

# MEDICAL STOP LOSS CAPTIVES EXPLORED

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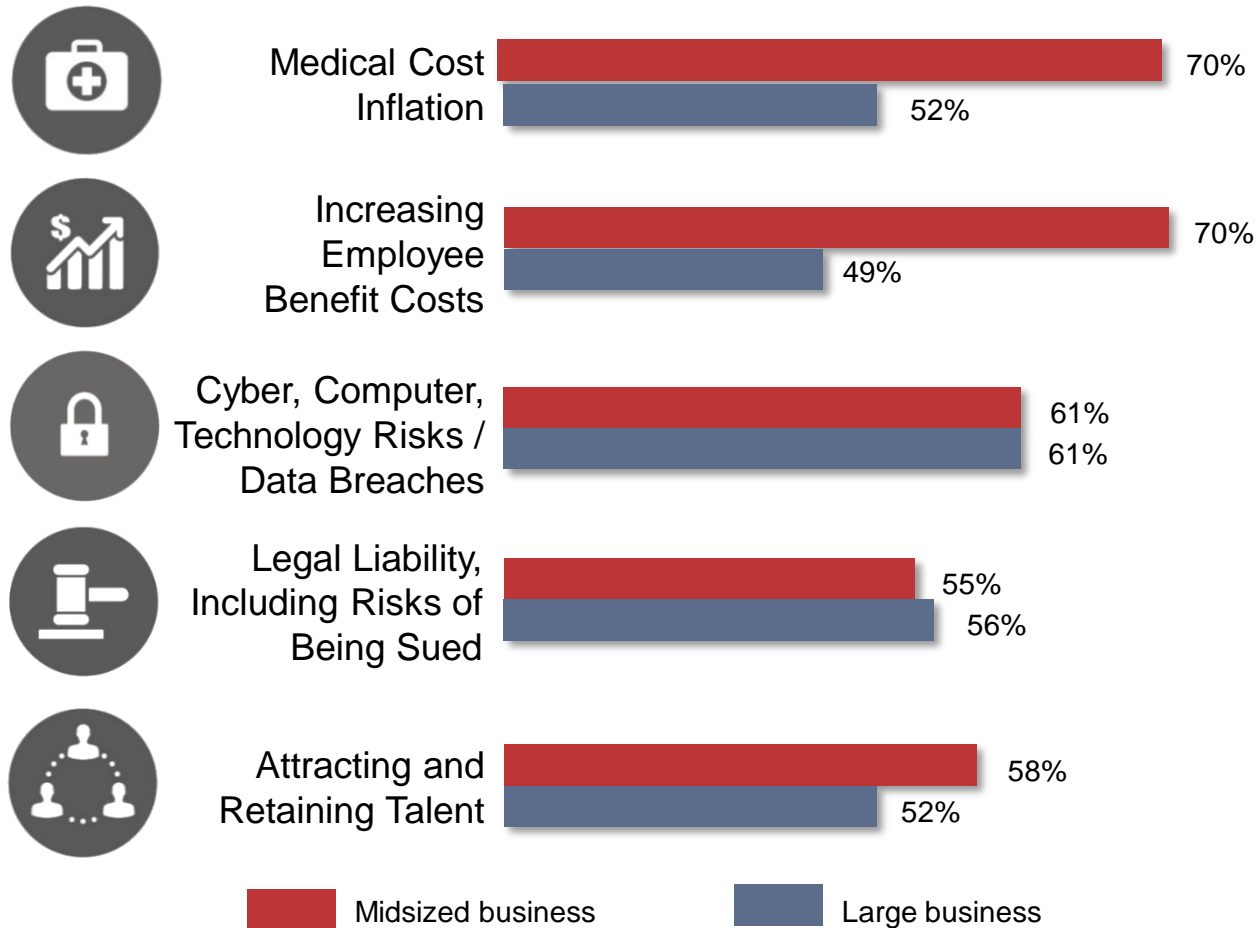
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2018

# U.S. EMPLOYER HEALTH CARE MARKET



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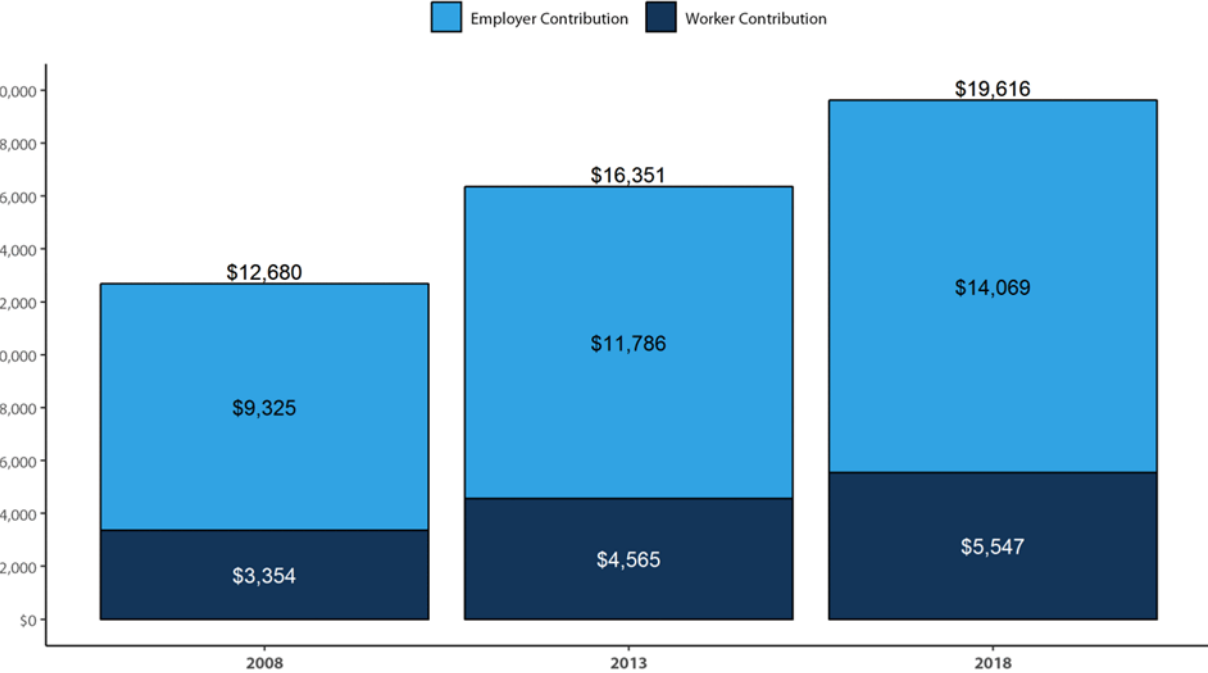
# TOP RISK CONCERNS FOR U.S. BUSINESSES<sup>1</sup>



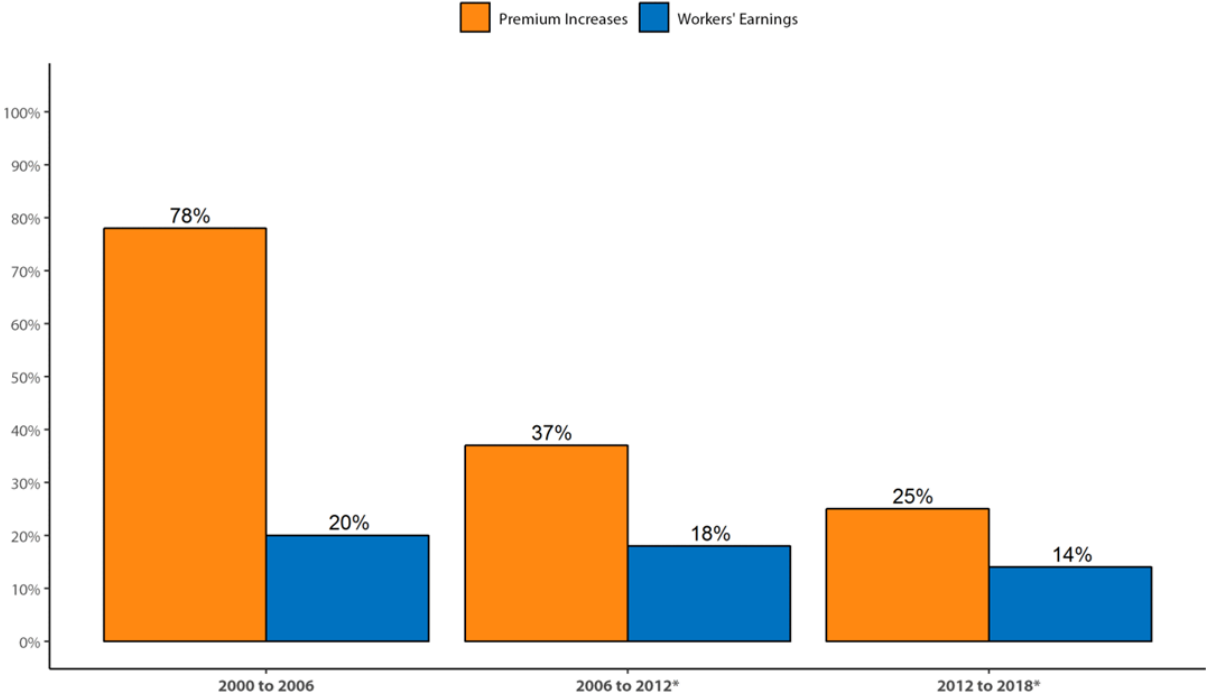
1. 2016 Travelers Business Risk Index Survey

# CUMULATIVE INCREASES IN HEALTH INSURANCE PREMIUMS, WORKERS CONTRIBUTIONS TO PREMIUMS, INFLATION, AND WORKERS EARNINGS, 1999-2015

**Figure B**  
Average Annual Worker and Employer Premium Contributions and Total Premiums for Family Coverage, 2008, 2013, and 2018



**Figure C**  
Cumulative Family Premium Increases and Workers' Earnings, 2000-2018



NOTE: Since 2008, the average family premium has increased 55% and the average worker contribution toward the premium has increased 65%.  
SOURCE: KFF Employer Health Benefits Survey, 2018; Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2008 and 2013

\* Percentage change in family premium is statistically different from previous period shown (p < .05).  
SOURCE: KFF Employer Health Benefits Survey, 2018; Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000-2017. Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 2000-2018 (April to April).

# MARCH 23, 2010: THE END OF HEALTH INSURANCE

Stock	3/23/2010	11/2/2018	Increase	Annual Increase
CIGNA	\$36.04	\$213.13	491%	58%
Aetna	\$34.35	\$198.21	477%	56%
Anthem	\$63.30	\$268.00	323%	38%
UHC	\$32.66	\$261.01	699%	82%
S&P 500	\$1,267.71	\$2,723.06	115%	14%



# THE FULLY INSURED MARKET

- Rate increases every year, with incomplete data
  - Are you supporting the market, or being supported by it?
  - Where do the premium dollars go?
- Buying cycle isn't linked to true cost
- Your only options
  - Change carriers
  - Shift costs by lowering benefits or raising employee contributions/deductibles

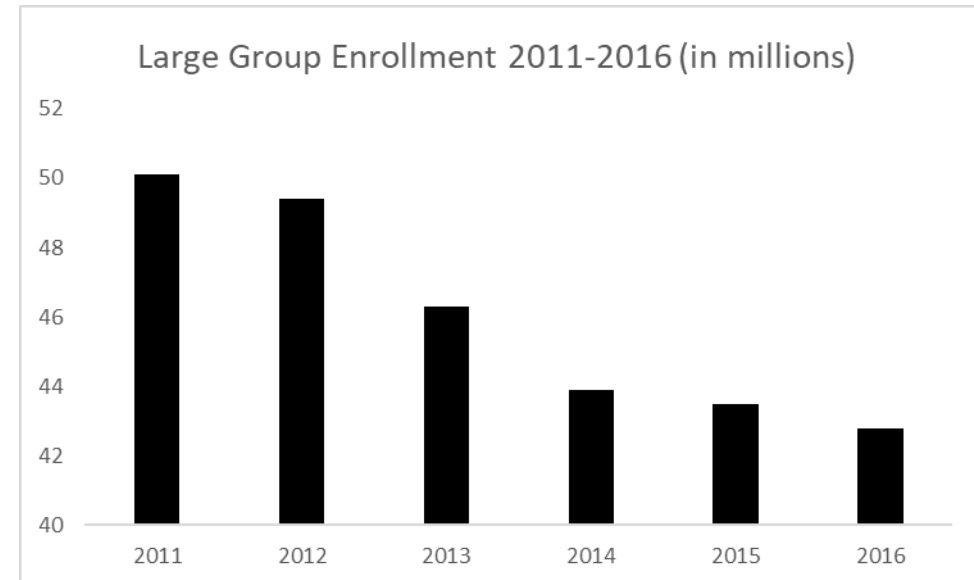
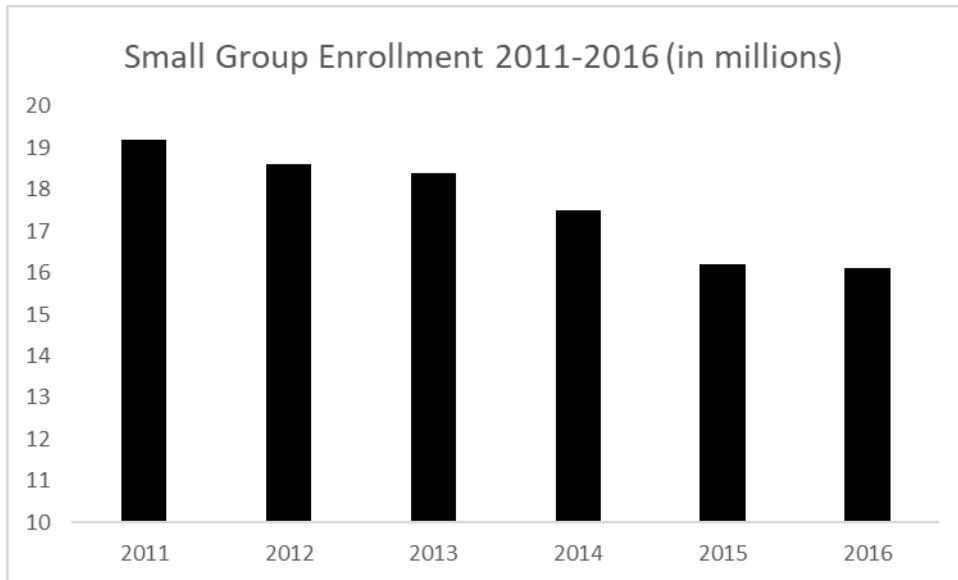


# THE FULLY INSURED MARKET IS SHRINKING

**Between 2011 and 2016, small group enrollment fell 16.1% and large group fell 14.6%.**

There is little evidence to suggest these trends changed in 2017 or 2018.

A shift to self-funded products appears to be the primary driver



# SELF-FUNDING BRINGS MOST OF THE HEALTHCARE SPENDING UNDER EMPLOYER CONTROL

## Fully insured



All risks transferred to insurer  
All control transferred to market / insurer

## Self-funded

Partially Self Funded to \$50,000 per Occurrence

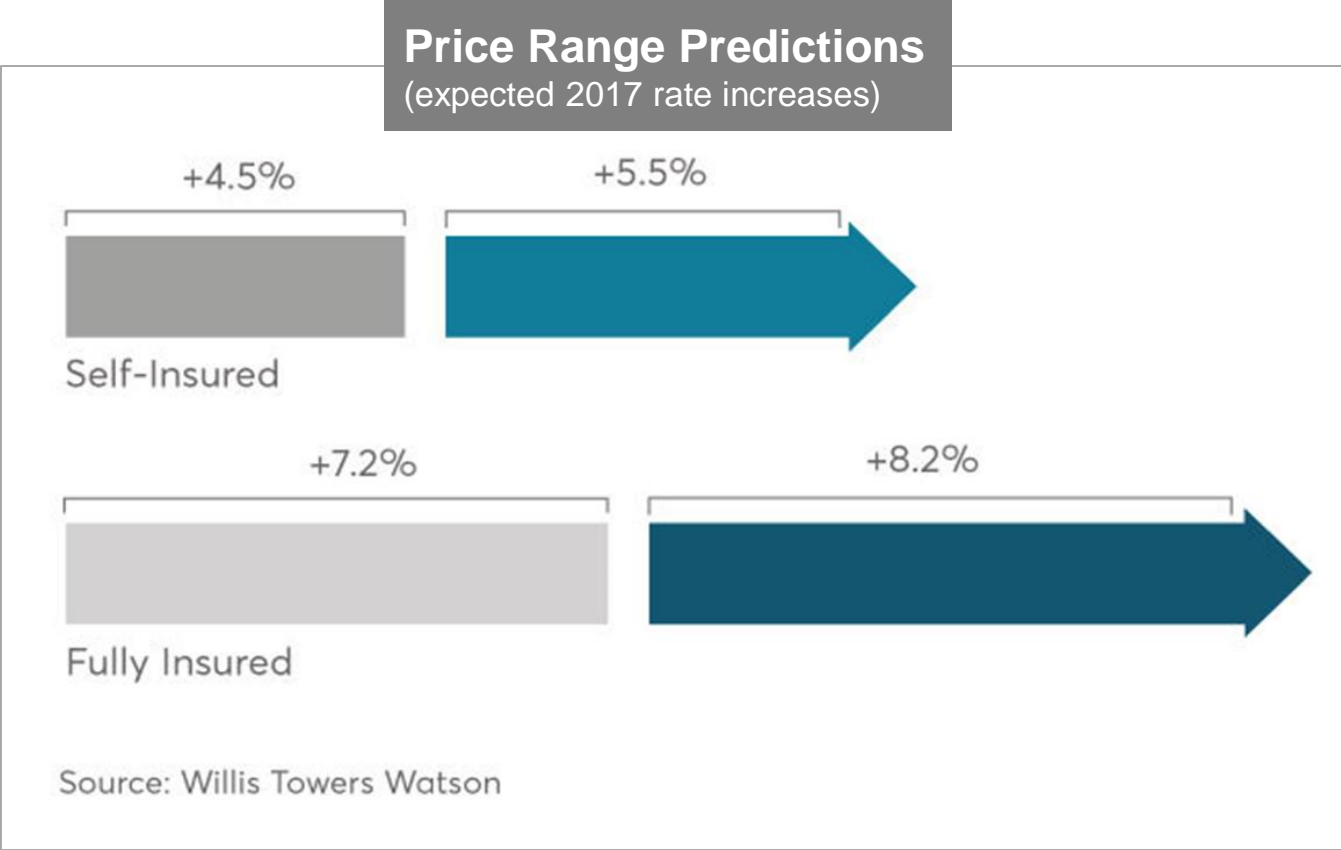


~60% of risk retained  
~60% of control retained  
Large claims transferred





# PREMIUM EXPECTATIONS WITH OR WITHOUT THE ACA



# THE SELF-FUNDED MARKET



# SELF-FUNDED MARKET GROWTH

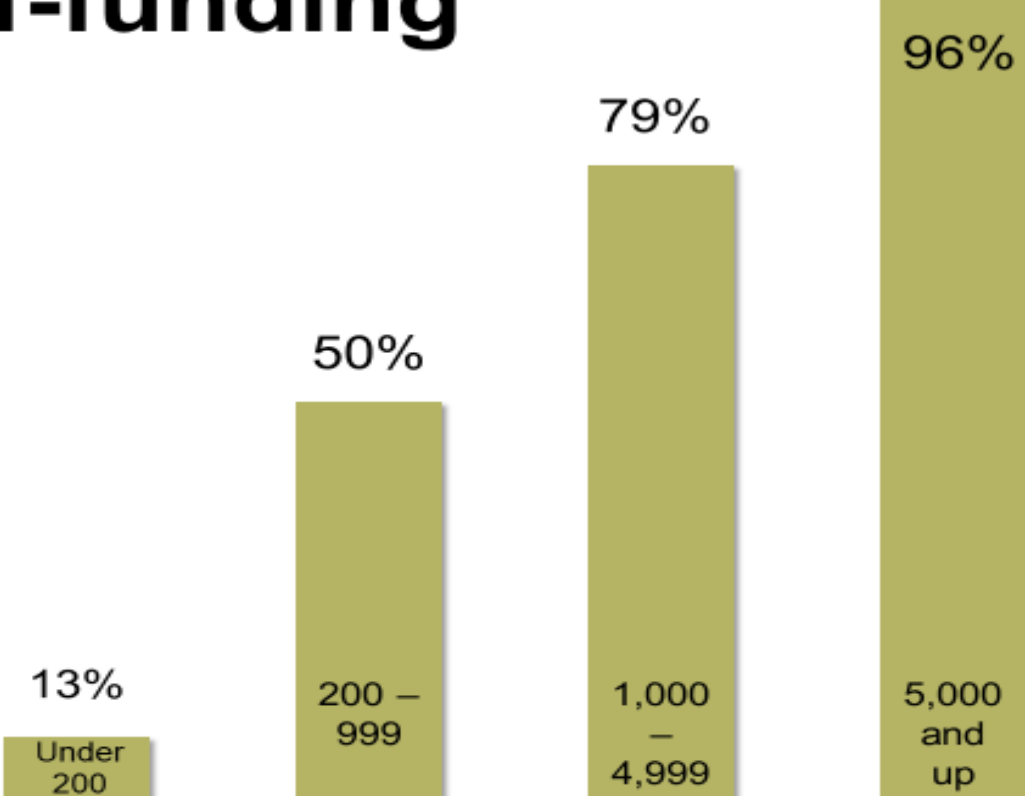
## Self-funding

### 2010 (Pre ACA)

48% of all U.S. employers are self-funded.

### 2018

62% of all U.S. employers are self-funded



## EVOLUTION OF THE SELF-FUNDED MARKET (ACA TO TODAY)

- **2010: 48% of U.S. Employers Self-Funded**
- **2018: 63% of U.S. Employers Self-Funded**
- Most growth from employers < 500 EE lives
  - Majority coming from < 250 EE lives
- 80% of employers > 500 EEs already self-funded



# THE STOP LOSS MARKET



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# MEDICAL STOP LOSS



## MSL MARKET GROWTH (ACA TO TODAY)

- **2010:** MSL Market: \$7b - \$8b
  - 70% controlled by top 25 writers
- **2018:** MSL Market: \$17 -18b
  - 70% controlled by top 10 writers
- **2020:** Market projection: \$20b-\$22b
  - Further consolidation among top writers expected.



# CURRENT STATE OF THE MSL MARKET

- > Is it soft?
- > Significant Losses throughout the market
- > Carrier Remediation and signs of firming
- > Consolidation





# MSL MARKET ANALYSIS (NON BUCA/NON BUNDLED)

- **MSL Market showing signs of firming**
- **NAIC reported data for top MSL carriers: >\$100M premium in 2017**
- **Results reflect 2016 U/W Year**
- **“Gross” Loss Ratios on MSL portfolio**
- **Add 15% - 20% + to get “NET”**
- **Initial indications show continued market deterioration.**

Carrier	MSL GWP (in \$ mil)	2016 GLR %(NAIC)
Carrier 1	1,300	78.3
Carrier 2	1,100	78.4
Carrier 3	869	
Carrier 3	856	77.8
Carrier 4	837	74.1
Carrier 5	440	81.7
Carrier 6	306	89.6
Carrier 7	274	79.2
Carrier 8	236	79.7
Carrier 9	146	100.2
Carrier 10	138	
Carrier 11	121	91.4
Carrier 12	83	
Carrier 14	71	80.6

# GROUP CAPTIVES

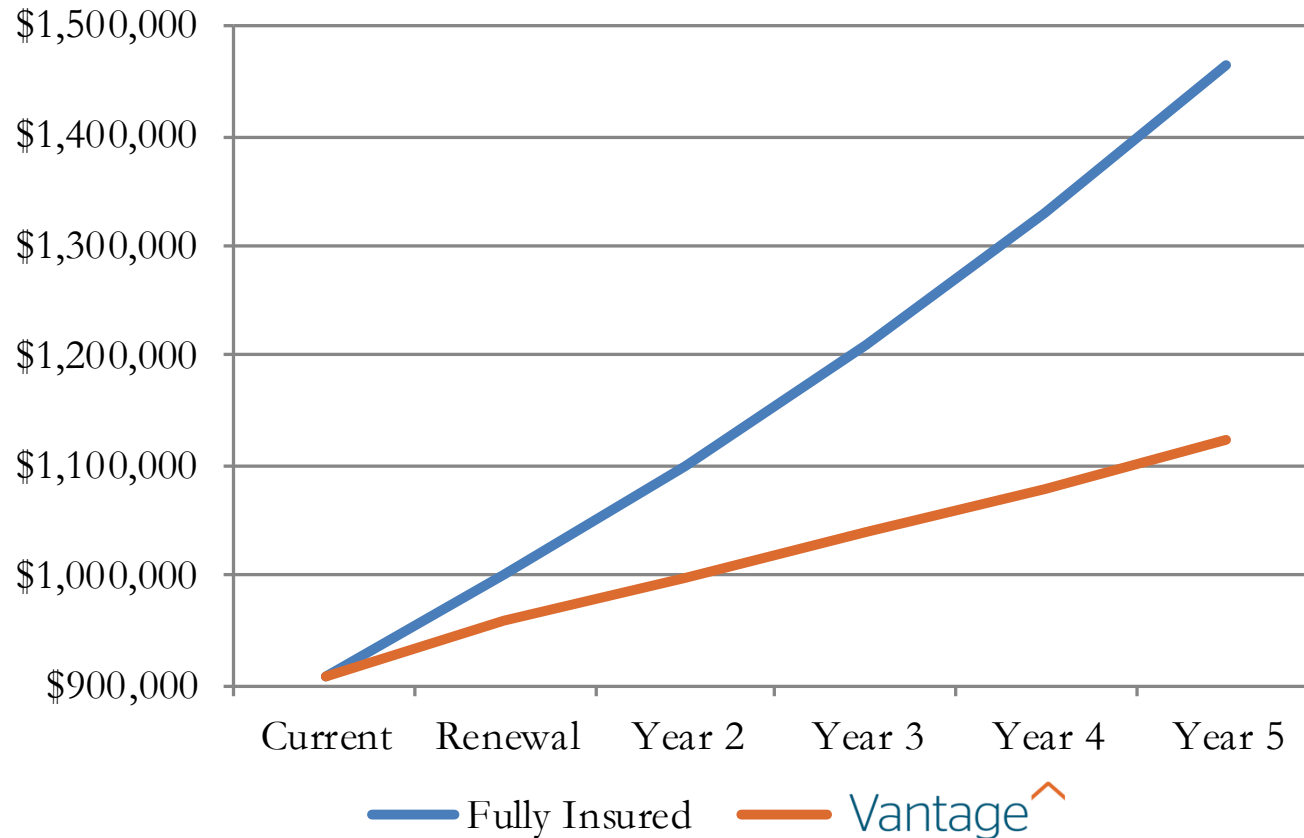


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Every decision you make should be based on \$6,105,100.  
Not the annual “How can I pay the lowest in the next 12 months.”

## Reduce costs from changing trend line over 5 years



8% = \$356k

6% = \$580k

4% = \$798k



# THE SELF-FUNDING CHALLENGE



## Accessibility

- Lack of competitive stop loss marketplace
- Lack of availability



## Credibility

- Inconsistent rating practices
- Over-reaction to good vs. bad years

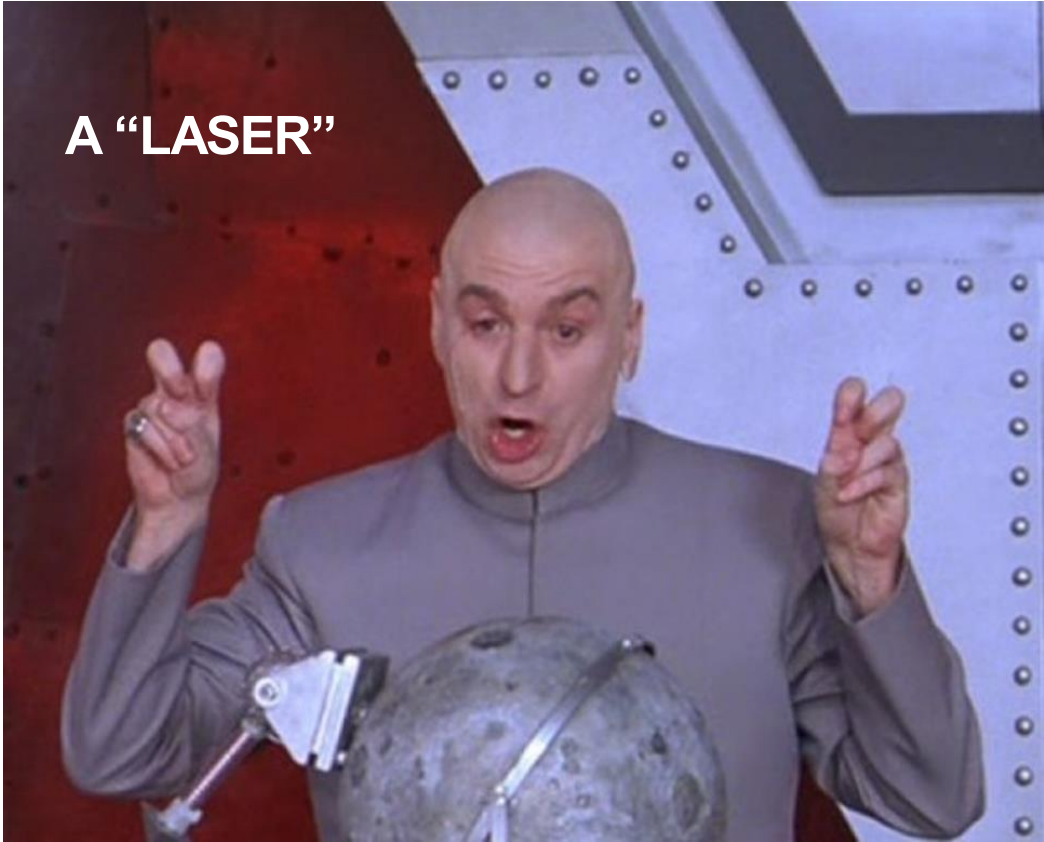
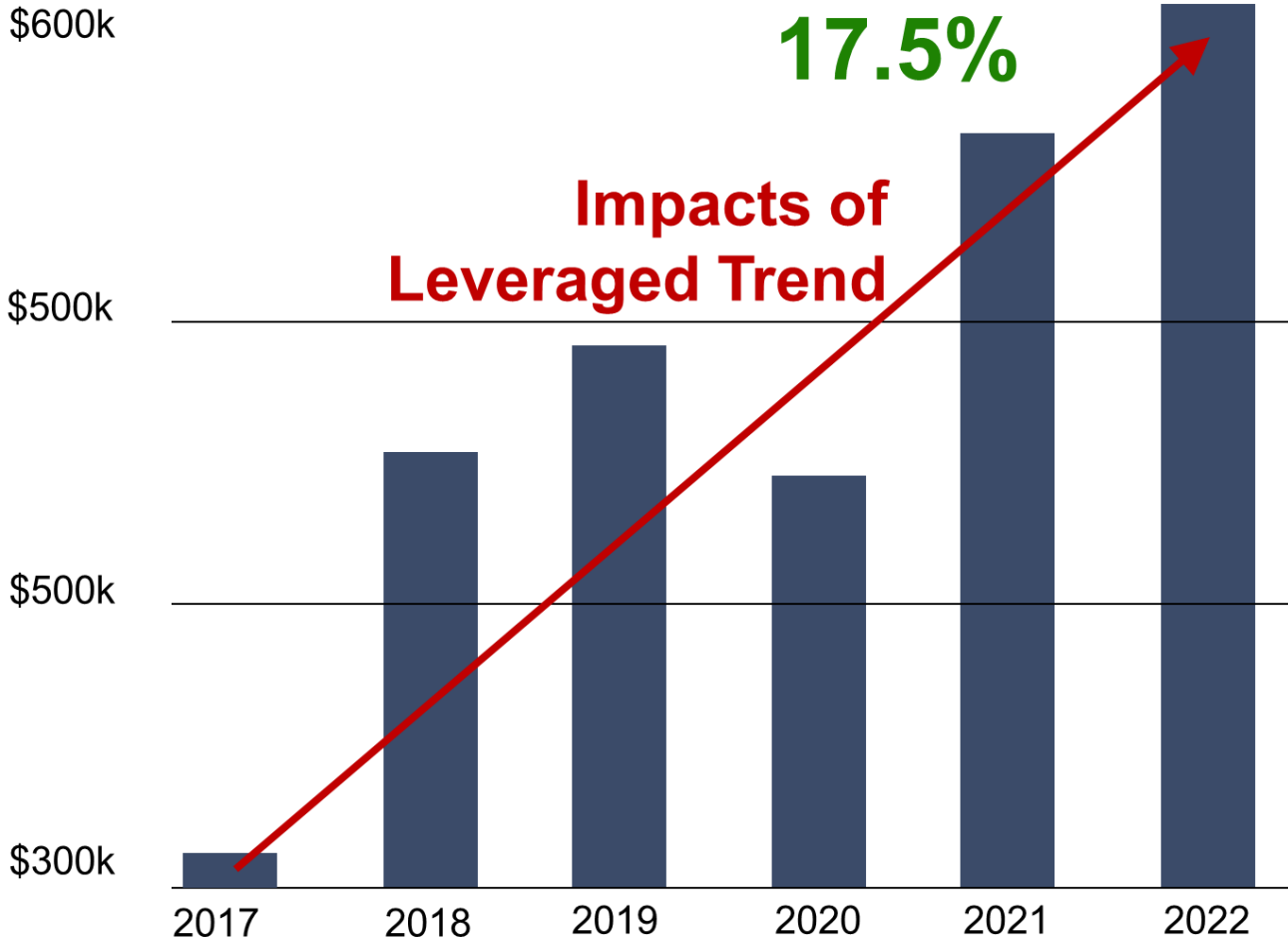


## Volatility

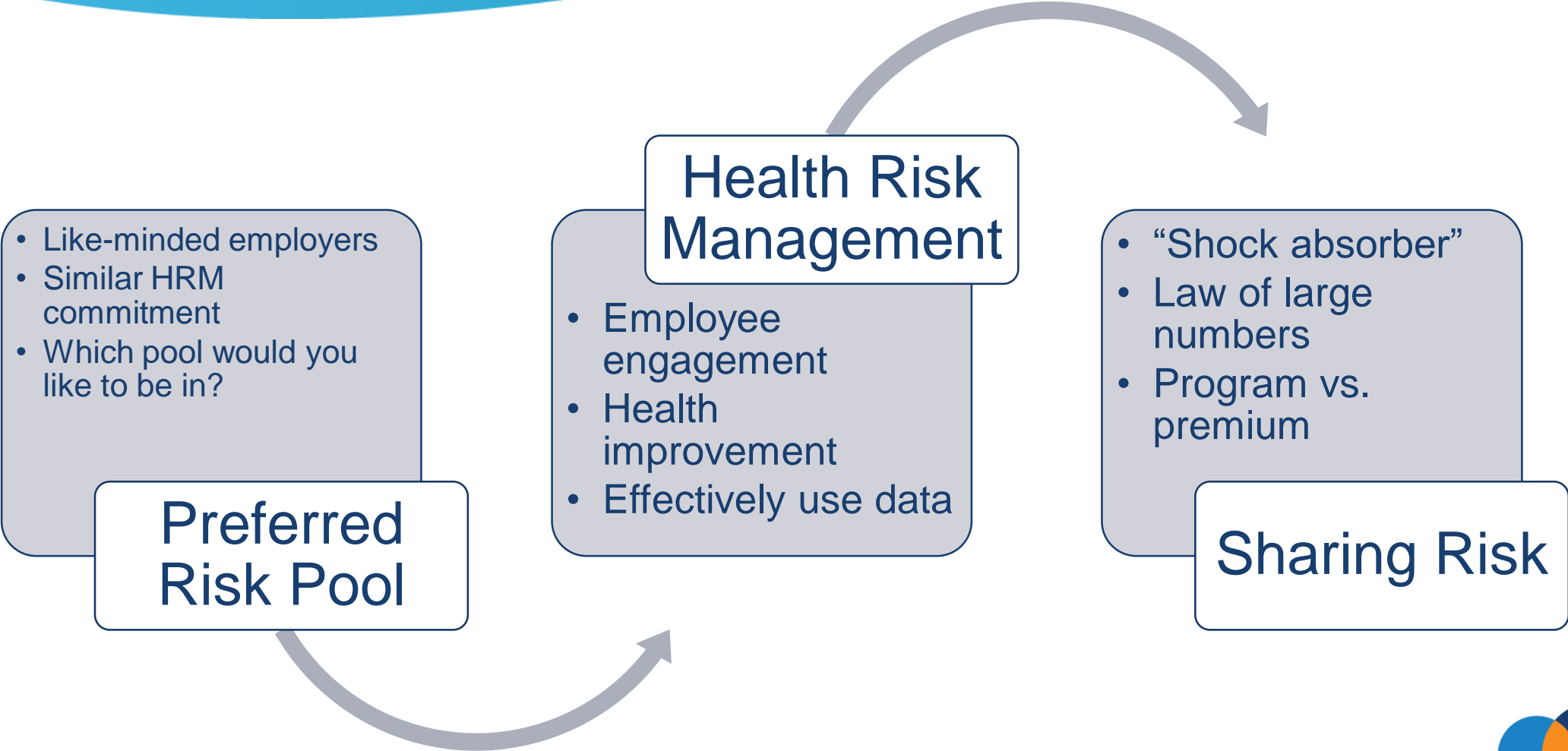
- Increase deductible annually due to leveraged trend
- Risk assumption due to ongoing claimants



# VOLATILITY TRANSLATED



# ADDRESSING THE CHALLENGE



# MSL GROUP CAPTIVE GOALS AND OBJECTIVES

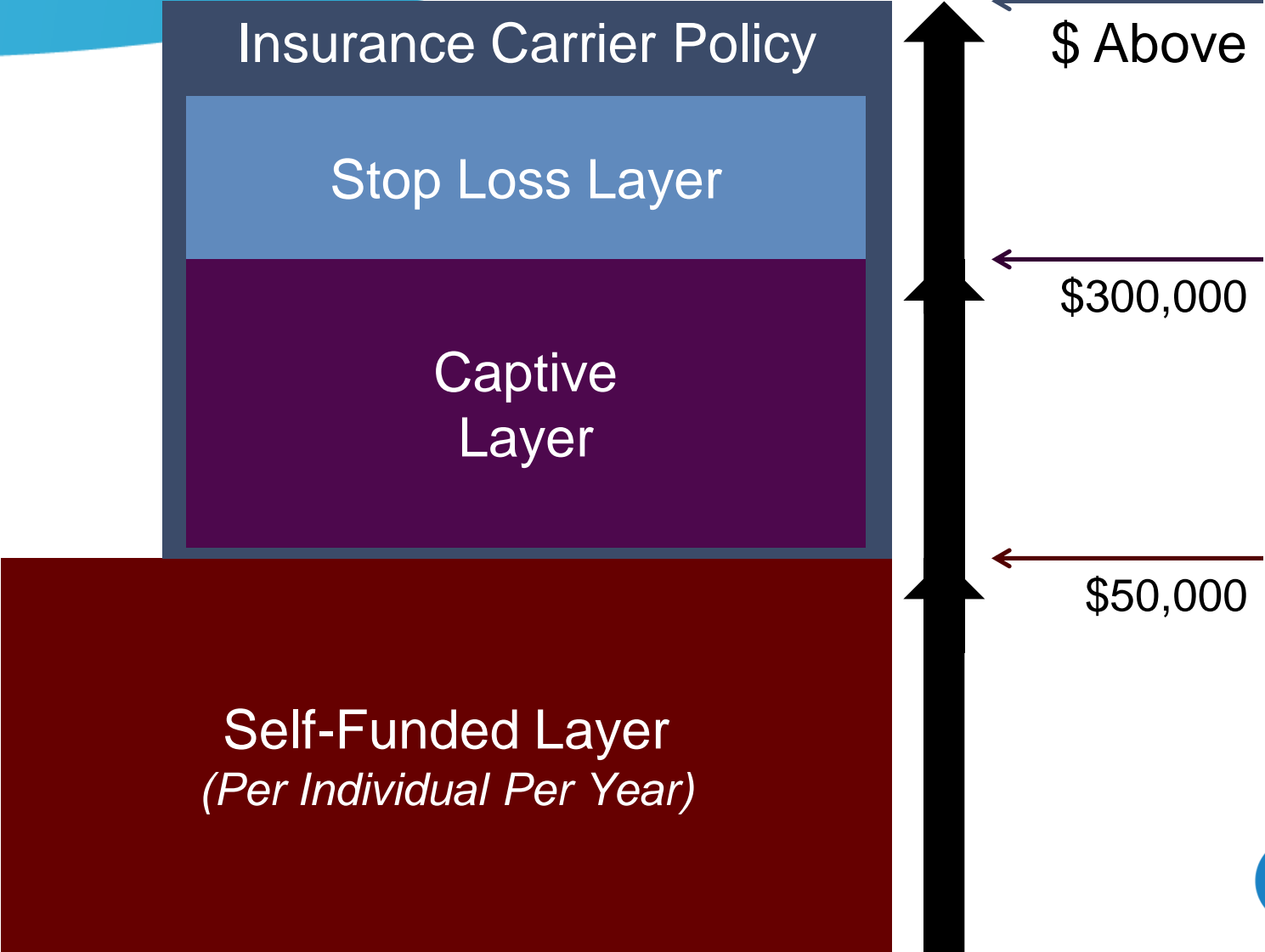
- Greater Control
- Transparency
- Long Term Stability
- Reduced Costs
- Collaboration



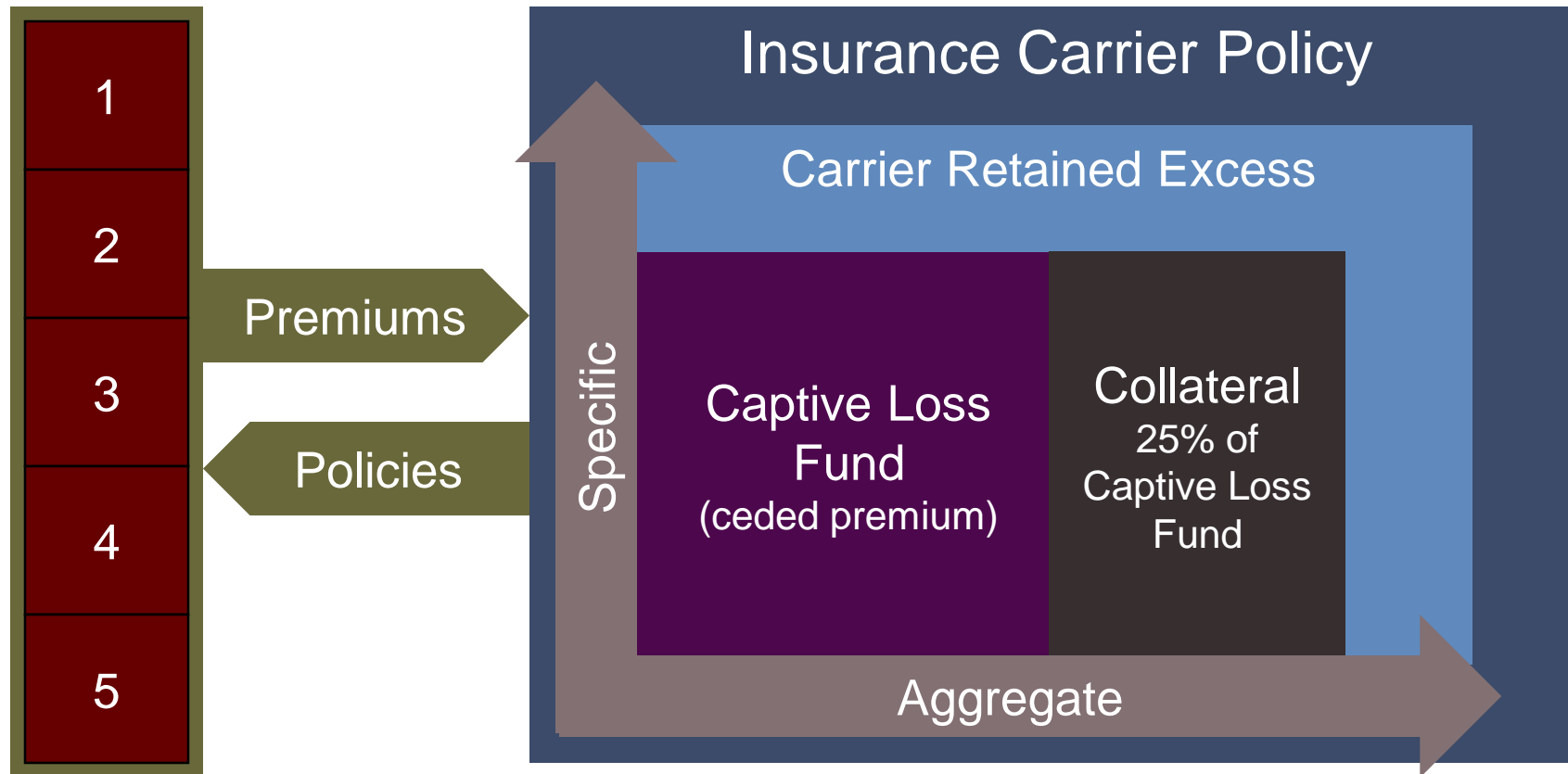
# THREE TIER RISK FINANCING STRUCTURE



# SAMPLE ACCOUNT

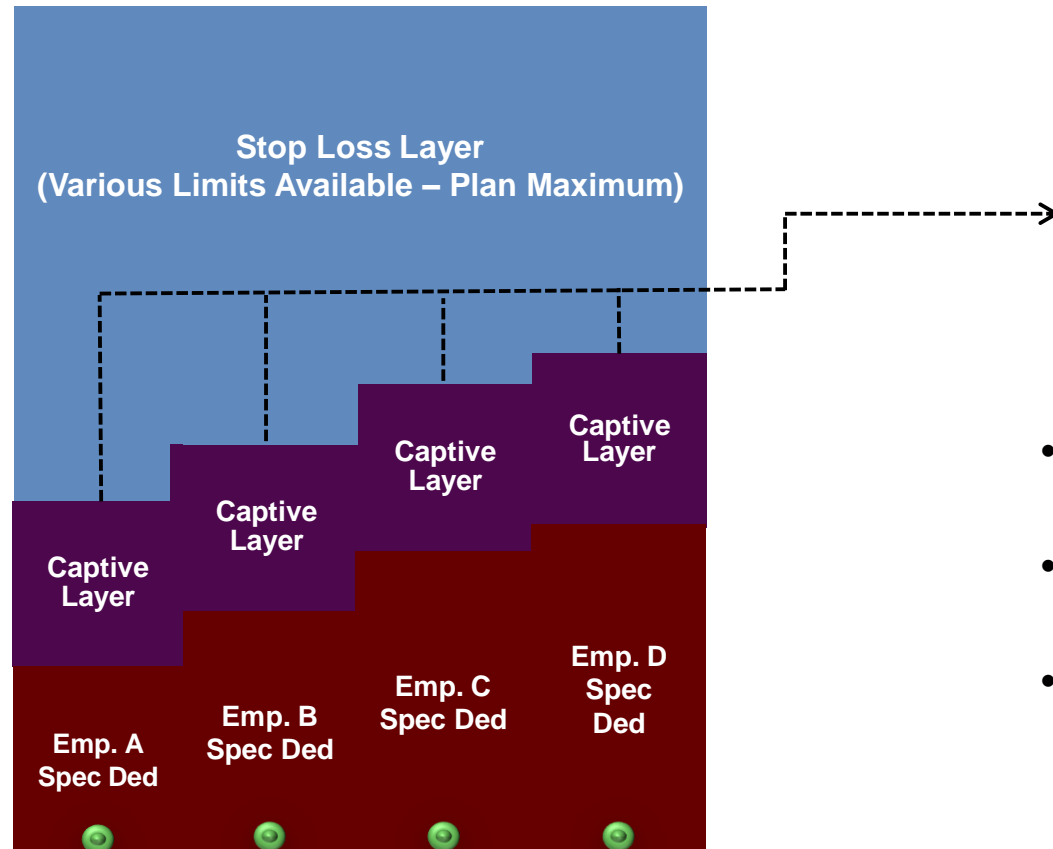


# Specific and Aggregate Coverage

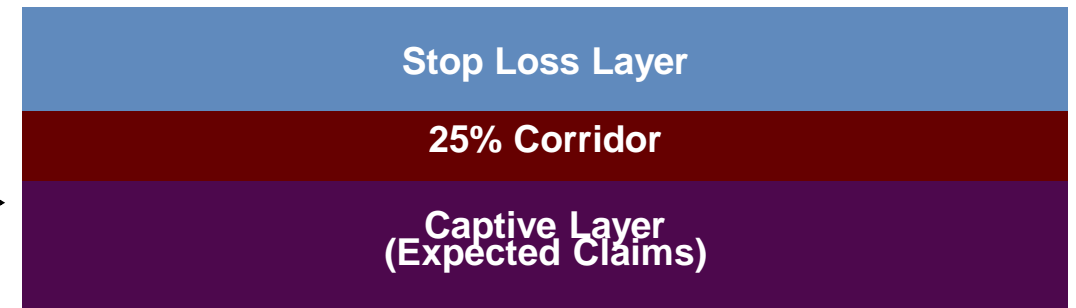


# THE POWER OF COLLABORATION

## Reinsurance Schematic



## Captive Layer (All Policies)



- Captive Layer is uniform, either set layer or up to a set threshold
- The captive performs poorly when there is a high frequency of claims – not severity
- Captive can perform well even if some individual employers do not

# THE POWER OF COLLABORATION

- Limited downside & long-term stability
- Vendors that take notice
- Increased effectiveness of risk management programs
- Information sharing and trends
- Providing the best possible benefits for employees



# RISK MANAGEMENT STRATEGIES



1. Employee Engagement and Education
2. Biometric Screenings
3. Lifestyle Programs
4. High Performing Networks
5. Telemedicine
6. Patient Advocacy and Navigation
7. 2nd Opinion Network
8. Medical Tourism
9. Pharmacy Coalition
10. Data Analytics/ Predictive Modeling

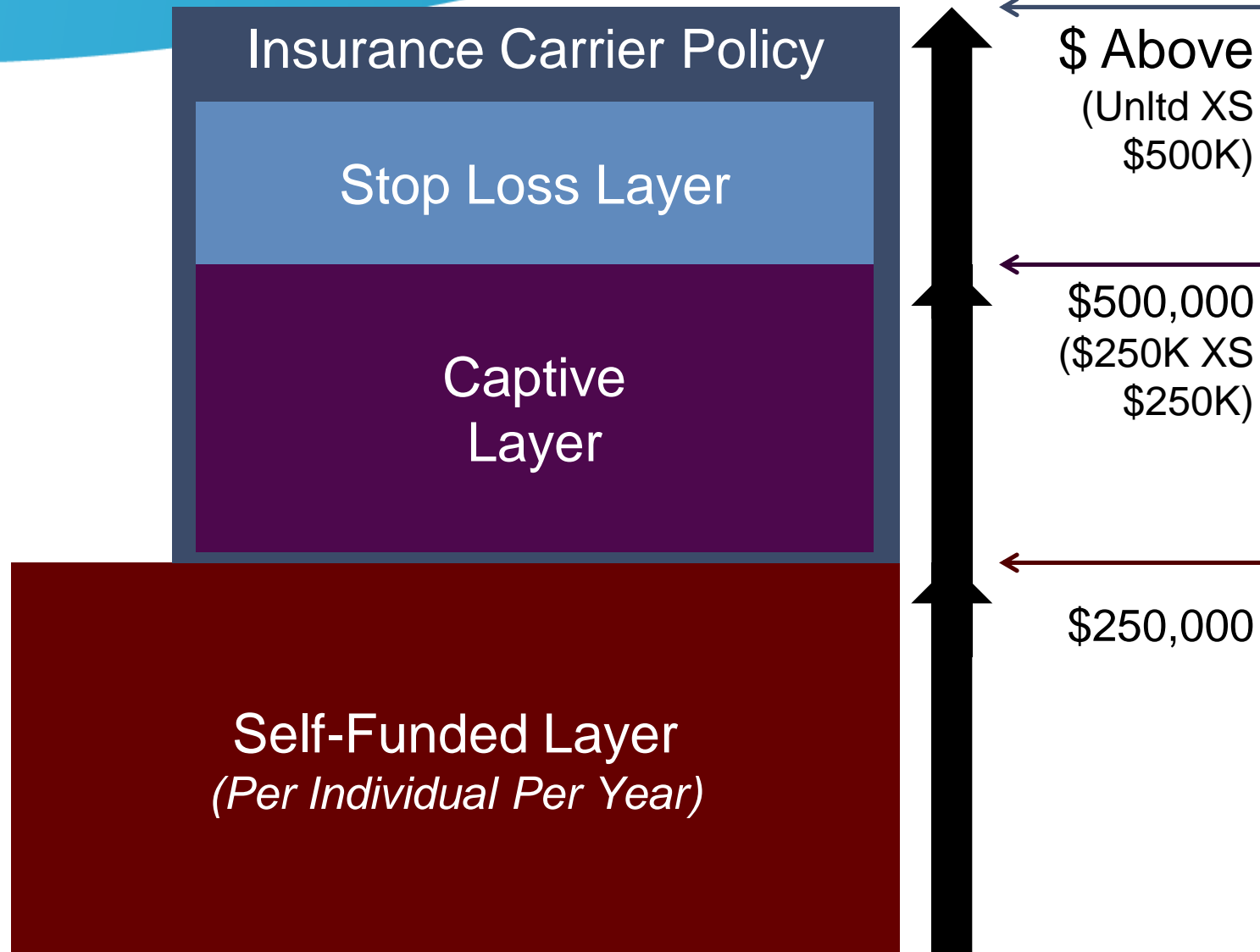


# SINGLE-PARENT CAPTIVES



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# SINGLE-PARENT STRUCTURE





# ADVANTAGES: SINGLE-PARENT MSL CAPTIVE

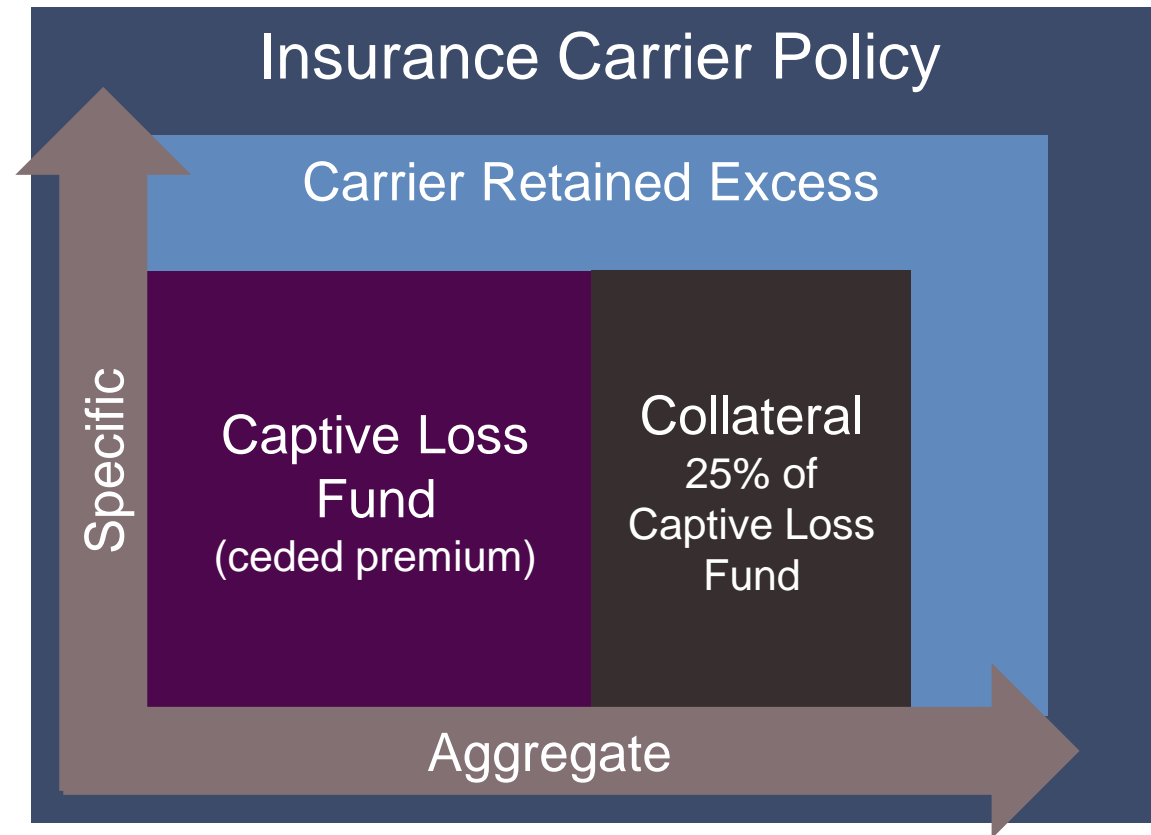
- **Expand utility of an existing captive**
  - MSL is a short-tail LOB. Can effectively offset long-tail exposures: Profit hedge
  - Generally not recognized as Third-Party for tax purposes
- **Recognize and deploy surplus more efficiently**
  - Offset future costs, enhance benefits, or return as dividend distributions.
- **Enhanced Cash Flow Management**
  - Monthly funding contributions as premiums smooths the budgetary impact
- **Establish / Build Loss Reserves**
  - Absorb large (on-going) claims, e.g., “Lasers,” retain more risk, smooth market volatility



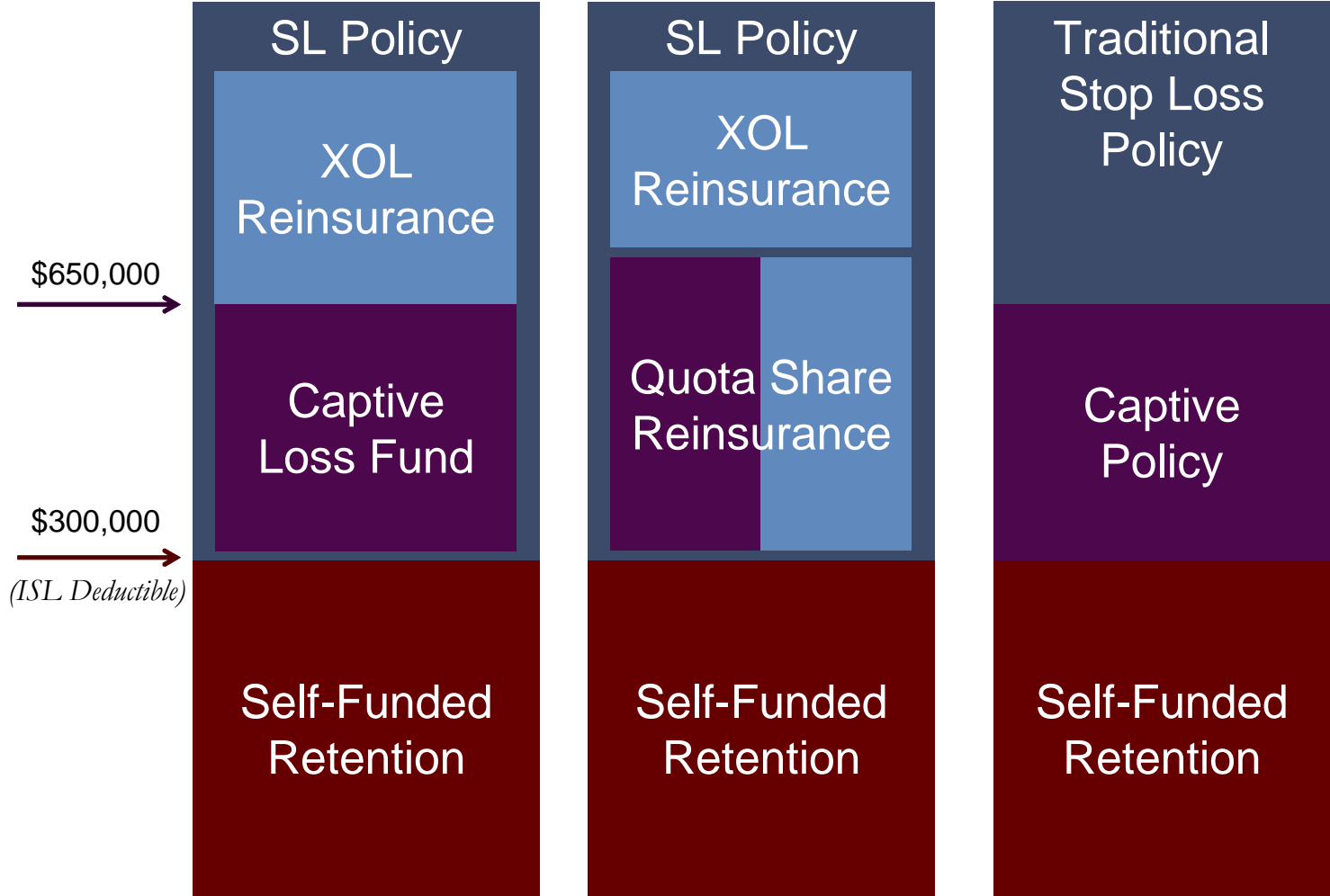
# ADVANTAGES: SINGLE-PARENT MSL CAPTIVE

- **Highly Efficient Structure**
  - No Fronting, No Collateralization
  - Reinsurance versus Excess Insurance (Lower costs, Prem Tax)
  - Reduced policy exclusions: Mirror Plan Document, Eliminate grey-area gaps
- **Enhanced Ability for Risk Control**
  - Plan Design Latitude: Manuscript Plan Design and Policy
  - RBP/Metric based, Narrow Networks, Direct Provider Delivery
- **Data Collection and Usage**
  - Access to better data from Plan
  - Identify trends and isolate specific cost drivers
  - Implement targeted cost reduction plans.

# Specific and Aggregate Coverage



# STRUCTURE OPTIONS



# Q&A

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