BLOG

Is a Group Medical Stop-Loss Captive Right for You?

By John Greenbaum

Jun 20, 2018

As a mid-size employer, choosing the right healthcare plan for your company can be a complicated decision that can affect the health of your business. Do you go with a traditionally structured plan despite today's escalating premiums? Or do you self-insure, which can leave you open to the risk of large claims and unanticipated claims fluctuation?

A new trend making headlines is group medical stop-loss captives.

For companies that are too small to self-insure, but want an alternative to rising premiums, group medical stop-loss captives allow many organizations to pool together and spread risk. Typically, target companies for this option have between 50-200 employees.

The captive is only one aspect of coverage. Employers that participate in a group captive function independently from the rest of the group in how they run their own benefits plan. They still have the flexibility in determining coverage, copays and deductibles, and they can choose their own provider networks and administrators.

The pool comes into play through the stop-loss program, which is purchased through a stop-loss insurer and issued under separate policies to each captive member. There is a deductible for each member of the captive, and an aggregate attachment point for when the total spend of a group member's claims reach a certain level.

The captive uses a reinsurance plan with the medical stop-loss insurer to fund the risk. Group medical stop-loss captives are complicated financial structures and, like anything, have pros and cons. As one of the earliest brokers of group medical captives in the market, we've become well versed in the strengths and pitfalls of building captives over the past ten years. For the right company, we will recommend them.

But there are plenty of things you should be aware of.

Make sure you pay attention to the population you will be joining. If your company primarily employs young, healthy people, you could be taking on more cost by joining a pool with a mostly older population.
Some plans require employers to post collateral, which is an anomaly in the health insurance world.

Employers might be expected to contribute an extra $50,000 up front in case claims don't go according to the projected models.

Another drawback: group medical captives can be hard to exit and employers may face penalties for leaving early.

Finally, hidden broker fees are often buried in these plans, so we always look at the fine print for our clients.

Building or joining a group medical stop-loss captive might be a good option for you, but there are many less than reputable programs out there as well. It pays to work with a seasoned broker to make sure you know exactly what you're getting into. Contact me directly at jgreenbaum@risk-strategies.com.

TAGS:
Employee Benefits