

GROUP MEDICAL STOP-LOSS CAPTIVES

TRIS FELIX, DIRECTOR
CORNERSTONE RISK SOLUTIONS, LLC
DENVER, CO



CORNERSTONE RISK SOLUTIONS, LLC

Who are we?

- A wholly-owned subsidiary of IMA, Inc.
- Boutique consulting and service company:
 - **Group Program Design and Management**
 - **cornerstonerisksolutions.com**
- Clients: 13 group-based underwriting programs
 - Associations and consortiums
 - Franchises
 - Industry niches



PROGRAM MANAGEMENT

What kind of programs does Cornerstone manage?


- Accident & Health
- Property & Casualty
- Captives, Pools, Risk Purchasing Groups
- Onshore and Offshore
- Fully Insured Underwriting Programs

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CAPTIVE INSURANCE *NUTS & BOLTS*





WHAT IS A CAPTIVE?

Captive Insurance Company

Established to insure or reinsure the risks of its parent(s)


Single Parent Captive

Set up & operated by one owner to insure its own risks & the risks of its subsidiaries & affiliates

Group Captive

Jointly owned by a number of unrelated entities to insure the risks of its owners

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GROUP CAPTIVES

Risk Retention Group (“RRG”)

Federal preemption allows RRG to domicile in one state and write coverage in all other states – liability lines only


Self-Insured Group (“SIG”)

Group, self-funded, risk financing under state laws, sometimes referred to “Pools” or “Trusts”

Reinsurance Captive

Policies issued by admitted carrier and reinsured by a captive owned by the policyholders

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REINSURANCE CAPTIVE?

Fronting Paper

Carrier provides policies to captive owners for:

- Regulatory compliance
- Vendors & lien holders

Excess Insurance


Standard Insurance company provides stop loss to captive:

- Specific: caps each loss
- Aggregate: caps total loss exposure for policy year

“Gap” Collateral

Security posted by captive to fund gap between loss fund and aggregate attachment or fronting carrier requirement

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Where Does a Group Captive Live?

Pure Captive

Captive is owned by its members - Insures only the risks of its owners

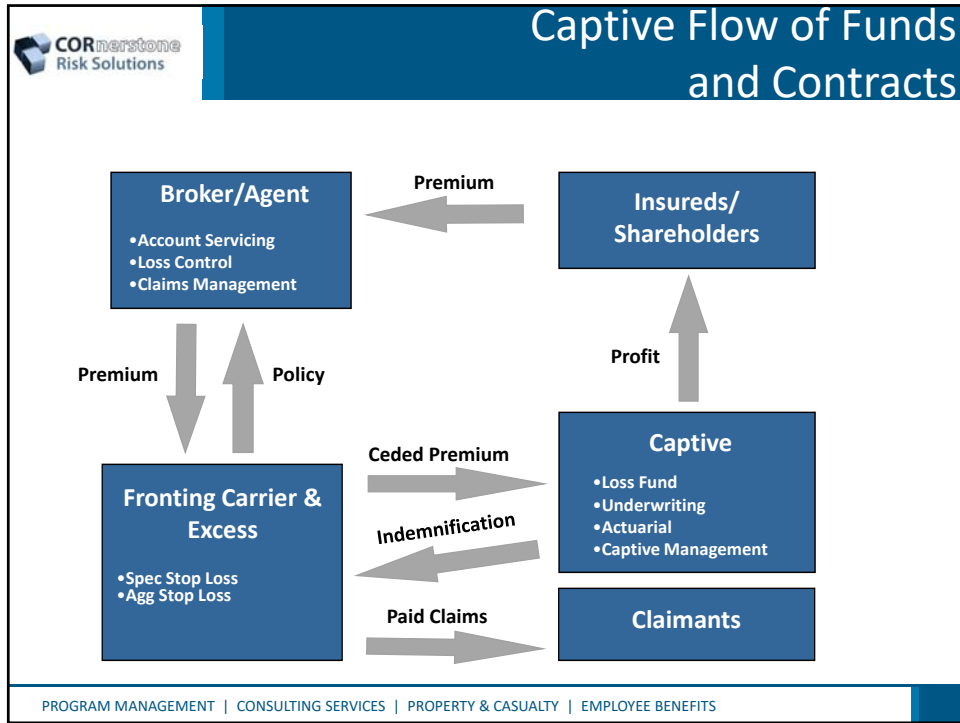
Rent-a-Captive (Sponsored Captive)

Leases space/cells to others to insure their financial risk of loss

Segregated Cells

Firewalls – assets of one cell cannot be used to satisfy liabilities of another cell

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GROUP CAPTIVES FOR HEALTH BENEFITS



OTHER “BENEFITS” CAPTIVES?

Single Parent – Medical Stop-Loss

Captive issues stop-loss policy for buffer layer in self-funded health plan

Single Parent – Voluntary Benefits

Funding for AD&D, Life, Dental & Vision, Retiree Benefits:

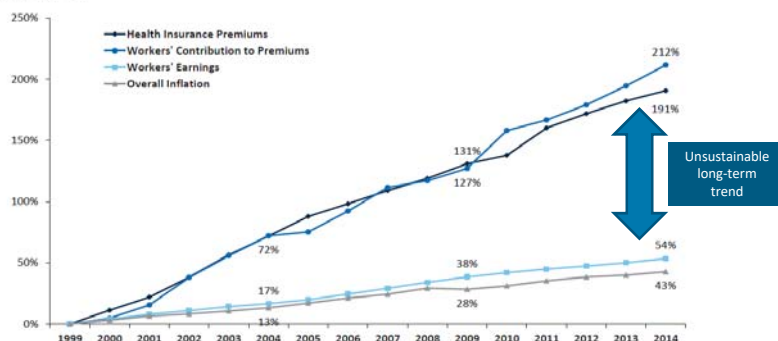
- Must be fronted by an admitted carrier
- Must provide an enhancement of benefits for employees
- Must get approval from Department of Labor (“ExPro”)
- Otherwise would be a Prohibited Transaction

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UNSUSTAINABLE TREND


Cumulative Increases in Health Insurance Premiums, Workers' Contributions to Premiums, Inflation, and Workers' Earnings, 1999-2014



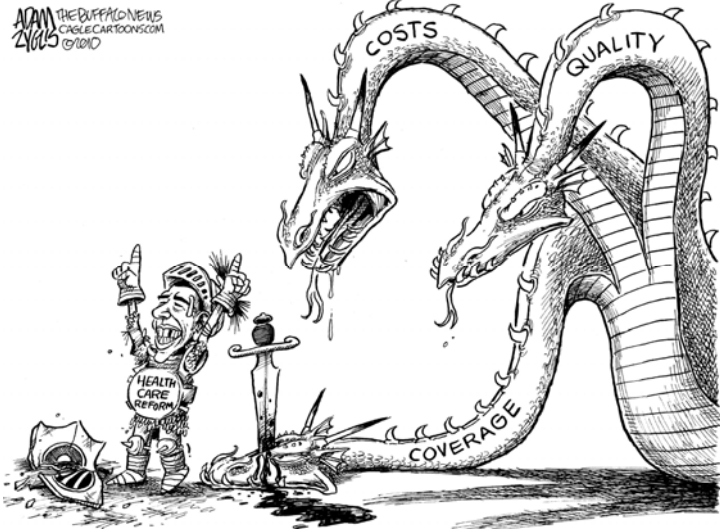
SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2014; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1999-2014; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2014 (April to April).



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WHAT ABOUT HEALTHCARE REFORM?



ADAM THE BUFFALO COW
CARTOONSCOM
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GETTING TO AN OPTIMAL STATE

Current State

Bundled Medical Plans

Insurance Companies

Risk Takers
Physician Provider Network
Claims Administration
Customer Service
Pharmacy Benefit Mgmt
Disease Management
Wellness?
Limited data?

Optimal State

Unbundled Medical Plans

Actionable Data

Stop-Loss Insurance

Physician Provider Network(s)

Claims Administration/TPA

Pharmacy Benefit Management


Care/Clinical Risk Management

Health Management/Wellness

Focus on Risk v. Cost

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HOW DOES THE GROUP CAPTIVE PROGRAM WORK?

Each Employer:

- Adopts its own “Self-Funded” health plan
- Remains “fiduciary” of its own health plan
- Pays all claims within its self-funded retention
- Buys stop-loss insurance (premiums) - both specific and aggregate claim protection
- Posts collateral to group captive

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HOW DOES THE GROUP CAPTIVE PROGRAM WORK?

Group Captive:

- Reinsures stop-loss carrier for layer of claim risk
- Receives ceded premium from S/L carrier
- Captive’s exposure is capped on both specific and aggregate claim basis
- Effectively funds medical excess claims that no single employer could afford on its own
- Posts “Gap” Collateral to S/L carrier

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QUICK NOTES ABOUT THE PLANS

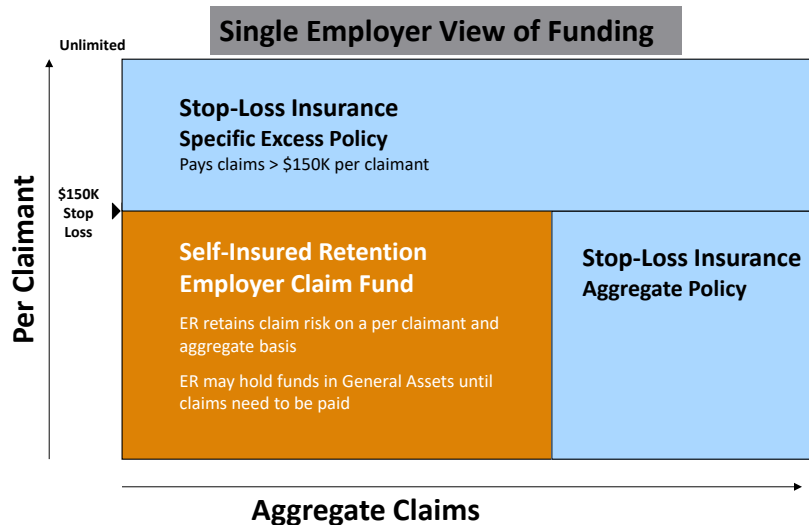
- Each member has their own plan and policy
- Each member has their own rate based upon risk profile and claim experience
- Risk sharing only on large claims in the captive layer – not the Plan layer
- Group decisions related to:
 - Renewal / Service Providers
 - Wellness and Health Management
 - Plan Designs & Options

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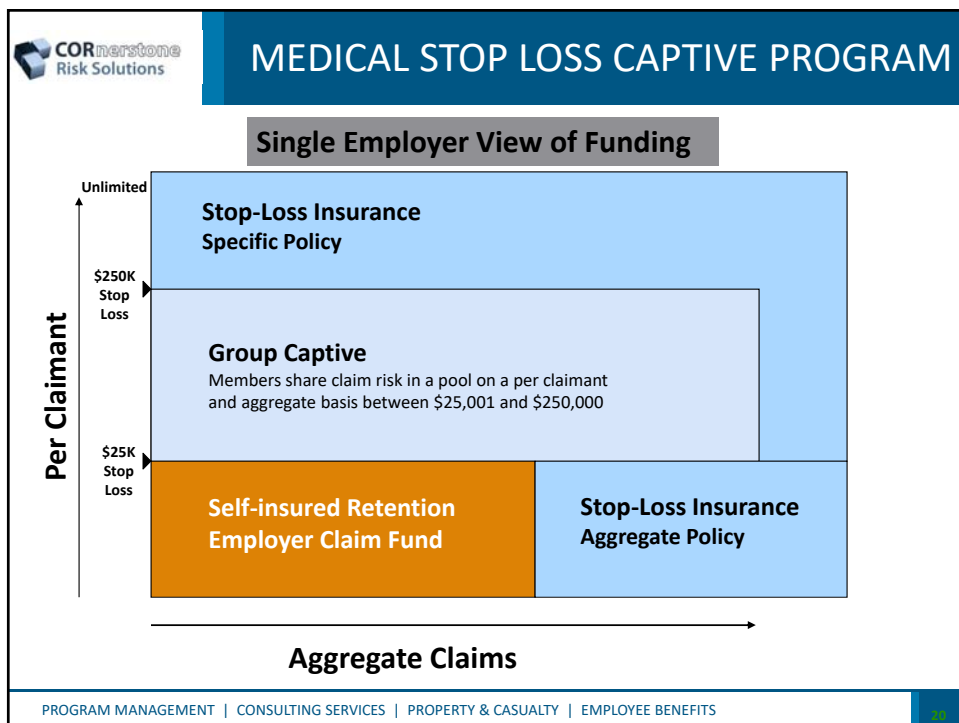
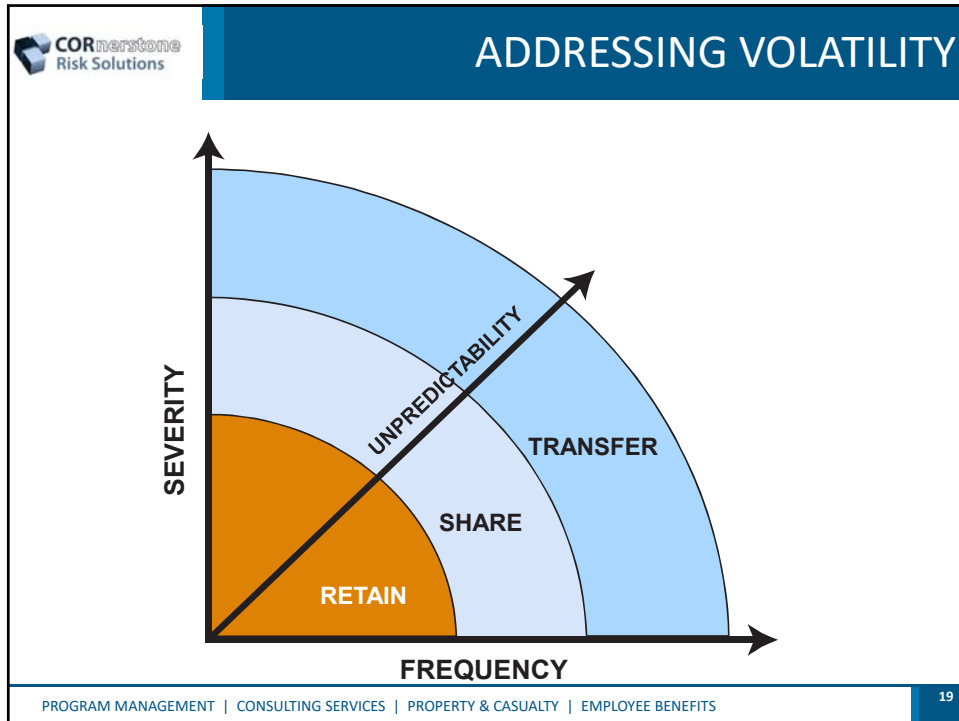


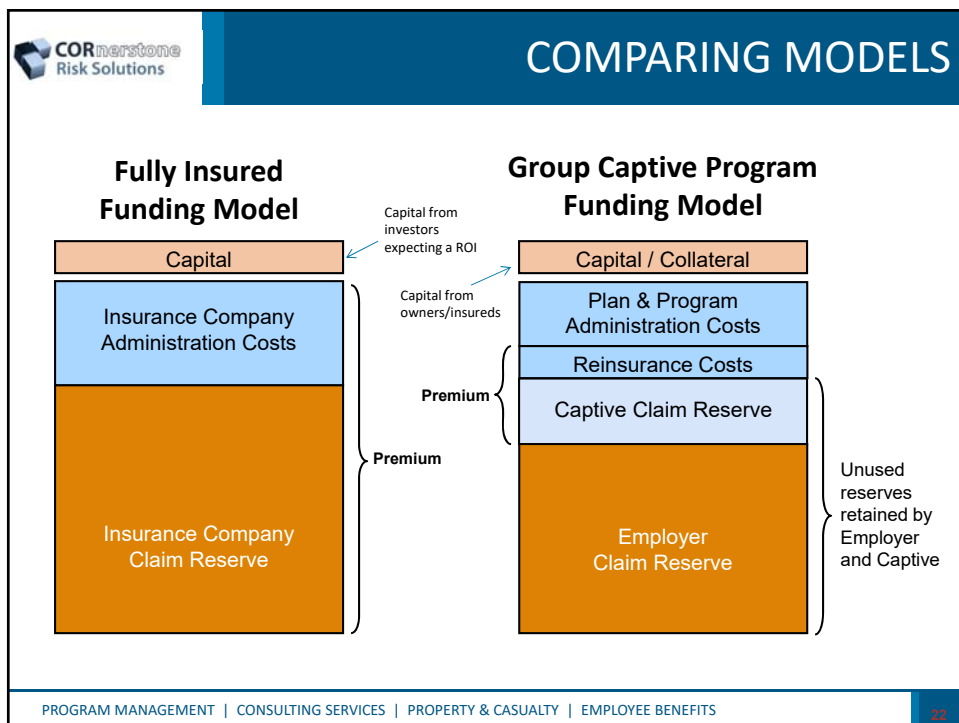
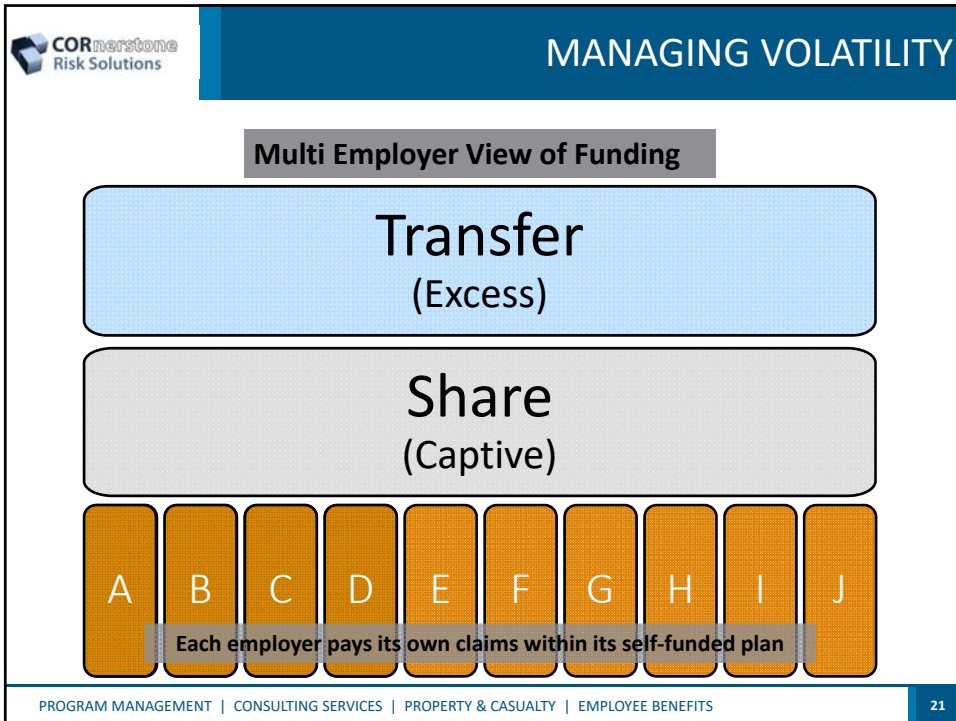
TRADITIONAL SELF-FUNDED PLANS




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|  VALUE PROPOSITION | |
|--|---|
| Fully Insured | Group Captive |
| Bundled <i>Selected by insurance carrier</i> | Precision Selected <i>Controlled and Selected by Clients</i> |
| <ul style="list-style-type: none"> ▪ “Stock” plan designs ▪ Physician/Provider & Hospital network ▪ Pharmacy/Rx management ▪ Disease/Case management ▪ May include “wellness” ▪ Premium Billing and Claims payment | <ul style="list-style-type: none"> ▪ Custom plan designs ▪ Custom Physician/Provider & Hospital network ▪ Separate Pharmacy/Rx management ▪ Separate Disease/Case management ▪ Advanced wellness - health management ▪ Billing and Claims payment |
| Costs: Insurance company premium | Costs: Claims + Excess Insurance + Administration |
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|  REGULATORY CONSIDERATIONS | |
|--|--|
| <ul style="list-style-type: none"> • Department of Labor: <ul style="list-style-type: none"> – Not a “Prohibited Transaction” – Stop Loss is not a “Plan Asset” – Captive (group-sharing) only at stop-loss layer • States: <ul style="list-style-type: none"> – Self-Funded medical plans have federal preemption of state laws under ERISA – If structured correctly, should not invoke MEWA classification | |
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OBJECTIONS - EMPLOYER

- Status quo / inertia
- Too “risky”
- Too new
- More work to administer self-funded plan
- Employee benefits are taboo

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SUMMARY

- Stop Loss is a \$9 billion industry
- Group medical stop loss captive market is growing considerably
- 35 to 50+ programs operating
- Opportunity and value proposition outweigh the objections

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