

Are You Ready for a Medical Stop Loss Captive?



A patient in an Arkansas hospital for a month receives a bill for nearly \$1 million.¹ Another patient, who had spent months in the hospital, received a 181-page bill that totaled \$1.1 million.² For employers with self-funded health plans, the most harrowing side effect of COVID-19 is the amount of money needed to pay off just one serious illness claim.

At a time when tough-to-place risks are flocking to the captive market, employers with self-funded benefit programs could do well to consider the option. The reason: a captive could provide some insulation from the unwieldy, potentially long-term COVID-19 claims that could be extremely difficult for a smaller organization to absorb.

THE GREAT GAMBLE

In a time in which a hard P&C market has resulted in many organizations taking on more of their own risks, self-funded benefit plans could be a decent option. However, the reason for such a hard market is also the reason for many organizations to revisit that decision. Medical claims from COVID-19, overall, have been minimal. Fortunately, the majority of individuals who contract the disease do not need hospital care. However, for patients who are put on ventilators for a month or longer, or who have long-term specialty pharmacy needs, claims amounts can easily pierce the million-dollar mark.

Such claim amounts can be catastrophic, not only for the patient, but for their employer health plan. Typically, a self-funded employer would purchase stop loss coverage from an insurance carrier to help offset large losses. However, in the current market, smaller employers often find it prohibitive to take risk on their health plan by self-funding. When they do, they could find themselves in a situation where the stop loss carrier is making large profit until there is a major claim. Once that claim occurs, the carrier could revise the stop loss terms that are now unfavorable for the employer.

THE GROUP STOP LOSS

That's where a captive could be beneficial, given the right circumstances. A group medical stop loss captive allows employers to band together in a group captive, pooling claim dollars and spreading the risk among the captive members.

Banding together with like-minded employers gives underwriters a more stable platform from which to write the risks. That creates more stable renewals, and better ability to address large loss events.

Another reason for an employer to consider a medical stop loss captive – the historical claims data. A fully insured employer and a purchaser of traditional stop loss coverage has minimal claims data to evaluate the pool they are a part of. With a captive, all other captive members' claim data is transparent. The employer can see where claim spend is happening, allowing for more planning around renewal time.



Captives can also have good risk management protocols in place, as well as cost containment strategies. Reference based pricing is just one example of a proven strategy in many markets yet it is often difficult for a single employer to take such an approach alone. Joining a group of local employers in a group captive puts more power behind their mission to reduce cost. Some captives employ care coordination strategies that help employees find the right providers, avoid emergency rooms, and locate Centers of Excellence. The group captive space is ideal to try unique solutions in a safe environment with a robust return on investment vehicle.

Yet one of the bigger benefits of being in a medical stop loss captive is the ability to meet with other employers and join in the decision-making process. Coming together in a large group, employers can decrease their per-employee per-month costs. Administration, pharmacy benefit management, population health management consulting are brought together under one umbrella, creating a community that operates for the benefit of all members.

THE ADVISOR ROLE

For the P&C advisor, discussing this solution with your clients taps into an area of grave concern for many employers. Employers need solutions that protect their employees and their bottom line. A medical stop loss captive could be the right solution.

Discuss the option annually with your clients. NFP has put captive consulting and management resources within reach, and support for you and your clients. Whether a turnkey group captive solution is desired or building out a unique captive strategy, the NFP Risk & Insurance Strategy Collective (RISC) is ready to work with advisors and valued clients.

For more information, please contact Dale Sagen at dale.sagen@nfp.com.

¹ <https://www.newsweek.com/arkansas-vaccine-medical-bill-covid-one-million-dollars-1612764>

² <https://www.webmd.com/lung/news/20200622/big-surprise-medical-bills-for-covid-survivors#1>