to YOU!

Number of
lives covered 

170,000+

