THE BENECAP SOLUTION

Captive Review speaks to Trion Group Captive Practice Leader Kirk Watkins about DoL exemption, voluntary benefits and driving third party profit

The US Department of Labor (DoL) has a significant impact on the growth of the employee benefits in captives, according to Kirk Watkins, captive practice leader of Trion Group, a Marsh & McLennan Agency LLC Company (Trion).

Any employer reinsuring US employee benefits must file for an ERISA exemption with the DoL. The process can take a year or more. As part of the ERISA exemption process, the benefits must be reinsured to a US-domiciled captive or a US branch of an offshore captive, so a second vehicle or re-domestication may be necessary, potentially adding cost to the project.

"An overwhelming amount of time and effort is required to receive the exemption", says Watkins. "It requires an independent fiduciary to review the application and ongoing annual reviews. It can be very laborious. However, specialised pooling vehicles can eliminate these concerns and allow for the use of an offshore captive. If you go through the process, which can take more than a year, and at the end you decide you want to reinsure another benefit that is governed by ERISA, you have to do the whole process all over again. The DoL exemption process is triggered when a captive reinsures its parent's employees' health or welfare plan risks."

The BeneCap way

In order to mitigate this, Trion has developed a structure in which a number of employers and employees from different companies buy coverage from a fronting carrier. The carrier then cedes between 50% and 60% of risk into BenPool Re, a reinsurance captive. The risk is pooled in proportion with each employer's premium volume, which is then retroceded to each captive, which excludes each employer's own risk.

In the event of a loss, each employer is responsible for its direct proportion to the premium volume. The structure allows employers to diversify their captive portfolio with low risk, predictable lines of coverage, while providing profitable third-party business. Lines such as accident insurance, critical illness insurance, hospital indemnity insurance, and legal insurance are the most common.

Kirk Watkins

Kirk Watkins has supplied innovative solutions to Fortune 1000 companies in the areas of captive insurance, financial services, risk management, and employee benefits for over 20 years. Watkins has been featured in the *New York Times*, *Employee Benefit News*, *Wall Street Journal Online*, *Business Week*, *HR Executive*, *Captive Review*, *Captive Insurance Times*, and *International Risk Management Institute*. He was a recipient of the 2017 US Captive Review Awards: Highly Commended Employee Benefits Consultant and 2019 Captive Review: Ones To Watch.

Watkins explained: "Accident insurance as a voluntary benefit can help because it is paid directly to the employee for things like broken bones, dislocation, sutures and emergency room visits. It would also provide a pay-out for physical therapy and doctor visits, if the employee breaks an ankle for instance.

"Critical illness insurance provides lump-sum benefits in the event the employee is diagnosed with a scheduled illness such as cancer or heart attack. Coverage is guaranteed issue up to $30,000. Hospital indemnity insurance helps with labour and delivery or minor operations. Under the plan, once an employee is admitted to the hospital for more than 24 hours, it pays a flat benefit of $1,000, for instance, and then for each day in the hospital it will pay out $200. This subsequently helps with a range of co-pays and deductibles. Since the benefit can be used at the employee's discretion, this also helps with incidental non-medical expenses. Voluntary benefits are about as homogeneous lines as you can possible get. There is no chance of catastrophic loss and all the lines are underwritten at a 50% loss ratio, so they have the perfect characteristics to be in a pool."

Third-party profit

BeneCap also provides third-party business opportunities to captives and employees through its personal property protection programme. It offers both electronic product coverage and cell phone coverage. According to Trion, through the captive, employees are given discounted premium rates and lower deductibles compared to the commercial market, but still given the same protection.

Watkins explained: "For this programme, there is not a stakeholder that does not benefit. For example, in the US, most cell phone coverage could be around $12 a month, adding up to $144 a year. However, consumers don't realise that the deductible is often $150, so there's $294 between deductible and premium on a $700 item which is astonishing.

"With this programme, if you make a claim, you often receive a refurbished phone. You could go on the internet and find a refurbished phone for $300, so the consumer has in turn paid as much in premium and deductibles as the device is worth.

"With BeneCap, you contain the underwriting profit the carriers make. It provides profitable third-party business for the captive and provides the employees with enhanced insurance products at a lower cost."

Trion also offers the programme to university captives, which then provide it to the alumni, employees, students and associates.

Businesses and captive owners interested in hearing more about the BeneCap Solution can visit www.trion.com/benecap or contact Kirk Watkins at Kirk.Watkins@trion-mma.com.

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