INCREASE PROFITABLE, THIRD-PARTY BUSINESS WITH MINIMAL EFFORT AND RISK

Kirk Watkins, of Trion Group, a Marsh & McLennan Agency in Philadelphia, PA shares his thoughts on third-party premium and voluntary benefits

Consider this real-world situation: an employee climbs a ladder to clear debris off his garage roof. While climbing down, he loses his balance, falls off the ladder, and severely breaks a leg. An ambulance is called and takes the employee to the hospital.

The employee is enrolled in a high-deductible health insurance plan (HDHP), one in which participants have a $4,000 deductible, before plan coverage begins. Such plans, because of their lower cost, have become widespread in the group marketplace.

But in this case, the employer is also offering a suite of voluntary benefits that are reinsured through the company's captive. By participating in the voluntary accident insurance plan, the employee's out-of-pocket medical expense dropped from $4,000 to $325. The savings is a result of the fronting carrier paying a defined benefit, directly to the employee, for the ambulance, emergency room visit, x-ray, and fracture.

Kirk Watkins

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Voluntary benefits are 100% employee-paid, and are designed to provide financial security and protection for covered employees from large medical deductibles, co-insurance, and other out-of-pocket expenses. The most common voluntary benefits are critical illness, hospital indemnity, accident, and legal insurance. Other voluntary benefits include electronic product warranties, ID theft protection, home and auto insurance, home warranties, pet insurance, and warranties for cell phones. Premiums for each line of coverage average approximately $10-$30 a month and are paid directly by employees through payroll deductions. Claims are paid directly to the policyholder, and typically do not exceed a few thousand dollars.

While these benefits have been around for years, employers are now beginning to take a new approach to funding the benefits – reinsuring them via their captive insurance company.

Employees pay monthly premiums through payroll deduction directly to a fronting carrier, which then reinsures a portion of the coverage to the captive. The fronting carrier provides underwriting, compliance, claims adjudication, and customer service.

The advantages to reinsuring voluntary benefits through a captive are many:

- Voluntary benefit programmes typically have much lower risk and loss ratios than other lines of coverage. On average, programmes are designed on a 45-50% loss ratio and have expenses of approximately 30-35%.
- These programmes expand the risks covered by the captive which can significantly boost its profitability.
- Employees are more likely to enroll in HDHPs if they know that a significant portion of those unexpected medical expenses will be covered by a voluntary policy. HDHPs are far less expensive than traditional health insurance plans.
- Employee benefits are considered un-related third party business, diversifying the captive portfolio.

Three of the most beneficial voluntary programs to reinsure in a captive are:

- Group Accident plans pay cash benefits to employees when unexpected medical and everyday expenses begin to add up after a covered accident. More than 50 events trigger benefits payments including: fractures, dislocations, emergency room visits, x-rays, sutures, ambulance transportation, and physical therapy, among others.
- Group Critical Illness plans offer a guaranteed issue policy of up to $30,000 for certain medical conditions, such as heart attack, stroke, cancer, major organ transplant, and coronary artery bypass surgery. This provides a financial cushion at a time when an employee may need it most.
- Hospital Indemnity plans work well for new families and/or ageing adults. The plan typically pays $1,000-$2,000 upon admittance into the hospital and $100-$300 per day of confinement. An employee or covered individual staying three days in the hospital, for labour and delivery, would receive $1,600-$2,900. They could receive twice that amount if ICU was required.

In short, these programmes are a win for employers as well as their employees. Employees have added financial security for medical expenses, an especially important benefit with HDHPs, because of their lower cost. Many employers and employees don't realise that by utilising the monthly premium savings of typically $300-$400, by switching from a traditional PPO to a HDHP, and purchasing all three voluntary medical benefits for $50-$100 a month, they could save thousands of dollars per year, and, in the event of a covered claim, have more robust coverage than with a PPO plan. Plus, the additional savings could be used to fund their Health Savings Account, for everyday out-of-pocket medical expenses.

Another example would be in the inclusion of a wellness benefit into one of the plans, so that participating employees and their dependents that complete certain medical preventive tests receive a benefit of $50-$100. Having those tests performed can increase the likelihood of early detection of medical conditions, saving what could be tens of thousands of dollars in future medical expenses for both employees and their employers.

Providing coverage for employees' out-of-pocket hospital expenses is just one of many voluntary benefits employers can fund through their captives.

Legal Insurance can provide employees coverage for a wide range of expenses. These include preparation of wills and simple trusts, legal disputes with creditors, bankruptcy, home closing documents, leases, and divorce-related expenses. These services can offer an employee peace of mind, reducing stress and resulting in less time missed from work and a more productive employee.

Cell phone coverage reinsured through an employer's captive would not only cost less than what cell phone carriers typically charge, the employee's deductibles would also be less. In some cases, they could be up to $150 lower compared to cell phone providers' policies.

Electronic product warranties provide coverage for damage to electronics due to accidents, theft, fire, flood, power surge, and more. The warranties make it possible for employees to purchase coverage for these items at an affordable rate and through the convenience of payroll deduction.

Stakeholders across the organisation benefit from reinsuring voluntary benefits in a captive, including:

- Human resources: able to offer custom-designed voluntary benefit plans not available in the general marketplace, additional funding for new or existing employee programmes and becomes a key business partner to risk and finance.
- Risk management/captive: diversification, low risk/high predictability, use of existing capital, third-party premium, short tail, ability to reduce medical claims severity, and increased return on investment.
- Finance: cashflow, profits, and potential tax benefits.
- Employees: enhanced benefits selection, increased coverage, reduced premiums, and improved financial security.

Funding employee benefits, related to medical, life, disability, and legal benefits through an employer owned captive insurance company, must, under the federal Employee Retirement Income Security Act (ERISA), be reviewed and approved by the U.S. Department of Labor (DOL).

If employers meet certain regulatory conditions for a review process known as ExPro, the DOL review and approval can be won in as little as two and a half months, which is substantially faster compared to situations in which an employer is seeking an individual exemption.

In order to qualify for ExPro, employers must show that their approach is substantially similar to those the DOL approved previously. Regulators have made clear that to win ExPro for a captive benefit funding proposal, employers must enhance existing benefits. More than three dozen employers have won DOL approval to fund employee benefit risks through their captives.

There are a variety of other employee benefits that employers voluntarily offer, which are not considered ERISA benefits and, as a result, DOL approval for those arrangements is not required. These benefits include auto and homeowners insurance, cell phone coverage, ID theft, electronic product warranty coverage, and home product warranty coverage.

BeneCap, offered through Trion Group, a Marsh & McLennan Agency, is an end-to-end solution that allows employers to grow their captive by integrating 100% employee-paid voluntary benefits and warranty programmes with their existing risk management strategies. The programme offers pre-structured fronting arrangements with leading insurance carriers such as AFLAC, Allstate, and Transamerica. The programme includes the legal preparation for the DOL requirements, independent fiduciary, underwriting, servicing, and employee communications.