Medical Stop Loss: The Captive Opportunity

Friday, Jan. 31 | 10:30 – 11:30
Moderator:
Hugh Rosenbaum, Towers Watson

Speakers:
Anne Marie Towle, Willis Global Captive Practice
Laura Zehm, Community Hospital of the Monterey Peninsula
Ward Ching, Safeway
AGENDA

• Medical Stop Loss Basics
• The CHOMP Story
• Safeway’s utilization
Medical Stop Loss Captive Use Basics
Managing risks

• Like any other risk, medical liabilities should be managed
  - Identify the risk exposures
  - Prevent and control losses
  - Finance efficiently
  - Coordinate with other enterprise risks in a strategic framework

Risk Financing Decisions

- Transfer catastrophic and volatile risks
- Retain predictable and tolerable levels of risk
- Decide what to pool in a Captive
U.S. Medical Single Parent Captive - Options

(Easiest way to save Stop Loss Costs is to increase your retention)

- Moving a layer to Captive adds transaction costs of 3% to 6%
- Is not likely to be considered “unrelated” by tax examiners
- Need to keep minimum layer self-insured to prevent characterization as “health insurer”
- Can use captive as means to access lower reinsurance market rates
Easiest way to save Stop Loss Costs is to increase your retention, but you are introducing more risk and volatility to your income
U.S. Medical Group Captive Option #1

- Group Captive adds transaction costs of 3% to 6%
- Risks in the captive layer are shared (over your funded amount * 150%)

Need to understand all component costs and compare risk-reward to self insurance option

Volume from pooling can decrease per-unit expenses

Sharing can either decrease or increase individual net cost

$285,000

Insured Excess

Captive Layer has Risk-Sharing Rules

Self Insured Retentions

- Need to keep minimum layer self-insured to prevent characterization as “health insurer”
- Can use captive as means to access lower reinsurance market rates on a group basis
U.S. Medical
Group Captive Option #2

• Characteristics
  • Multiple employers with some type of affinity
  • Plan Participants: 50 to 500 each
  • Some with full insurance; some self-insured with stop loss
  • Loss ratio: 65% or lower

• Switch to group captive was evaluated
  • Ability to recoup gains from good experience, with protection in bad years
  • Economies of scale in purchase of services and excess layer protection
The CHOMP Story

• Hospital and Health Care System located in Monterey, California

• Mission is to meet changing health care needs

• Our large employers demanded lower cost with same high quality care

• Our own healthcare costs were escalating too rapidly

• We used our own self-insured program as a pilot for population health management
Population Health Risk and Cost – the Targets

- Increasing Health Risk
  - Well
  - Low-Risk
  - Moderate-Risk
  - High-Risk
  - Complex

Percent of members in category:
- Well: 71-83%
- Low-Risk: 15-25%
- Moderate-Risk: 2-4%

Cost per member:
- Well: 25%
- Moderate-Risk: 55%
- High-Risk: 20%

Total Population Costs:
- 25%
- 55%
- 20%

Life Connections

High-Risk Care Management

Total Health Management / Wellness
Model Program - The Asheville Project
It worked! Now – take it to our community.
Central Coast Community Mutual Insurance Company d/b/a “Aspire”

• Commenced operations June 2012, CHOMP founding member

• Actively seeking additional partners
Transaction Structure

• Captive underwrites and issues stop loss policies directly to each employer

• Plan Services are purchased separately but bundled

• Captive purchases excess protection from reinsurance market
Risk Structure

• Deductible Layer
  • Varies according to employer risk profile

• Captive Layer
  • Minimum of $200,000

• Excess Layer
  • Attaches at $300,000 or $450,000
  • Resets each policy period
Value Proposition

• Mandatory Life Connections program (wellness, disease case management, and utilization review) will lower losses.

• Pooled self-insurance will smooth volatility and lower costs.

• All stakeholders will have “a seat at the table” to promote efficiency and share savings.
Proactive Cost Reductions

Life Connections is Community Hospital’s chronic disease management program, offering disease-specific education and counseling to health plan members with certain chronic diseases – beginning with diabetes.

• Life Connections mitigates costs by proactively managing existing conditions and early identification of at-risk members to avoid future large claims.

• Aspire’s Disease Management Programs are aimed at conditions that lead to significant claims costs, including:
  • Diabetes
  • Coronary Artery Disease
  • High Cholesterol
  • High Blood Pressure
Integrated Population Management

- Integrated Medical Record
  - Electronic record for hospital and outpatient services
  - Clinical decision support tools

- Best Practice Models
  - “Care Standards” Performance
  - Participation Adherence
  - Pharmacy Adherence
  - Member Satisfaction

- Performance Measures
  - Inpatient and ambulatory quality measures
  - System, physician practice, and individual physician performance reporting

- Health Analytics
  - Clinical risk identification
  - Clinical, laboratory, and pharmacy data integration
  - Predictive analytics

- Care & Disease Management
  - Evidence-based care guidelines
  - Physician rounding for inpatients
  - Integration with primary care physicians
Time Line

2010: Concept, Strategy, Feasibility Study

2011: Business Plan, Incorporation, Marketing

2012: Policy Issuance, Governance structure, Continued Marketing
Governance

• Board of Directors
  • Founding member
  • Five elected by membership

• Operating Committees

• Management Team
  • Directors and Officers
  • Service Providers
Key Issues

• Market disruption -- PPACA and State regulations
  • Need to monitor compliance for captive
  • Affecting employer decision-making

• Education
  • Captives are still new concept
Lessons Learned

- We underestimated the education required
- Hire professionals (it’s not like running a hospital)
- Engage local brokers early - make them our allies
Future Outlook

- Optimistic about growth
- Operational improvements ongoing
Safeway’s Stop Loss Position
Medical Stop Loss: The Medical Opportunity – Underwriting the Risk

WCF 2014

Prepared by:
Ward Ching, Vice President, Corporate Risk Management Operations, Safeway Inc.

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This presentation is incomplete without the accompanying discussion.
Safeway at a Glance

- Safeway is one of the largest food and drug retailers in North America.
- 2013 Sales: $44.17 Billion
- 1,350 retail locations (approx.) recently exited Canada and Illinois.
- About 75% of stores have pharmacy operations.
- 400 fuel stations.
- 12 distribution centers.
- 20 manufacturing facilities:
  - Milk
  - Beverage
  - Bread
  - Ice cream.
- Approximately 171,000 employees.
Safeway Enterprise Risk Management at a Glance

- Corporate Structure:
  - Risk Management Operations
    - Culture of Safety - Platform
    - Property Risk Engineering
    - Corporate Safety
    - Insurance
    - Environmental
    - Regulatory Compliance
  - Finance/Accounting
  - Claims Management
    - SWY is Self-Insured and Self-Administered for WC, CGL, AL
Safeway Risk Finance - Philosophy

- Enterprise Risk Perspective: Risk Portfolios
- Two Captives:
  - Hawaii Domicile – Lehua
  - Bermuda Domicile – Milford
    - Both captives are well capitalized
    - Underwriting, Investments, Claims Management, Audit, Executive Management structures
- High Retentions on all major lines of coverage.
- No Medical Stop Loss Coverage Placed
Medical Stop Loss – Underwriting Perspective

- As of 2010, approximately 21 corporations have obtained approval by the US DOL to reinsure U.S. Group benefits in captives (group term life, LTD).

- In most cases, the transaction is a fronted and reinsured by the captive in the form of an indemnity reinsurance contract.

- Commercially placed Med Stop Loss would indemnify the employer from unexpected volatility in the claims costs of a self-funded health benefit program.
  - Focus on deviation from expected loss picks.
  - Claims excess of a specific or aggregate attachment point are reimbursed, say $100,000.
Underwriting, continued

- Optimal EE targets – 2,000 – 20,000
  - SWY is significantly above the total
  - Statistical probabilities may prove attachment points and aggregate loss ratios too volatile at perceived market or self-insured premium levels.
- Captive already established
  - On-shore and off-shore facilities are available
  - Are there advantages to either?
- Currently purchasing MSL in commercial market
  - SWY not in market
  - Attachment point, premium pricing and aggregates may be difficult to establish.
Underwriting, continued

- **Concern about containing health benefits costs**
  - SWY is a leader in preventative healthcare support to employees and their families through Safeway Healthy Measure, tied to medical benefits programs.
  - Safety, Healthy Lifestyles and Well Being tied together.

- **Desire to avoid excess volatility in health benefits cost**
  - Will SWY population size distort probabilities?
  - Will geographic footprint impact volatility?
  - SWY focus is on prevention, active medical consumerism, medical outcome management and eliminating readmission costs.
Underwriting, continued

• Tax Considerations?
  – Cash vs. Accrued deduction? SWY takes a very conservative position. Tax is not a front line decision issue.

• Accounting Considerations?
  – Are there differences? What frictional cost exists with the inclusion of MSL in either captive?

• Current Captive Funding and Capital Requirements

• Impact on current programs?
  – Layer efficiency?
  – XL vs. quota share?