RISK SOLUTIONS
CAPTIVE, INC.

CAPTIVATING OPTIONS IN

HEALTHCARE COVERAGE

For most businesses today, choosing a healthcare coverage option is a challenging and daunting task. While business owners are faced with the difficulties of managing their balance sheet, the reality is that health insurance is an expensive cost that can quickly drain hard-earned margins.

Fully insured plans are the most widely known option, yet recent legislation has mandated benefits, which has driven costs to rise. As most agents know, it is not unusual for a group to face a 5-10% increase per year on a good year. The reason that many groups go with fully insured plans is due to their perception that the risk of self-funding options is not worth the savings that these groups can achieve each year. "Perception" is the operable word here, as today's marketplace has additional options designed to fit small to medium employers with healthcare solutions that were previously unavailable.

The perception of fully insured plan safety prevents organizations from self-funding, which presents opportunities for improved cash flow, flexible benefit designs, avoidance of state mandates and even tax savings. Captives are perfect examples of the trends emerging as healthcare options. While plans like these have been available to some of America's largest employers for years, healthcare captive plans have just recently become available for small to mid-sized employers. This provides new options in cost containment for markets previously locked out from these products.

THE CAPTIVE ADVANTAGE

[1]The captive model was founded in the 1950's for mining companies in Ohio. While the term "captive" became synonymous with these types of plans (due to the captive mining employees who were being covered), today's captive plans look much different. The objective of controlling an organization's medical trend remains at the core of captive health plans.

One particular captive model that continues to grow in popularity across the country is best described as a "funnel." The top tier is where all the claims and expenses go into the process. The group pays the first 33% of the funnel's expenses. As you proceed farther down the funnel, the expense goes down, the more parties become engaged in sharing the expenses.

For the next 33% of the expenses, the third party administrator (TPA) who pays the claims and processes the membership pays for this cost.

This ensures that the group and the TPA have a fiduciary responsibility to proactively address any claims problems and promote healthy living for the group. A reinsurance carrier covers the final third (33%). This is for your claims over a certain catastrophic amount. This model allows all parties to have a level of exposure so that the management of healthcare expenses by the employer, third party administrator and reinsurance carrier all collectively benefit the employer.

Based on organizations such as the Self Insurance Association of America (SIIA), captives and self-funding are the venues of choice for more than 90% of the Fortune 500 plans in America. This goes to show that large employers have long known about the savings that they can achieve by offering a captive health plan to their employees. The freedom to customize benefit options, control healthcare spending and meet all state and federal guidelines has caused this option to become attractive to many more organizations today. Small, mid-sized and large businesses each find compelling advantages to offer captive plans – primary advantage being the cost savings.

CAN A SMALL OR MID-SIZED EMPLOYER BE ON A CAPTIVE PLAN?

While a strong balance sheet and a willingness to manage costs are two defining characteristics of a captive inclined organization, today support is available to help a company successfully manage their captive plan more than ever before. By partnering with a captive administrator, one is guided through the steps necessary to drive a successful captive implementation and maintenance. The partnership between the captive administrator and the small to mid-sized employer enables any organization to fully comply with the Affordable Care Act regulations. This is one of the key reasons that the use of captive plans has grown rather significantly in the past 2-3 years.

With healthcare today accounting for a sizeable portion of a business' operating expense, employers are faced with a similar problem that the mining companies of the 1950's experienced. There has to be a way for companies to offer affordable health coverage without risking their financial earnings on one ill-fated injury or illness. The selection of a captive plan is the answer, no matter the business size.

SUMMARY

Insurance has changed significantly over the past three years, primarily due to the Affordable Care Act (ACA). What many employers seem to forget though, is that the movement to health incentives and wellness initiatives actually began years before ACA was passed. In the pre-ACA environment, this was largely due to large insurance carriers searching for ways to maximize their profits by reducing loss ratios.

With the lack of incentive to do this today, mainly due to defined Medical Loss Ratio's, the self-funding industry is the main proponent of enhancing the health of one's employees. However, the trend of incentivizing healthier employees extends beyond the loss ratios of a company; employee health has also been shown to enhance productivity, satisfaction and retention.

Employers of all sizes have more choices for coverage than ever before. Not all models are appropriate for every business, yet, with the emergence of small to mid-sized employers embracing the captive model, a new benchmark in healthcare coverage has emerged.

ABOUT RISK SOLUTIONS CAPTIVE:

Risk Solutions Captive, Inc. (RSC) provides innovative solutions for companies with 50 or more employees in the self-funded arena. RSC's partnership with Health Cost Solutions (HCS), the TPA, provides the foundation for RSC with a variety of services including claims payment, cost containment, billing, reporting and COBRA services. By partnering with a highly rated reinsurance carrier and Health Cost Solutions, Risk Solutions Captive offers risk protection from high-dollar claims exposure and the highest quality TPA services.

[1] *Mitchell, D. (2013) Captive Carriers in Healthcare 101. American Society of Healthcare Risk Management. October, 2012*