ART GALLERY FOR NOVEMBER

An expert's view of captives for health plans

By Dick Goff

As curator of the Gallery, I have always been an avid collector of ways alternative risk transfer can augment, extend and improve self-insurance – all of ART is basically self-insurance. So I have argued the cases for captives to serve valuable roles in the entire spectrum of business self-insurance, including employers' self-insured health benefit plans from the major corporations down to micro firms.

But that's just me. Maybe I'm looking at the world through ART-colored glasses. There is plenty of pushback against the concept of self-insuring smaller organizations among state insurance regulators herded by the National Association of Insurance Commissioners (NAIC) as well as elements of the traditional insurance industry. Even some service providers to self-insured employers are slow to appreciate the role of captives in small to middling health plans.

So I sought the opinion of a higher power, one George Pantos who I call the Godfather of ERISA application. Most of you know George as the onetime chief lobbyist for SIIA who now serves as executive director of the Healthcare Performance Management Institute, a think tank that has attracted many major employers to the mission of getting a handle on health care costs. Earlier he was an instrumental member of the federal government when ERISA was passed, and then guided employers in its use as a Washington attorney before joining SIIA. If anyone is credible in this field, it's George.

He was happy to talk about the emergence of ART structures and offered his own third-party source to support the idea of smaller firms enjoying the benefits of self-insurance. He pointed to the recent article by Brian Schilling published by The Commonwealth Fund that was headlined, "Can Smaller Firms Self Fund? Surprise – Many Already Are."

Mr. Schilling quoted the leader of a small firm insuring 80 employees: “We’ve saved money every year versus buying a fully insured product…every year our costs have been 10 to 20 percent lower because we self-insure.” The author cited statistics indicating that self-insurance of employee health plans is growing in every size category including firms with as few as three employees.

And, according to George Pantos, the more “self” in self-insurance, the better. He agrees that emerging captive structures can help employers reduce costs, control the design of their plans, escape state mandates and certain taxes as well as gain some federal tax advantages.

“My mantra is to take control and mitigate risk, and ART structures can drive those objectives,” he said. “Captives and all self-insurance vehicles enable employers to access claims data to analyze a group’s health trends and gain significant competitive advantages over fully-insured plans.”

George advised that we take a step back a moment to grasp the significance of controlling your plan’s claims data. Under most insurance contracts the claims data is the property of the insurer, not the entity that pays the premiums. The insurer uses advanced technological tools to aggregate claims data over millions of transactions to devise profitable premium profiles.

“When a member of an insured plan picks up a prescription for Lipitor, for example, the insurer knows that member may be at risk for heart problems or other issues related to high cholesterol,” George points out. “But think of the employer’s advantage to access that same information on a statistical basis and be able to formulate specific wellness programs that can address those health risks.

“Control of the data then translates to mitigation of risk,” he said. “This can put even smaller self-insured employers on an even strategic footing with the major corporations who already know the value of controlling claims data to mitigate risk.”

In that way, George contends that captives and other self-insurance vehicles can begin to restrain costs by reducing certain risks. “We know that 80 percent of health costs are the result of five or six chronic health risks,” he said. “If we can begin to attack those risks through expedient analysis of claims data, we’re on our way to a more rational health care cost environment.”

I was sufficiently buoyed by George's comments to envision an ART solution for self-insured ERISA plans of as few as 25 people. Supported by a fronted group captive spec and ag stop-loss program, such plans could operate with a self-insured retention of, say, a minimum of $5,000 per individual – though most regulators don't like an SIR that low – while the captive takes the next $250,000, with reinsurance for catastrophic cases. That little company can now play in the big boy leagues to compete in recruiting and retention of top performers.

With ART, it could be a brave new world.

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