isbc Independent School Benefits Consortium

Self-Funded Stop-Loss Captives

A BETTER SCHOOL OF THOUGHT

As health insurance costs continue to escalate and uncertainty in the marketplace persists, self-funded stop-loss captives offer a cost-effective method for employers to better manage their group health insurance plans. In the past, self-funding was only a viable funding alternative for larger employers. Now, group captives have also made self-funding attractive to smaller organizations with as few as 25 covered employees.

A group captive is an insurance arrangement that insulates self-funded employers from adverse market renewals by sharing risk with other employers of similar size and risk profile. Employers that perform well financially are rewarded and those that do not perform as well are protected.

SELF-FUNDING TURNS FIXED COST INTO VARIABLE COSTS

Whether fully-insured or self-funded, cost components in a group health plan are the same, comprised of administrative fees, risk premium and claims. All fully-insured plan costs are fixed and 100% of the risk is transferred to a commercial insurance company. In a self-funded plan, the employer assumes some of the risk, significantly reducing fixed cost. This allows more of the total health insurance spend to fund claims, if and when they occur. Premium surpluses (profit) are retained by a self-funded employer rather than by an insurance carrier.

STOP-LOSS INSURANCE PROTECTS A SELF-FUNDED PLAN

Instead of buying insurance for health-related expenses such as office visits, office procedures and maintenance medication, self-funded plans pay these expected claims as an expense and buy stop-loss insurance for the unpredictable claims. Aggregate stop-loss protects self-funded plans from overall high frequency of claims in any one plan year, while specific stop-loss provides protection from high individual or catastrophic claims. The aggregate attachment point, or maximum claim liability, is determined based on a corridor (usually 120%) over total expected claims. The specific deductible is determined based on the size of the group and level of risk an employer is willing to accept.

A TRACK RECORD OF POSITIVE RESULTS

ISBC offers financial leverage and stability through a proven track record of performing significantly better than industry standards. In an environment where inflation for medical and prescription cost has been double digits.

On January 1, 2014 the Independent Schools Benefit Consortium (ISBC) transitioned to a self-funded stop-loss captive. The ISBC is a niche consortium made up of 50+ schools, 7,500 member lives and located in 11 states. The total cost for all ISBC schools collectively increased just over 2% from the 2015 to 2016 plan year. Furthermore, an underwriting surplus of over $800,000 was returned to the schools in 2015 and the 2016 surplus is expected to an amount that will exceed the distribution in 2015.

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HOW WE POOL AND SHARE RISK IN THE CAPTIVE

Reinsurance Transferred Risk	Funds everything over $500,000
Captive Shared Risk	Funds over employer stop-loss limit, up to $500,000
Employer Accepted Risk	Funds up to stop-loss limit (i.e. $20,000 deductible) per plan member
Employee Accepted Risk	Funds deductible, copays and out-of-pocket expenses

CAPTIVES ARE A GAME-CHANGER FOR SMALL AND MID-MARKET SELF-FUNDED EMPLOYERS

In a traditional self-funded plan, an employer assumes a level of risk and transfers the entire excess risk to a reinsurance company. In a captive, an employer accepts a level of risk but the next level of excess risk is shared by other self-funded employers before a third level of excess risk is absorbed by a reinsurance carrier. By sharing the risk in the captive, exposure to the volatility of large claims is reduced and the impact of fixed cost fluctuations are minimized. If the stop-loss premiums contributed to the captive exceed the claims paid by the captive at policy year-end, an underwriting surplus is distributed back to the participating members in the captive based on the proportion of premium contributed.

It is anticipated that the popularity of self-funded captives will continue to grow to address increasing cost and volatility of the health insurance marketplace.

Learn more about the ISBC captive solution and how it can support and advance your independent school at **www.YourISBC.com** or contact **Kurt Meinberg at kmeinberg@yourisbc.com**.

ABOUT THE AUTHOR

KURT MEINBERG

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Kurt has almost 30 years of experience in employee benefits working with plan sponsors on strategic initiatives involving all aspects of health insurance and health risk management. He is currently responsible for leading the Independent Schools Benefit Consortium (ISBC). Kurt holds a bachelor's degree from the University of Wisconsin-LaCrosse and is a designated Registered Health Underwriter.