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Getting to Know Medical Stop Loss Captives

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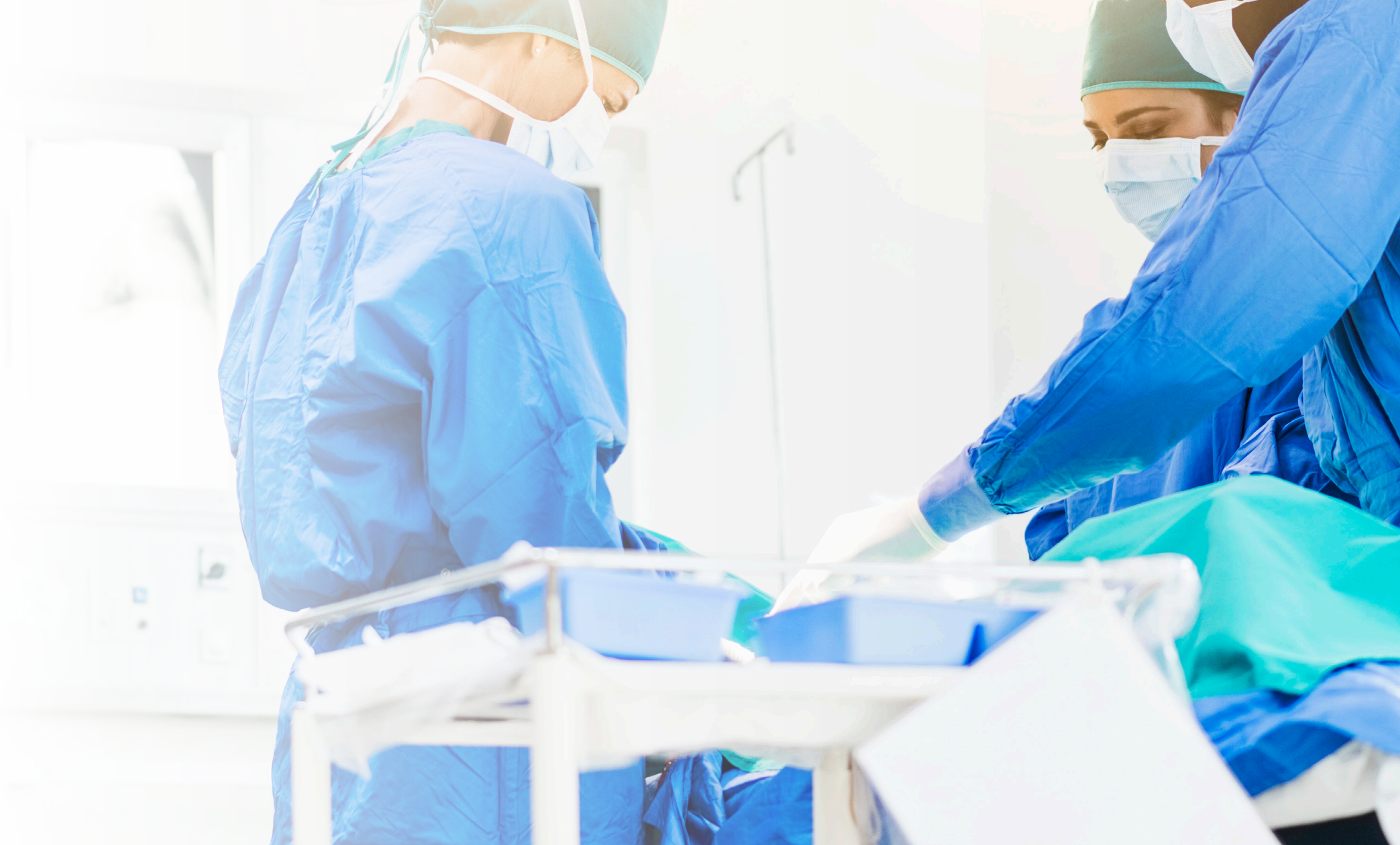

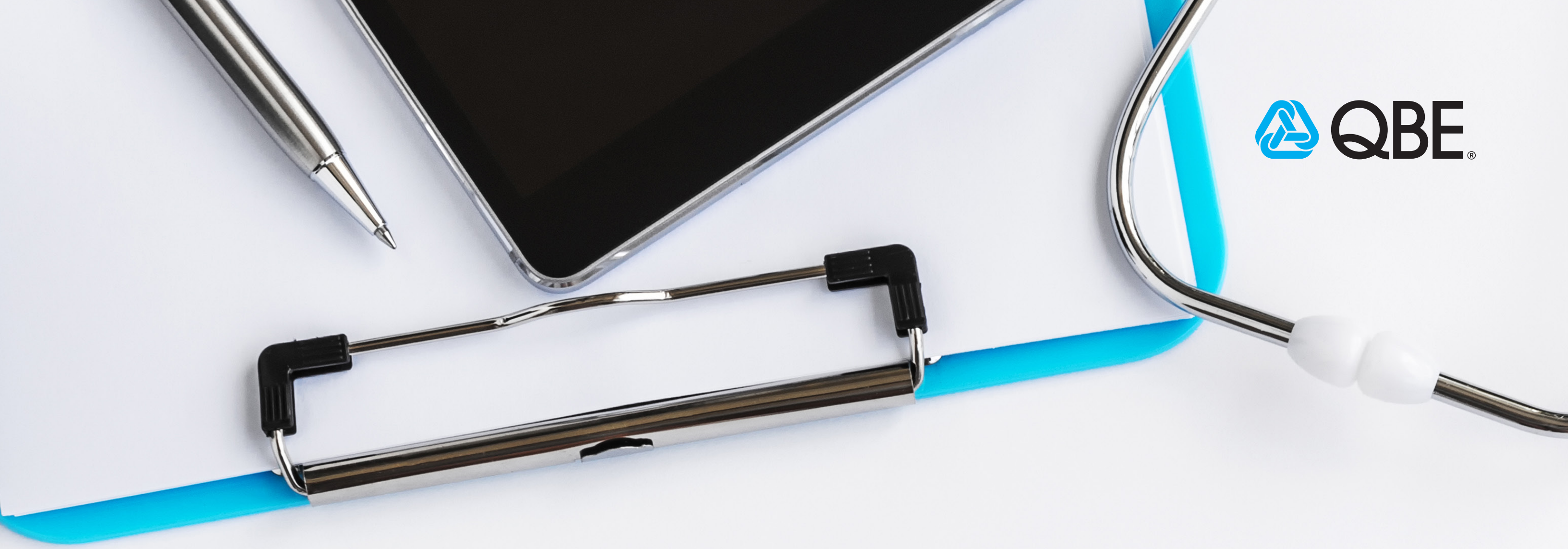

Medical stop loss captive insurance solutions are in the spotlight, given the opportunities to capture underwriting profits and investment returns that would otherwise be retained by a commercial insurance company. While interest in this alternative form of risk transfer increased 50% year over year in 2023[1], three impediments have hindered wider adoption.

These barriers include the need to overcome resistance among captive managers to engage with employee benefits professionals entrusted to manage their organisation's healthcare plan; concerns among captive managers about the time and effort required to effectively convey the nuanced specifics and opportunities of medical stop loss solutions; and the need for employee benefits advisers like insurance brokers and consultants to become more confident in presenting such alternative risk transfer solutions to their clients.

The good news is that all three obstacles can be surmounted, assisting captive managers in cultivating a profitable business model. One opportunity, for example, is to build a medical stop loss programme for a medical malpractice risk retention group, in which hospitals and other healthcare providers have banded together to self insure their professional liability exposures. As the relationship with the client progresses, the road is smoothly paved to offer other captive solutions involving cyber risks, general liabilities, workers' compensation and other exposures.

Let's look at each of the three impediments in turn, beginning with how to surmount the first barrier.

Barrier 1: captive manager unfamiliarity

Captive managers are increasingly aware of the value of medical stop loss solutions and the practical reasons for their development, namely, rising healthcare plan costs for employers. Over the past two decades, overall healthcare prices have grown faster than overall consumer prices on a near-annual basis[2], suggesting potentially more of the same ahead. In 2023, for example, premiums increased 7% and are projected to rise another 7% in 2024[3]. In response, a growing number of employers have transitioned to self-funded healthcare plans, which have the potential to offer significant cost savings due to the emphasis on proactive risk management.

Many self-funded plans transfer catastrophic risks above a certain financial threshold to a medical stop loss insurance company. These costs for insurers have increased, impelling significant increases in medical stop loss premiums for employers. In 2023, premiums shot up between 6.9% and 15.9%, depending on the size of the deductible[4]. To reduce these costs, employers have expressed interest in budgeting the medical stop loss exposures in a captive facility.

While many captive managers are aware of this burgeoning trend, they may be resistant to reach out and engage with a company's employee benefits professionals due to the time and expense involved in crafting a feasibility study. Fortunately, there is an alternative.

By partnering with a carrier that specialises in underwriting single-parent and group captives, the time and expense involved in the underwriting, actuarial work and even framing the incubation opportunity can be passed on to the insurer. It is important, however, that the fronting carrier has an all-encompassing captive service model that includes streamlined reinsurance and programme agreements, leaving nothing to chance, while assuring future optimisation opportunities using advanced captive strategies.

Barrier 2: complexity overload

Many captive managers perceive possible client apprehension about the esoteric nature of medical stop loss captive solutions as an obstacle. Why put time into learning the nuances to effectively articulate the opportunities when employee benefit managers are likely to pass on the opportunity? The hesitancy is understandable since the expertise of many captive managers is in property and casualty lines of risk transfer.

This barrier can be easily overcome. By partnering with an insurer specialising in the employee benefits space, captive managers can work alongside a skilled team at the insurance carrier and build the solution together. At the same time, this instills a healthy level of curiosity as to the full potential of captive insurance and provides a robust course of action that will ultimately lead to customised and unique captive insurance strategies.

Barrier 3: employee benefits adviser resistance

The third obstacle is a potential lack of interest in medical stop loss captives among employee benefits advisers like insurance brokers and consultants. Generally, the advisers specialise in specific niches, either a particular market sector like pharmaceuticals, Employee Retirement Security Act of 1974 (ERISA) compliance, or risk management and loss prevention. It is considered rare for an adviser to be an expert on captives.

A related concern for employee benefits advisers is that a medical stop loss captive strategy which fails to provide a winning combination of opportunity and downside risk protection will result in a loss of credibility with the client, a professional risk they would rather avoid. To overcome these impediments and introduce the captive solution to the client's employee benefits professionals, advisers need a heightened level of comfort.

By affiliating with a highly rated insurance carrier with a dedicated captive insurance team, brokers and consultants can rest assured they are bringing the right risk partner to the table. A medical stoploss carrier that specialised in captives also presents the opportunity to address concerns among client employee benefit managers who are reluctant to remove insurance components from the current healthcare offering.

Conclusion

By overcoming these barriers, additional revenue generating opportunities can become available. Educating clients on the benefits a medical stop loss captive solution can offer is just the starting point. Within a year, captive managers can safely begin to introduce other unique and sophisticated solutions, leaning on their insurance and reinsurance partner as a trusted advisor in the process.

[1] Aegis Risk Medical Stop Loss Premium Survey. *AEGIS Risk. The survey measures data from 799 plan sponsors covering over 845,000 employees with $727 million in annual stop loss premium. The survey findings suggest that interest among self-funded health plans in forming medical stop loss captives increased from 10% in 2022 to 15% in 2023. The survey is available at https://www.aegisrisk.com/copy-of-stop loss-premium-survey-header*

[2] The state of the US health system in 2022 and the outlook for 2023, *Peterson-KFF Health Tracker, December 22, 2022. Available at: https://www.healthsystemtracker.org/brief/the-state-of-the-u-s-health-system-in-2022-and-the-outlook-for-2023/#Total%20deaths%20in%20the%20United%20States%20from%20COVID-19%20and%20other%20leading%20causes,%202020-2022*

[3] 2023 Survey Results. *International Foundation of Employee Benefits Plans. The survey is available at: https://www.ifebp.org/pdf/healthcare-costs-report-2024.pdf*

[4] Aegis Risk Medical Stop Loss Premium Survey. *AEGIS Risk. The survey measures data from 799 plan sponsors covering over 845,000 employees with $727 million in annual stoploss premium. The survey is available at https://www.aegisrisk.com/copy-of-stop loss-premium-survey-header*

Dale Sagen is a vice president and business development leader with QBE Accident & Health, where he strives to be the most consistent and innovative risk partner. He specialises in medical stop loss captive solutions that are designed for employers and their advisors. Sagen believes the key to sustainable healthcare costs in America is to bring together best-in-class risk management procedures that control catastrophic risk, which in turn diminishes the ever-rising cost of corporate benefits.

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