CAPTIVE INSURANCE COMPANY REPORTS

Growing Captives through Voluntary Benefits

Kirk Watkins

November 2016

Editor's Note: This piece was contributed by **Kirk Watkins** of Trion Group, a Marsh & McLennan Agency in King of Prussia, Pennsylvania, where he specializes in placing employee benefits within a captive structure. He can be reached at kirk.watkins@trion-mma.com.

Captive owners tend to think of employee benefits as mostly limited to life and disability coverage. But in today's soft market, the question facing employers is whether the risk versus reward equation makes sense for including life and disability benefits in a captive—and the answer is often "no."

However, the majority of large captives have not considered placing voluntary employee benefits—those benefits that are employee paid—into their captive. Such benefits are designed to help protect covered employees when unexpected costs arise from unexpected expenses, such as medical and legal expenses.

Why Benefits?

Many captive owners may initially shy away from placing employee benefits into their captive because of the perceived complexities of applying for and securing an exemption from the Department of Labor (DOL) or the perception that the ExPro approval process may be difficult and arduous to manage. The process once thought to be convoluted and difficult is, in reality, not nearly as difficult, and the advantages of placing voluntary benefits in the captive outweigh the challenges of the application process.

Why offer voluntary supplemental health benefits? These benefits are designed to help provide financial protection for employees should a covered employee experience medical issues, such as broken bones due to an accident, illness-related hospital stays, or the diagnosis of a critical illness, such as cancer or a stroke. Although employees have coverage under their core medical plans, a significant amount of out-of-pocket expenses—such as deductibles, coinsurance, and/or copays—come into play for the average employee who experiences such events.

Who Handles?

Typically, these benefits are vetted by the human resources department. However, they usually don't go through the same burden of financial scrutiny as company-paid benefits. Rather, they are put out for bid by the broker/consultant, and the insurer providing the best final presentation is selected.

However, projected loss ratios, historical claims information, and history of denied claims are usually never presented or requested. In most cases, the insurer does not share the current claims data with the company, which creates difficulty for financial transparency related to employee benefits.

Who Benefits?

Ideally, a reinsurance quota-share arrangement provides many benefits to all stakeholders in the parent organization—from risk management to human resources to the finance department and every benefits-eligible employee.

- From the risk management/captive perspective, voluntary benefits offer an above market return on investment, utilization of existing capital, low risk and high predictability, and almost no chance of catastrophic loss. Additionally, due to the low beta factor associated with voluntary benefits, portfolio diversification becomes a significant metric in the decision-making process.

- An employers' human resources department gains true transparency regarding the financial aspects and usage of these benefits, as well as claims data, which can be combined with core medical plan data, to provide a full picture of employees' medical experiences and financial risks.

- Perhaps more importantly for human resources, it allows more control over the design of their voluntary benefit programs. One of the key benefits of properly designed voluntary medical benefits programs is increased participation in high-deductible health plans. This is because the majority of low-participation issues stem from employee concerns and discomfort with managing deductibles and out-of-pocket costs. Voluntary benefits provide an additional layer of comfort to the employee, knowing that in certain instances their out-of-pocket costs may be covered. The outcome for the human resources team is the ability to offer voluntary benefits with more coverage for the same or less premium, with greater transparency, allowing for greater control and strategic planning purposes.

- The finance department has the potential to benefit from the unrelated third-party premium, utilization of existing capital, cost savings on core medical plans due to the increase in high-deductible health plans, participation as well as cash flow, and profits associated with the program.

- Every benefits eligible employee gains due to the DOL's requirement to notify the employees of the reinsurance arrangement and enhance the existing benefits. In many cases, employers are able to either increase coverage and/or reduce existing premiums. In other cases, employee programs that were not able to previously be funded are now being funded through the surplus premium associated with these benefits.

Conclusion

Creating the mutually beneficial quota share arrangement with the correct fronting insurer creates significant benefits for an organization, as well as its insurer partner. In the age where the employee-benefits industry is shifting daily, and employees are starting to accept the requirement to participate more heavily in their healthcare decisions, placing supplemental voluntary employee benefits in a captive is a win for the employer, a win for the insurer, and a win for the employees. ■

This article is not intended to be taken as advice regarding any individual situation and should not be relied upon as such. Marsh & McLennan Agency LLC shall have no obligation to update this publication and shall have no liability to you or any other party arising out of this publication or any matter contained herein. Any statements concerning actuarial, tax, accounting or legal matters are based solely on our experience as consultants and are not to be relied upon as actuarial, accounting, tax or legal advice, for which you should consult your own professional advisors. Any modeling analytics or projections are subject to inherent uncertainty and the analysis could be materially affective if any underlying assumptions, conditions, information or factors are inaccurate or incomplete or should change.