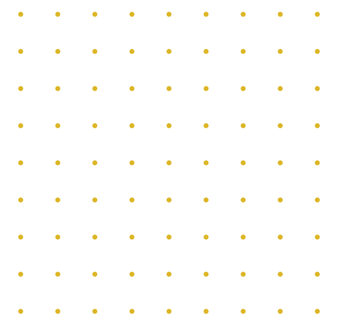
CASE STUDY

WISTERM

USING A CAPTIVE IN TANDEM WITH A SELF-INSURED MEDICAL PLAN

Even healthcare providers sometimes struggle to manage the cost of their own medical care. Such was the case with a South Carolina physician-owned medical practice that needed to control rising expenses associated with providing health benefits to their employees.



The Issue

Faced with years of double-digit cost increases, the medical practice was spending more than $3.6 million a year on health benefits – an amount that was projected to reach $4.6 million at renewal. The cost of providing health benefits to employees was becoming so expensive that it jeopardized the profitability of the medical practice.

The Recommendation

Wisterm showed the group how to reverse course. By implementing a self-funded medical plan in tandem with a captive insurance arrangement, the group could control costs while continuing to provide the same valued benefits to employees.

How Self-Funding Works

The group was previously in a fully-insured health plan. Under that arrangement, the employer pays a fixed premium to an insurance company, which covers the cost of the participants' medical claims. If premiums paid by the employer to the insurer are more than claims paid by the insurer, the insurer realizes an underwriting profit. The insurer keeps that underwriting profit. If premiums paid by the employer to the insurer are less than the cost of the participants' medical claims, the insurer realizes an underwriting loss. While fully-insured plans provide employers with financial predictability, they also typically cost more for the employer when compared to a self-funded medical plan.

With self-insurance, the employer takes on the responsibility of paying the participants' medical claims and administering the plan, including payment of claims to healthcare providers. Most employers, however, outsource this function to a third-party administrator (or TPA). Employers also typically purchase stop-loss insurance, which financially protects the employer against high claims. If the sum of claims, administration and stop-loss premium is less than the cost of a fully-insured option, which it commonly is, the difference is retained by the employer instead of being paid to the fully-insured carrier.

How Captive Insurance Works

The physician-owned practice also used a captive, which is an insurance company that is established to insure the business's risks. In this instance, the medical practice formed a captive to insure a portion of the risk created by the self-funded medical plan.

The Results

While the employer did purchase traditional stop-loss insurance, they elected a high deductible to lower the cost otherwise paid to the traditional stop-loss insurer. However, instead of retaining the increased risk created as a result of the high deductible, the employer purchased a deductible buy-down policy from their captive. This effectively reduced the amount of risk retained by the employer to a reasonable level. And by doing so, the captive was able to realize the underwriting profit that otherwise would have gone to the traditional stop-loss insurer.

→ In the first year, the group was able to reduce the cost of providing employee health benefits to $3.7 million, a 19% reduction compared to their renewal quote, but still a 2.8% increase compared to the prior year.

However, when they add back the $200,000 underwriting profit realized by the captive, the group was able to reduce the net cost of providing employee health benefits to $3.5 million, a 24% reduction compared to their renewal quote and a 2.7% decrease compared to the prior year. So by utilizing a self-funded medical plan in tandem with a captive insurance arrangement, the medical practice was able to reverse the increased cost trend without having to reduce the benefits offered to participants.

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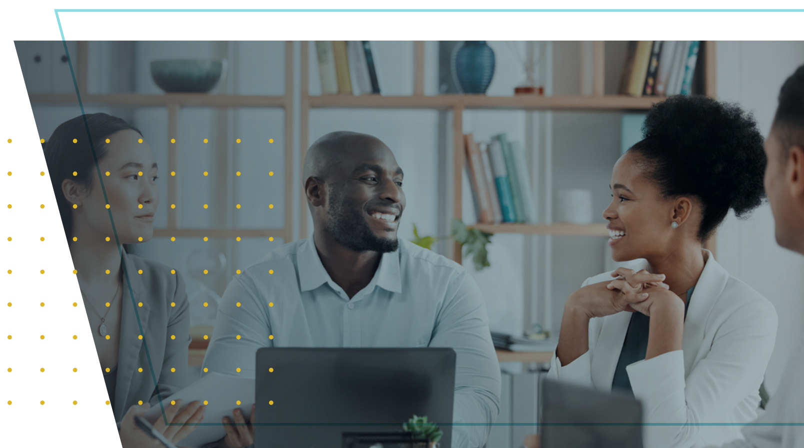

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