Purchasing Power

How to utilize captive self-funded arrangements to reduce risk

The worlds of health insurance and financial wealth investment are merging together with captive self-funded arrangements.

These captives also are giving small and midsize employers a way to operate a self-funded group health plan for less risk.

Traditionally, midsized firms, those with 100 to 1,000 lives, have been reluctant to self-fund. While 93 percent of firms with 5,000 or more employees have self-funded health care, only 58 percent of midsize firms chose this option, according to a 2010 report by the Kaiser Family Foundation.

“These arrangements have been around for a while, but they are gaining more ground as small groups look for ways to self-fund with reduced risk,” says Abbe Mitze, account executive II at HealthLink.

What are captive self-funded arrangements?

They pull together a group of employers — who are either close to each other regionally or have some common thread of industry such as farm implement stores — and put them in the same pool when they buy their stop-loss insurance.

Stop loss insurance is what protects the employer’s plan assets once the claims reach a certain predetermined amount. These policies protect you against an unexpectedly large claims when you self-fund your health insurance.

Each group stop-loss captive has its own unique structure, but they all entail the employers buying individual stop loss policies. The critical mass and structure of these programs provide economies of scale for each employer by providing greater purchasing power.

Due to the risk sharing opportunity that the captive provides, it is also a more efficient model from an insurance purchasing standpoint

By spreading the risk across many companies, employers can find a piece of mind that is priceless. They don’t have to be as concerned about large swings in cost, which is one of the biggest deterrents to smaller group self-funding.