



Captives...
not just for the
Fortune 500
anymore

TODAY'S PRESENTER

David Konrad

- More than 25 years of insurance and financial sales, management, and operations experience. As Program Manager for Roundstone, Dave is responsible for the program development, design, structure, sales, and marketing of various P&C and EB captive programs.
- Dave holds a Masters of International Business Administration from Baldwin Wallace College and a Bachelor's of Business Administration in Finance and International Business from The Ohio State University.
- Roundstone Management, Ltd. ("Roundstone") based in Lakewood, Ohio, is an insurance organization focused on the development, underwriting and servicing of alternative risk products, including captives, rent-a-captives and specialty insurance programs. Roundstone offers expertise in the captive marketplace with an unbundled services approach utilizing the facilities of Roundstone Insurance, Ltd.



Agenda

Captives – Not Just for Fortune 500 Employers Anymore!

Definition of an employee benefit (EB) captive, the differences between an EB captive and Multiple Employer Welfare Arrangements, Advantages and Disadvantages of EB captives, and what matters the most when building or evaluating an EB captive

We will explore EB captive models and structures including live case studies of employers ranging from 20 to 1,000 employees.

After this webinar, you will understand how Middle Market Employers can gain control over their health care spend by joining together with employers on a local or national basis.

What is an EB Captive?

Employers pool their Medical and Rx stop loss premiums together and share in the pool's positive underwriting outcomes.

How is this approach different than traditional self funding?

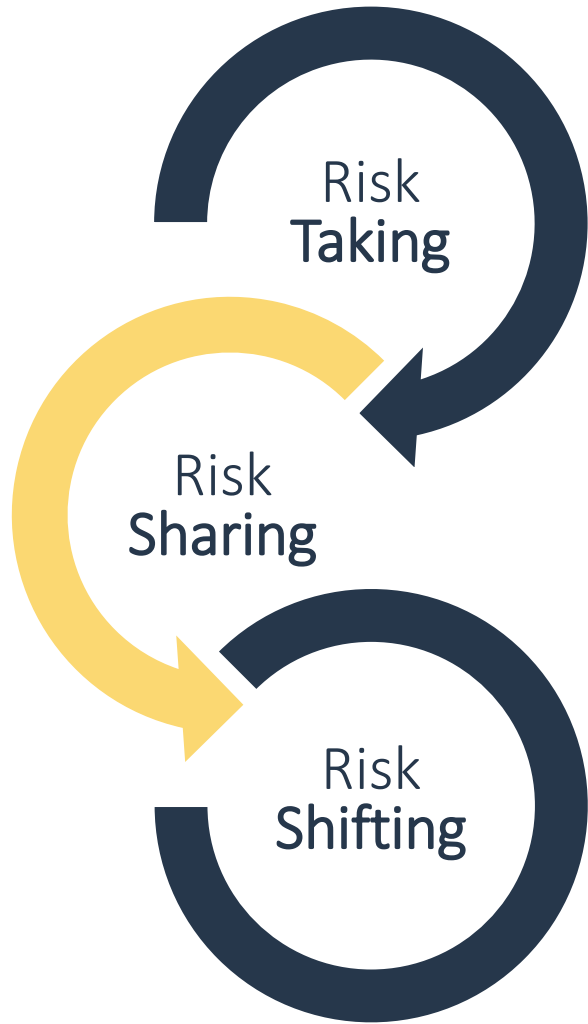
- 98% the of the answers to those types of questions are... *“This program is the same as traditional self funding”*
- Employers can pull all of the same cost containment levers utilized in traditional self funding
- Employers can use all the traditional self funding cash flow management mechanisms (Aggregate Accommodation, Simultaneous Specific Funding, Aggregating Specific, etc...)

EB Captive differences?

Three Key differences between EB Captives and Traditional Self Funding:

- Share in positive underwriting outcomes with other members of the pool, return of unused premiums = underwriting profits (SL carriers 65% LR)
- Risk taking involves funding of pool's reserve account aka Collateral
- Group purchasing
 - Lower Fixed Costs from Vendors – thousands of units vs handful
 - Access cost containment platforms and networks only available to the F500

How it works for each ER?



Each employer will self insure at least \$10,000 of claims per member, per policy period.

For claims between \$10,000 and \$500,000, employers pool stop loss premiums and claims.

For claims above \$500,000 and 125% of expected, reinsurance is purchased.

Risk Sharing examples?

100% Quota Share: Pools pays 100% of the claims that fall in between:

- Their specific deductible to \$250 - \$500K
- Their specific deductible + \$200 – 250K BAND

50% Quota Share: Pool pays 50% of claims that fall between:

- Their specific deductible and \$750K - \$1MM

A (ER) and B (Pool) Fund:

- ER wipes out their reserves before the pool pays the balance of the claim

SL Pooling Pro-Rata Share



Advantages vs Fully Insured?

Transparency

- Claims Data

Control

- Plan Design

Cost Containment

- PBM
- Telemedicine
- Wellness
- Concierge
- **Direct Contracting**
- etc....

Variable Costs

- **85% versus 0%**

Advantages vs Level Funded?

Transparency

- Claims Data

Control

- Plan Design

Cost Containment

- Unbundled Cost Containment vendors accessible
- **Receive cash versus a “credit”**

Variable Costs

- **85% versus 50%**

Advantages vs Self Funded?

Transparency

- Stop Loss Financials
- Access to SL Underwriters

Control

- Renewal of pool can smooth cycles
- No lasers

Cost Containment

- Peer to Peer sharing of ideas
- Peer pressure to engage in plan education and utilization
- Pool's Underwriting Guidelines
- Purchase Vendor's Services at 10,000 EE rates versus 150 EEs
- Underwriting gains....\$\$\$

Variable Costs

- 85% versus 65%
- Able to increase variable costs without raising specific deductible (ER risk)

Disadvantages vs Others?

Fully Insured

- Max Cost often higher than Fully Insured premium
- Some Blues and Anthems do not play in this sandbox, network change may be required

Level Funded

- Max cost slightly higher than Level Funded maximum

Partial Self Funded

- Reserve requirements rules of thumb. 10 – 15% of Stop Loss premiums or 2-4% of Fully Insured premium

MEWA vs EB Captive?

MEWA:

- A Multiple Employer Welfare Arrangement (“MEWA”): Employee welfare benefit plan established to offer benefits to the employees of two or more employers
- One issue with multiple employer welfare arrangements is that some MEWAs find themselves unable to pay claims due to inadequate funding or reserves
- Regulated state by state.... Association Health Plan could be regulated as MEWAs
- 7/2017: California and Texas, 10 MEWAs are functioning today

Captive:

- Each employer is underwritten separately and issued a stop loss policy directly
- The stop loss policies are issued by an AM Best, A+ rated and admitted carrier
- The group captive does not issue a stop loss policy to any employer
- ERISA plan, can be written in 50 states

Are all EB Captives same?

The short answer is... “NO”

Advisor needs to confirm:

- Program expenses
- Reserve Requirements
- Administrative Experience
- Accessibility
- Structure
 - A Fund B Fund?
 - Pro Rata Risk Sharing?
 - Pool's Aggregate and Specific Limits
- Program Underwriting and Management Experience
- Is the MGU or Captive Manager Financially tied to the cost containment providers or networks

How do I evaluate captives \$\$?

Turnkey program

- Do not require feasibility study fees

Expenses for underwriting and managing program need to be kept low. The lion's share of the ER's stop loss premium dollar needs to drop into the shared pool to pay claims

- Target is 65 - 70 cents of every stop loss dollar makes it to pool

Keep the collateral requirements competitive so it does not require lines of credit to fund (P&C captives have this challenge)

- Target is 9 - 15 cents of additional reserves (compared to SL premiums)

How do I evaluate captives Administrative?

Captives require numerous professional insurance services: Attorney, Accountant, Underwriter, Actuary, Reinsurance Broker, Captive Manager, Claims Adjudication, Auditor, etc... Keep as many of these functions under one roof *and* transparent so the program will have timely and cohesive reporting

- Hand-offs from one service provider to the next can create delays of reporting and distribution of underwriting gains
- Employers do not like “surprise” renewals
- Employers do not like “surprise” collateral calls

Employers expect reporting to be timely and accurate

- Captive Performance: 45 - 60 days after every quarter
- Annual Dividends need to be distributed 180 days after renewal

How to Form an EB Captive?

If joining an existing captive is not an option:

Find a stop loss carrier (or MGU) and captive manager engaged in the underwriting and management of EB group captives

Aggregate underwriting data from the pool of Employers

- Pricing, Plans, Census, and Claims (if available)
- Minimum of EEs with low specs or \$2.5MM of stop loss premiums

Determine the underwriting guidelines for the pool

- Network, Third Party Administrator, Wellness, Plan Designs, SIC codes, Entry and Exit, etc...
- What are the Risk Sharing guidelines?

Underwrite each ER and then they block as a whole, determine competitiveness of program for each participant

Heterogeneous Opportunities

This is a catch-all pool. The Employer's characteristics, EE count, and networks are varied from case to case.

Most "public" pools, written by numerous Advisors, can utilize any network, any TPA, Reference Base Pricing, and/or cost containment vendor.

Limited cost containment initiatives required for entry

Are you a member of a local, regional, or national Chamber of Commerce?
....If so, let's talk to them.

Homogeneous Opportunities

Homogeneity can be limited to the Employers are required to be in the same SIC code, For-Profit, Not-For-Profit. The Employer's characteristics in terms of EE count and networks can be varied if necessary.

Most “private” pools, controlled by one Advisor, homogeneous SIC code and utilize one network, Third Party Administrator, and handful of plan designs with set rules on program underwriting guidelines for entry and exit.

The question we ask Employers:

Who do you buy paperclips, gas, or electricity with?

Are you a member of a local, regional, or national association?

....If so, let's talk to them.

Existing EB Captives

- Trucking
- Emergency Medical Transportation
- Law Firms
- Construction
- Accounting Firms
- Private Schools
- Nursing Homes
- Physical Therapy
- Municipalities
- Colleges
- Staffing Firms
- Plumbing Part Wholesalers
- Beverage Distributors
- Craft Brewers
- who do you buy paperclips or get rely on for industry education

Case Study - Homogeneous

- Twelve, Private, K-12 schools in Ohio
- All fully-insured via the BUCAs (Blues, United, Cigna, Aetna/Anthem)
- Twelve sets of plan designs
- Limited experience with cost containment strategies or data analysis
- *PEPY costs rose from \$8,600 - \$11,200 over 4 fully insured renewals*

Case Study - Homogeneous

- Employers banded together to purchase a health care like one large organization
- The captive model allowed for further customization of plan designs
 - Engaged a best-in-class wellness platform
 - Implemented plan designs to steer EEs to high quality and low cost solutions
 - Groups develop strategies to contain costs year over year – long terms solution
 - Peer to peer data sharing and EE education via conference calls and annual meetings
- Since forming the captive the program has grown five-fold
- *PEPY costs have risen at inflation, approximately 3%*

ROUNDSTONE'S 2016 HETEROGENEOUS POOL RESULTS

The Roundstone 1/1 Public Pool (a)

as of 4/12/2018, AN1

Policy Holder	SIC	Employees	State
Computer Integrated Systems Design	7373	340	MA
Petroleum & Petroleum Products Wholesalers	5172	46	PA
Individual & Family Social Services	8322	101	MA
Conveyors & Conveying Equipment	3535	22	TX
Individual & Family Social Services	8322	139	PA
Social Services, NEC	8399	116	OH
Credit Unions, Federally Chartered	6061	120	LA
Offices & Clinics of Doctors of Medicine	8011	671	MA
Skilled Nursing Care Facilities	8051	87	PA
Individual & Family Social Services	8322	71	WA
Credit Unions, Not Federally Chartered	6062	41	NM
Business Services, NEC	7389	112	OH
Local Passenger Transportation, NEC	4119	97	MA
Insurance Agents, Brokers & Service	6411	54	OH
Petroleum & Petroleum Products Wholesalers	5172	136	OH
Local Trucking With Storage	4214	109	OH
Accounting, Auditing & Bookkeeping Services	8721	49	OH
State Commercial Banks	6022	63	MO
Specialty Outpatient Facilities, NEC	8093	92	MA
Manufacturing Industries, NEC	3999	25	OH
Management Consulting Services	8742	230	PA
Credit Unions, Federally Chartered	6061	51	TX
Offices & Clinics of Doctors of Medicine	8011	57	MN
Hotels & Motels	7011	430	TX
Legal Counsel & Prosecution	9222	102	OH
Newspapers: Publishing & Printing	2711	95	OH
Offices & Clinics of Doctors of Medicine	8011	67	OH
Communications Services, NEC	4899	38	CT
Packaging Paper & Plastics Film	2671	42	OH

Policy Holder	SIC	Employees	State
Metals Service Centers & Offices	5051	80	MI
Farm & Garden Machinery & Equipment	5083	54	IA
Electrical Equip for Internal Comb Engines	3694	31	MO
Electrical Apparatus & Equipment	5063	56	MO
Lumber, Plywood, Millwork & Wood Panels	5031	62	TX
Auto & Home Supply Stores	5531	126	OH
Rolling, Drawing & Extruding Of Copper	3351	141	PA
National Commercial Banks	6021	45	MO
Wine & Distilled Alcoholic Beverages	5182	25	IN
Skilled Nursing Care Facilities	8051	215	MN
Special Trade Contractors, NEC	1799	79	TX
Elementary & Secondary Schools	8211	63	MA
Plumbing & Heating Equipment/Supplies	5074	73	WA
Auto & Home Supply Stores	5531	55	TX
Employment Agencies	7361	91	CA
Health & Allied Services, NEC	8099	1001	OH
Insurance Agents, Brokers & Service	6411	105	MA
Business Consulting Services, NEC	8748	54	TX
Electrical & Electronic Repair Shops, NEC	7629	89	TX
Trucking, Except Local	4213	74	TX
Electrical Work	1731	132	MA
Administration of Housing Programs	9531	59	PA
Machine Tools, Metal Cutting Types	3541	126	PA
Farm Supplies	5191	39	OH
Offices & Clinics of Doctors of Medicine	8011	61	NC
Computer Related Services, NEC	7379	275	MO
Management Services	8741	47	CA
Telephone Comm, Exc Radiotelephone	4813	101	MA
Commercial Printing, Lithographic	2752	146	PA

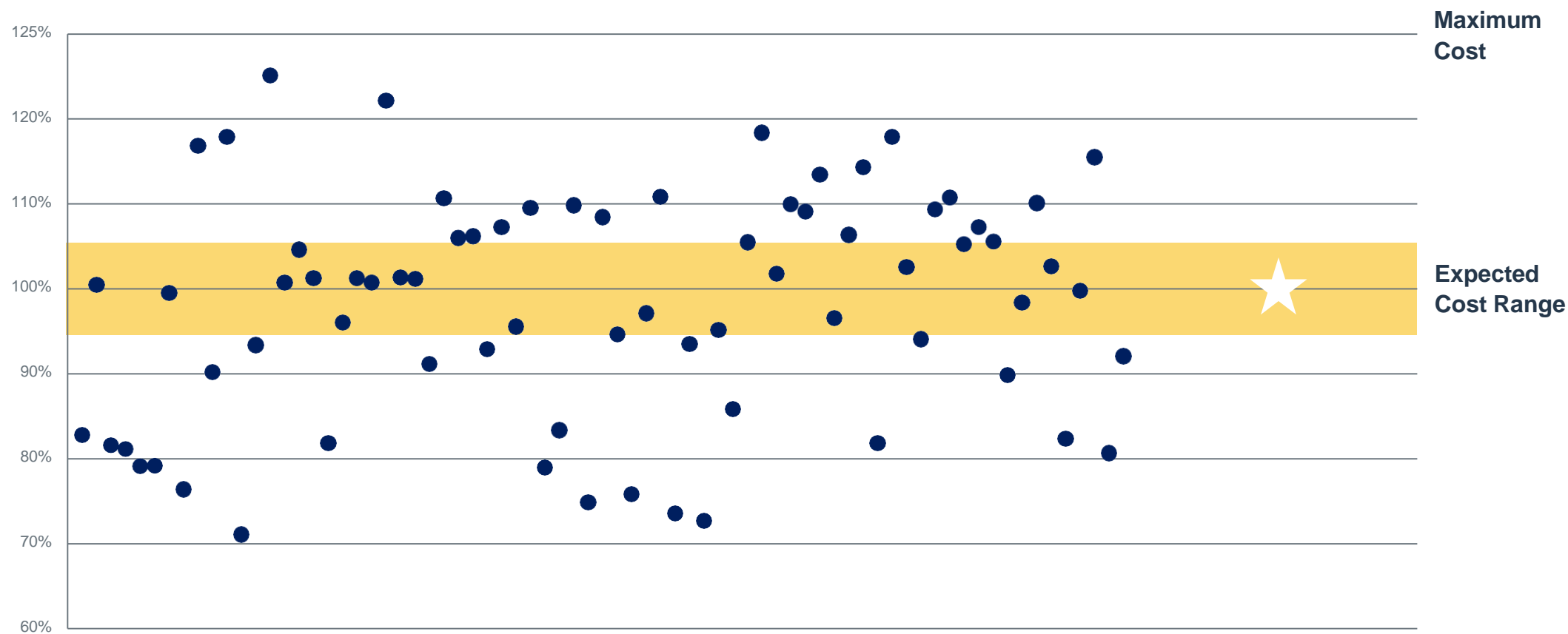
Total Groups: 64

Total Enrolled Lives: 17,792

Participant in Roundstone's ANICO 1/1 Public Pool are listed above. Participants may withdraw from the 1/1 Public Pool and new participants may join at any time. Consequently, this list is subject to change without notice and should not be considered final.

ROUNDSTONE'S 2016 HETEROGENEOUS POOL RESULTS

The average Employer spent 24.2% **less than** their fully insured renewals



Thank you.



Roundstone Management, Ltd.

440.617.0333

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