

# BUSINESS INSURANCE

## Medical Stop-Loss: Structuring the Risks

2018 World Captive Forum  
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Fort Lauderdale, FL

*#WorldCaptiveForum*

# Our Panel

Don Sicard, VP, Risk Management & Insurance Services, FCC Services

Kathleen Waslov, SVP, Global Captive Practice, Willis Towers Watson

Mark Weinstein, CEO, Independent Colleges and Universities Benefits  
Association

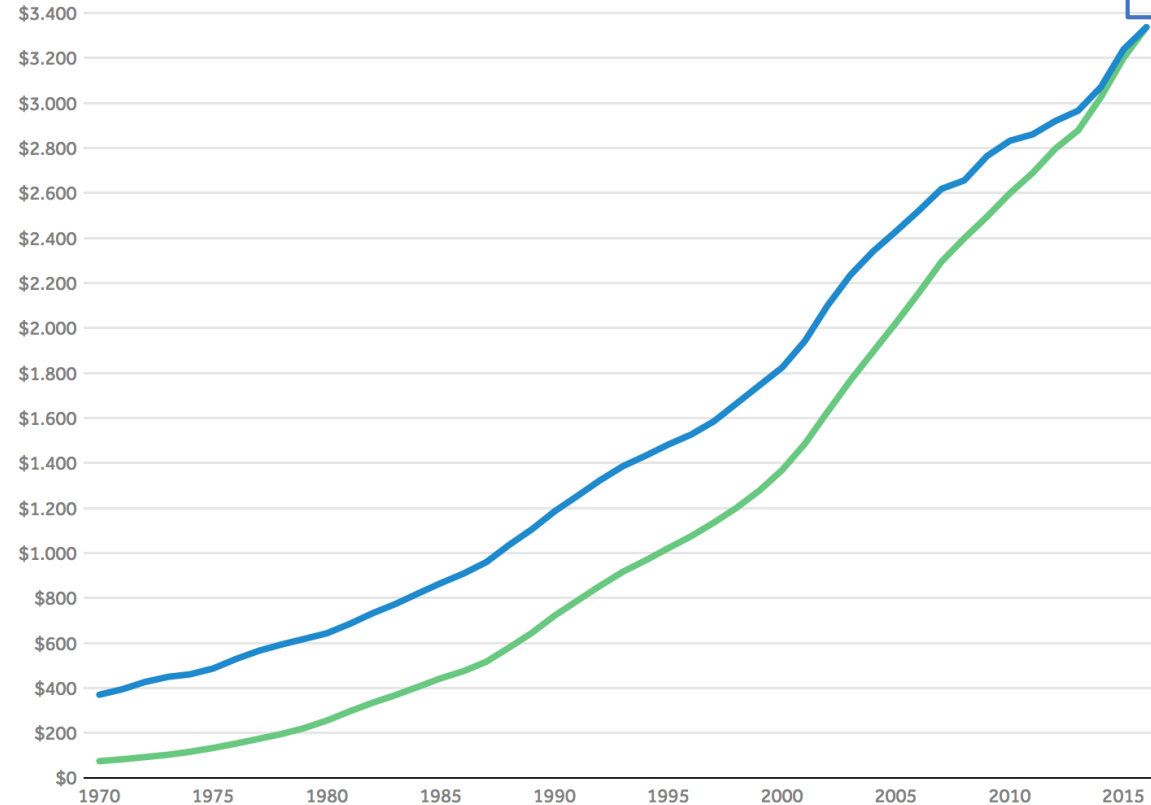
# Agenda

- Medical stop loss trends
- Sample risk structures
- Case studies
  1. ICUBA: opportunities and limitations
  2. FCC Services: full service insurance

# Cost Trend

Total national health expenditures, US \$ Billions, 1970-2016

■ Total National Health Expenditures ■ Constant 2016 Dollars



- \$355 per capita
- 7% of GNP

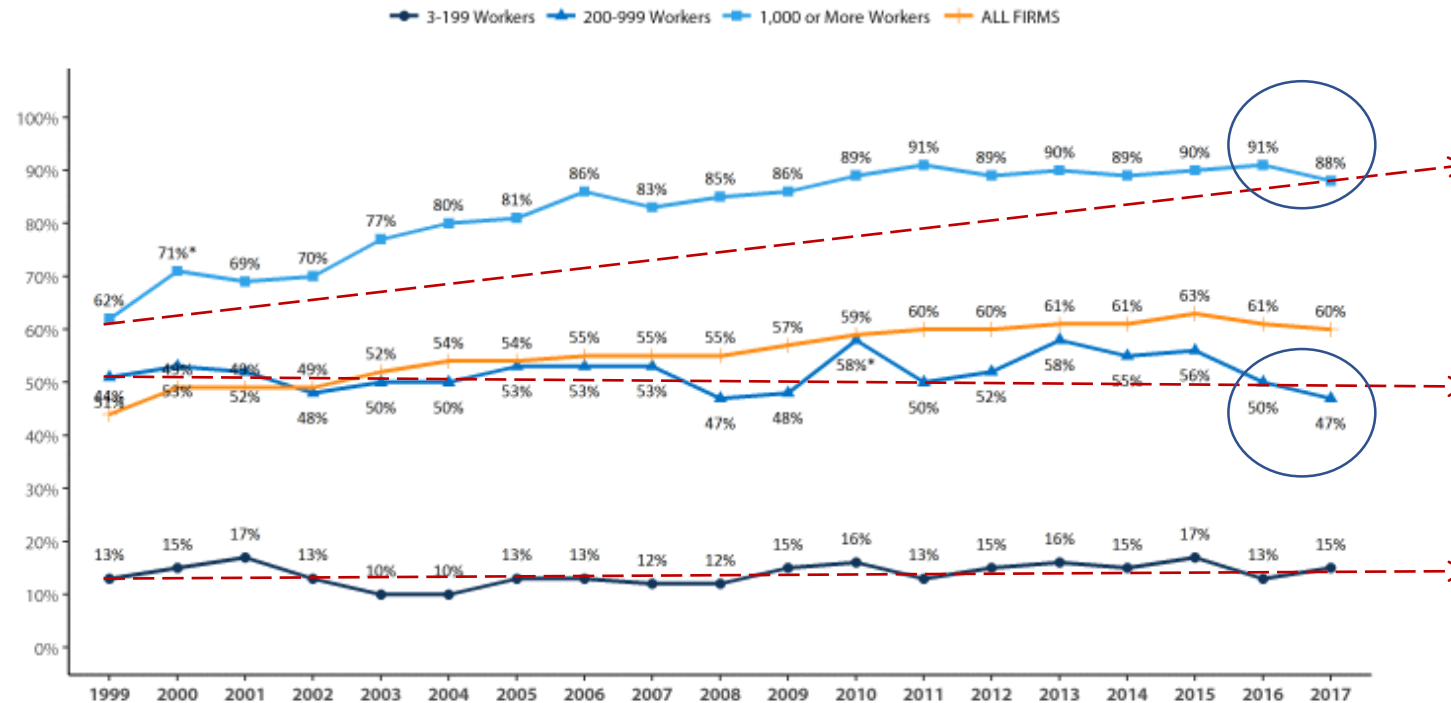
- \$10348 per capita
- 18% of GNP

Source: Kaiser Family Foundation analysis of National Health Expenditure (NHE) data from Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group • [Get the data](#) • [PNG](#)

Peterson-Kaiser  
**Health System Tracker**

# Self-Funding Trend

**Figure 10.2**  
**Percentage of Covered Workers Enrolled in a Self-Funded Plan, by Firm Size, 1999-2017**



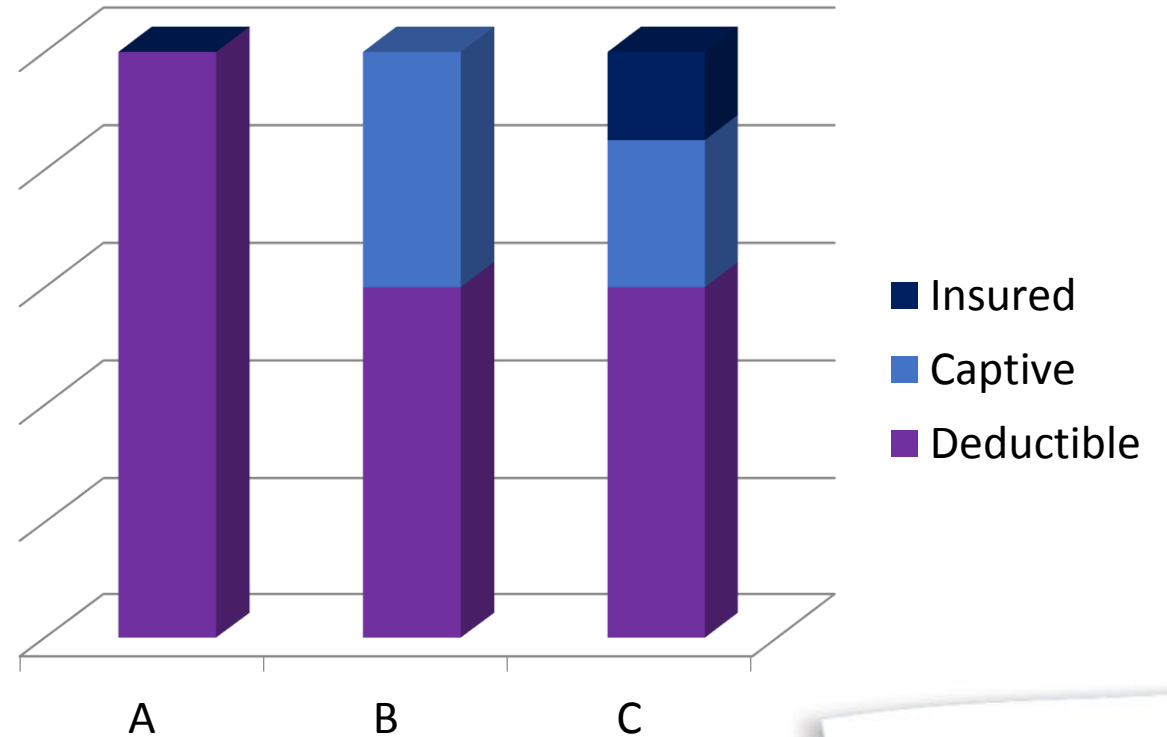
\* Estimate is statistically different from estimate for the previous year shown ( $p < .05$ ).

NOTE: Figure includes covered workers enrolled in partially or completely self-funded plans. Overall, 60% of covered workers are in a partially or completely self-funded plan in 2017. Due to a change in the survey questionnaire, funding status was not asked of firms with conventional plans in 2006; therefore, conventional plan funding status is not included in the averages in this figure for 2006. For definitions of self-funded and fully insured plans, see the Introduction to Section 10.

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2017

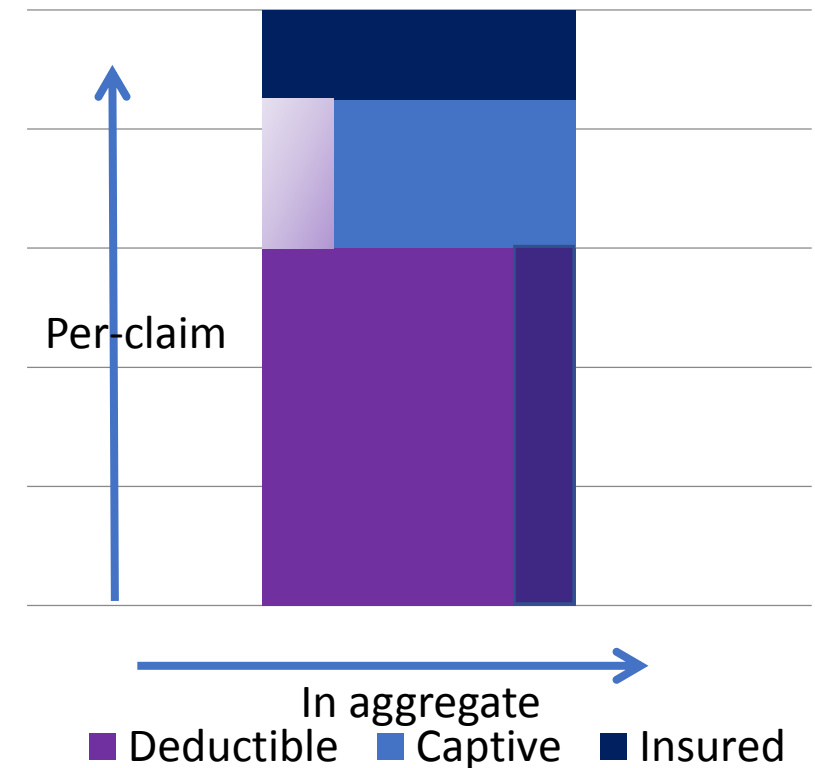
# Risk Structure options – allocation

- Options differ by the allocation of assets and liabilities among 3 (or more) entities:
  - Employer (white)
  - Captive (blue)
  - Insurer (navy)
- The captive can provide an excess of loss layer at the top (B), or a middle layer below risk transferred to the commercial market (C).
- Actuarial analysis of claims occurrence by layer of risk can be used to determine the optimal balance of retention and transfer by layer.



# Risk Structure options – limits

- Coverage is defined by deductibles and limits
  - Specific limit = per-claim deductible
  - Aggregate limit = accumulated annual claims deductible
- Variations
  - Small employer groups typically buy “spec” and “agg”
  - Can increase retention with “aggregating spec” fund
  - Some availability of agg-only coverage

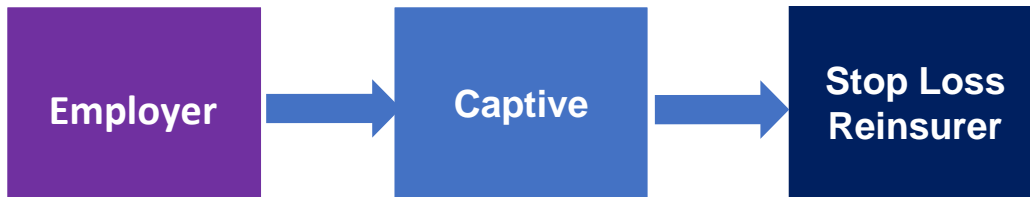


# Transaction Structures

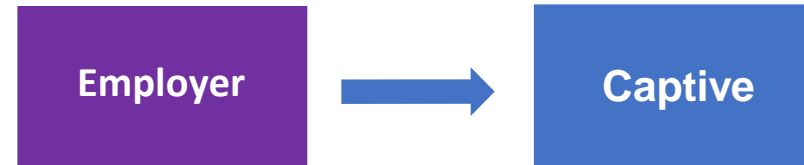
## 1. Fronted Reinsurance



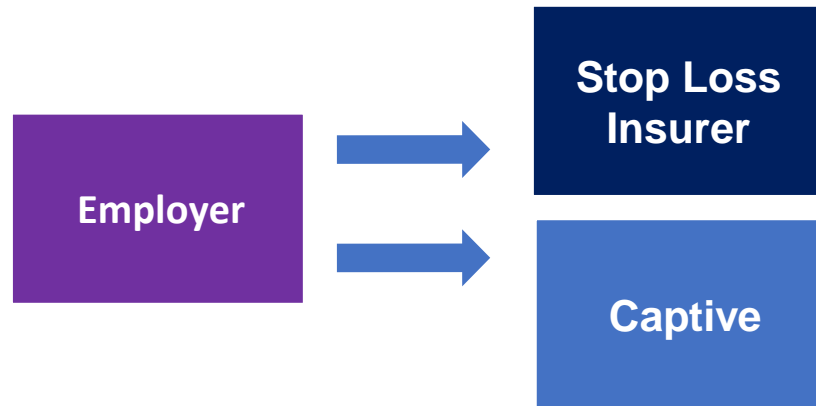
## 2. Direct Issue with Reinsurance



## 3. Direct Issue with No Reinsurance



## 4. Two Policies, Separately Issued





# Case Study - ICUBA

Mark Weinstein, J.D., CPA, CEBS, LL.M., MPH  
ICUBA, President & CEO

# Outline

- Introduction to ICUBA, established 2003
- When things go bad, being a captive is better than a MEWA
- Still a MEWA
- Stop Loss Insurance



# Who is ICUBA?

- A self-funded employee health insurance risk pool for 26 private education employers
- In its 16th year
- Operating as an ERISA-defined Internal Revenue Code Section 501(c)(9) nonprofit Corporation
- Also a Florida Multiple Employer Welfare Arrangement (MEWA)
- Serves over 15,200 total beneficiaries and over 9,200 employees



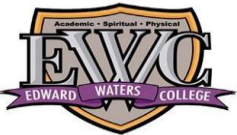
# Who is ICUBA?

**Barry University**



**CANTERBURY SCHOOL**

**Corbett Preparatory School of IDS**



**Florida Institute of Technology**



**Poynter.**

**GOOD SHEPHERD EPISCOPAL SCHOOL**



**SAINT EDWARD'S SCHOOL**



**SAINT PAUL'S CLEARWATER'S INDEPENDENT SCHOOL**



**St Mark's EPISCOPAL DAY SCHOOL**



**UNITY SCHOOL EMPOWERING CHILDREN & INSPIRING LEARNING**

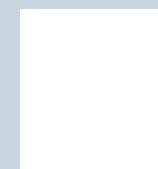
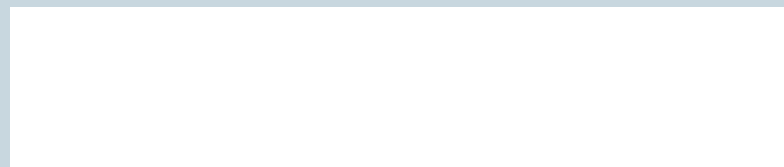
**THE UNIVERSITY OF TAMPA**



**Tampa Preparatory School**

**#WorldCaptiveForum**

# I. Executive Summary



# Key Facts About ICUBA

- Have limited annual premium increases to less than 4.5% for medical insurance coverage for the past 7 years
- 10 years of growing capital reserves
- Approximately 90% of enrolled employees participate in a Health Reimbursement Arrangement
- ICUBA offers 3 medical insurance plans: 2 Gold equivalent plans and 1 Silver equivalent plan
- Administrative expense is less than 7% of premium
- ICUBA has experienced a steady growth rate of about 4% per year
- ICUBA Brand Partners include Aetna, BCBS and OptumRx

# When Things Go Bad

In 2004, ICUBA charged too little premium for the rich medical insurance plan, and as a result, experienced a \$6 Million loss on a mere \$23 Million in premium collected.

	As a MEWA	As a Captive
Assessment of Employer Members	\$10 Million	Up to \$3 Million
Money Borrowed (Factoring, etc.)	Prohibited	\$2 Million
Premium Increase	42%	42%
ACA Section 9010 Fee	About 2% of premium	About 20 cents per \$1,000 premium
Stop Loss	Retail	Wholesale
Brand	Restricted	Inclusive
Cross State Lines	Prohibited	Allowed
Employer Members	Limited	Slight flexibility

# Why ICUBA stayed a MEWA

- Board prefers medical insurance premiums with no account of experience
- Small employers would not be able to join Captive
- Complexity of a new financial tool
- Transitioning from a functional MEWA would be too quick an abandonment
- Considered already at feasibility stage
- Association Health Plans may be given benefits of a Captive by US Department of Labor or Congress



# Stop Loss Insurance

All pools with capital surplus should consider the use of an ***Aggregating Deductible Corridor*** with a Specific Stop Loss Insurance Policy.

Hedges risk against both volume and severity, given the current ACA environment of no lifetime benefit limits.

# Case Study- FCC Services Specific Excess and Aggregate Excess Captive Reinsurance Structure

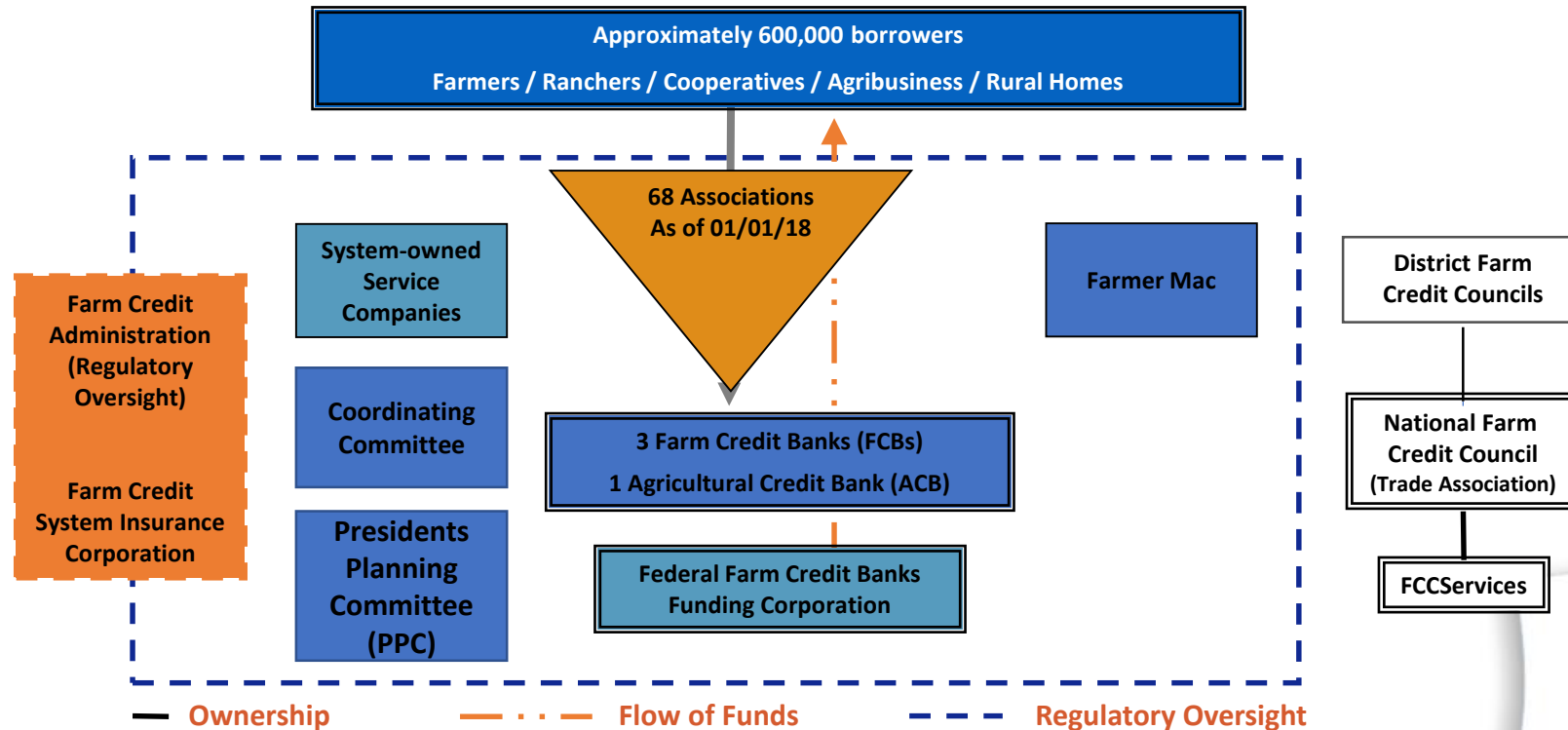
Don Sicard, Vice President, Risk Management & Insurance Services  
World Captive Forum - January 31, 2018 through February 2, 2018

# FCC Services

## The Farm Credit System

### Discussion Points:

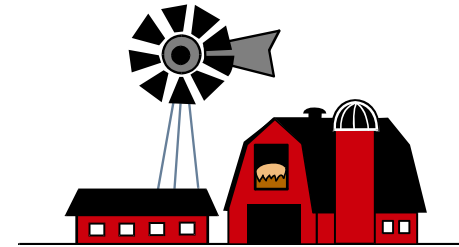
- No “parent” or “headquarters”
- Ownership
- System Leadership-Farm Credit Council, Coordinating Committee, Presidents Planning Committee
- Flow of Funds
- Regulation
- Linked by legislation, regulation, funding and public perception



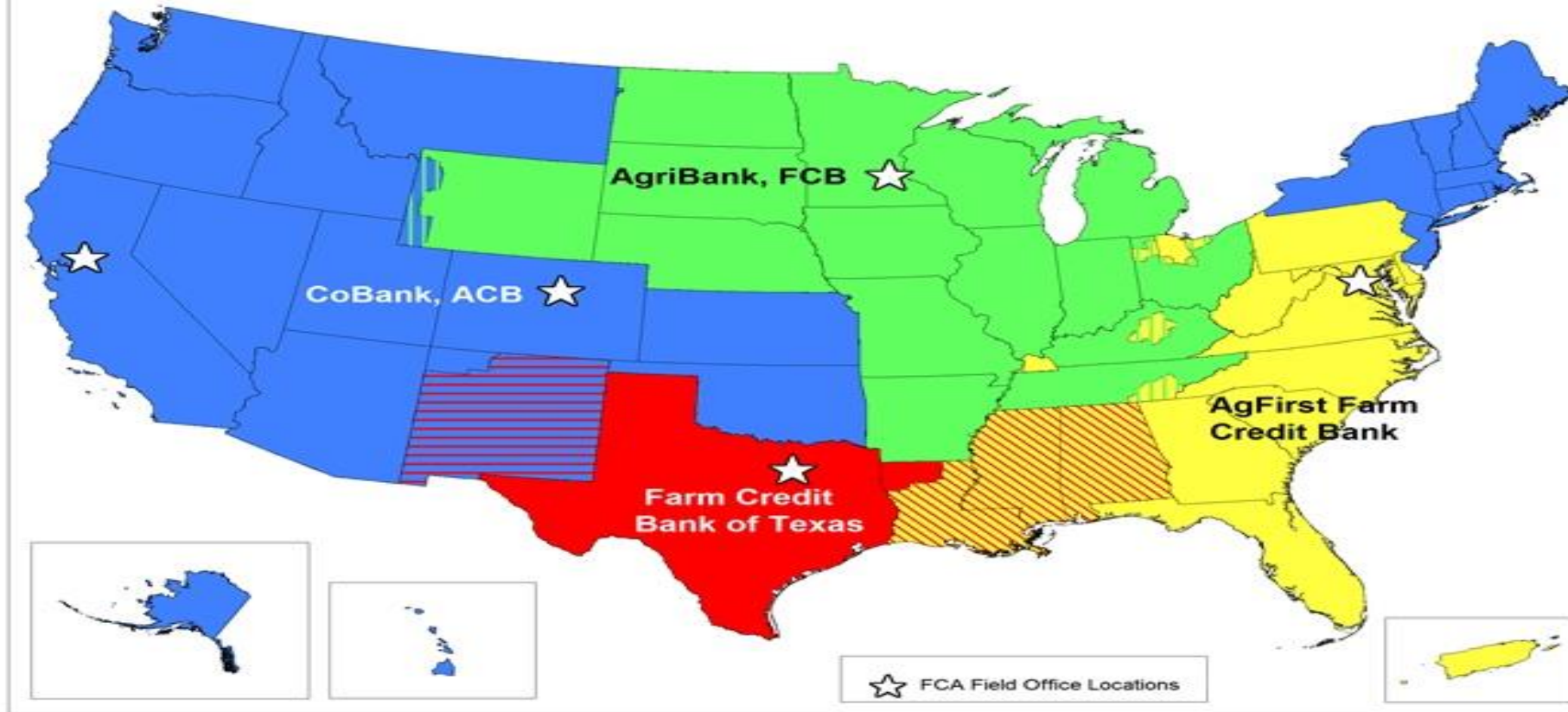
# FCC Services

Key differences between Farm Credit System lenders and commercial banks

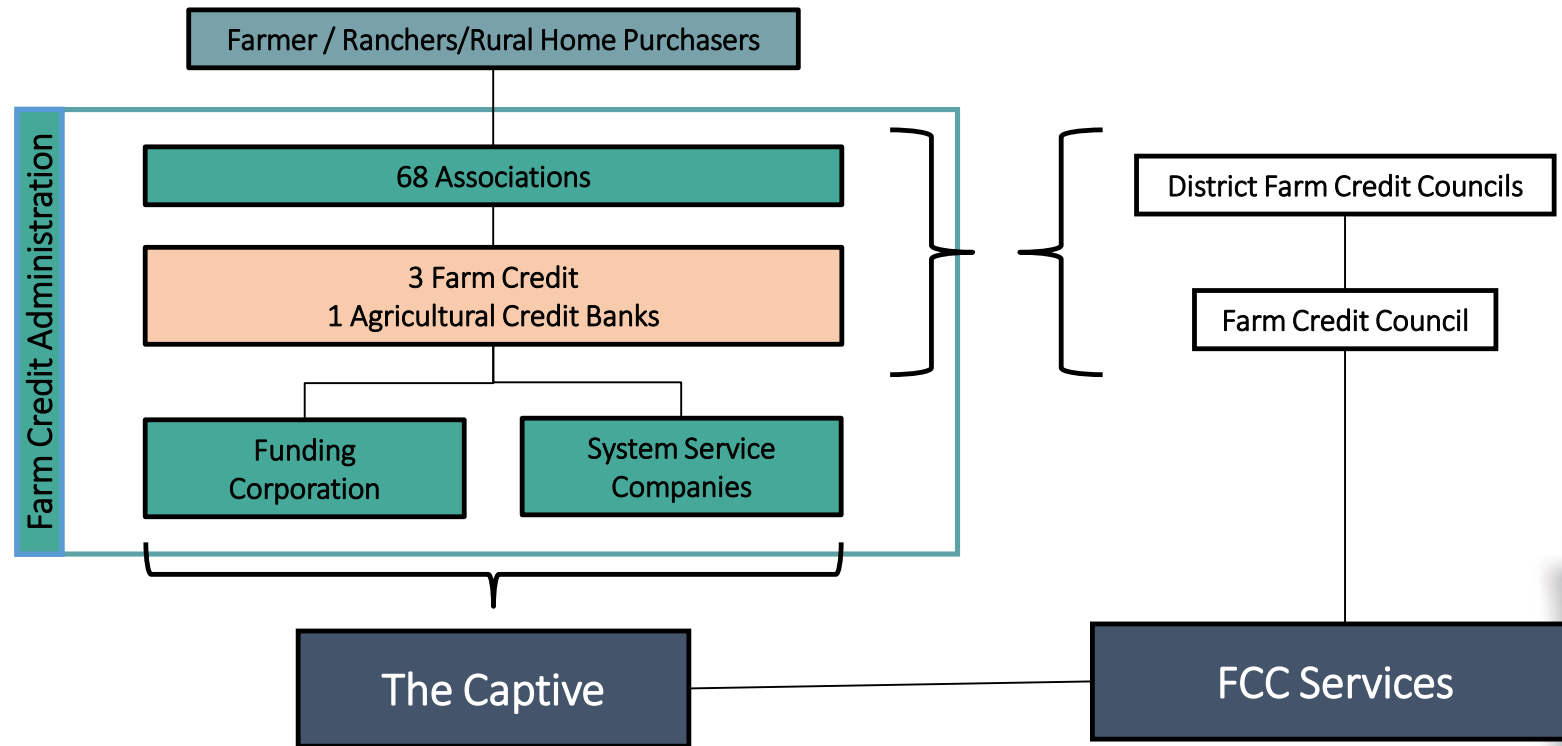
- Status as a Government Sponsored Enterprise (GSE)
  - Congressional charter
  - Public purpose
- Cooperative Organization
  - Borrower owned
  - Borrower controlled boards
  - NO HOME OFFICE
- Specialized lending and services
  - Agriculture and rural America focus
- No authority to accept deposits
  - No checking or savings accounts



## Farm Credit System Bank Chartered Territories



# FCC Services and the Captive Relationship to the Farm Credit System



# FCC Services

The Farm Credit System Association Captive Insurance Co (“The Captive”)

- A privately-held insurance association Captive that is owned by the Farm Credit System
- It insures only Farm Credit System exposures
- Members retain Underwriting Profits
- It is managed by FCC Services



# FCC Services

## The Captive – It's History

- Established in 1988 due to D&O insurance crisis
- A.M. Best Rated: A
- As of 01/01/2018 - 15 lines of coverage
  - Various Primary Property/Casualty
  - Bankers Blanket Bond/Crime
  - Fiduciary Liability
  - Management/Professional Liability
  - Medical Stop Loss
  - Pollution
  - Workplace Violence



# FCC Services

- Owned by The Farm Credit Council
- Headquartered in Denver, Colorado, with approximately 44 employees
- Formed in 1975 to help System institutions and others achieve organizational and operational excellence. Our customers include
  - Farm Credit System
  - Agribusinesses and Ag Cooperatives
  - Other public entities and for profit clients
- We are a business service and consulting firm that works with clients to:
  - Promote excellence in their organizations and board rooms
  - Manage their risks
  - Take advantage of collective buying power

# FCC Services

## Medical Stop Loss (MSL)

- Why Captive?
  - Impact of the ACA on cost (i.e. Unlimited Lifetime Max)
  - Direct Markets Specific Excess rate increases
  - Direct Market pricing “manual rate” driven while Reinsurer pricing based on actual account experience
  - Ability to access Reinsurers through Captive
    - More MSL Reinsurers than Direct Market Insurers
    - More players and capital creates more competition

# FCC Services MSL Program Structure

Specific Excess Medical Stop Loss (For the Employee Benefit Trusts)

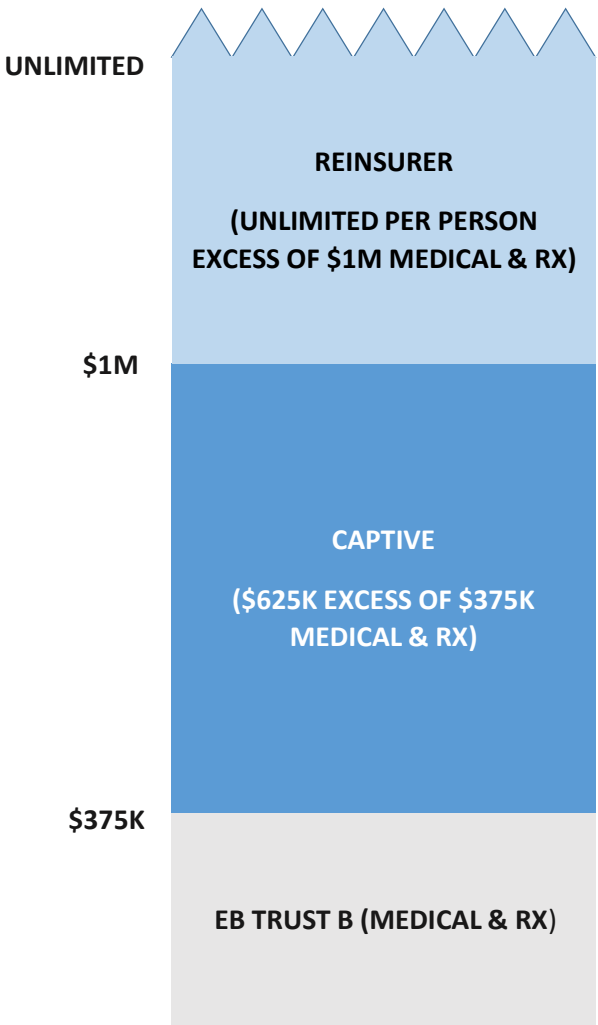
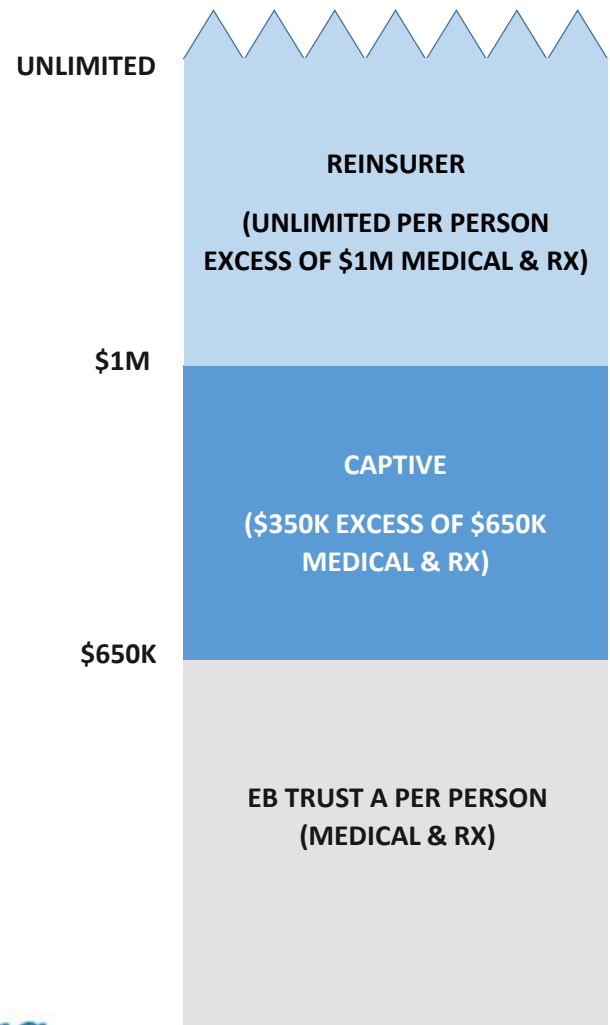
- Captive issues policy for \$1M Limit to each FCS Employee Benefit (EB) Administrator;
- Captive insures the difference between the attachment point for each EB Administrator and \$1M/person(Medical and Rx):
  - Employee Benefit Trust A (\$350K excess of \$650K/person)
  - Employee Benefit Trust B (\$625K excess of \$375K/person)
- Reinsurer insures Unlimited per person Excess of \$1M/person(Medical and Rx)
- Term – Losses Occurring during twelve (12) months prior to 1/1/18 and paid within twelve (12) months from 1/1/18 (24/12)

# FCC Services MSL Program Structure

## MSL Aggregate Stop Loss Protection for the Captive

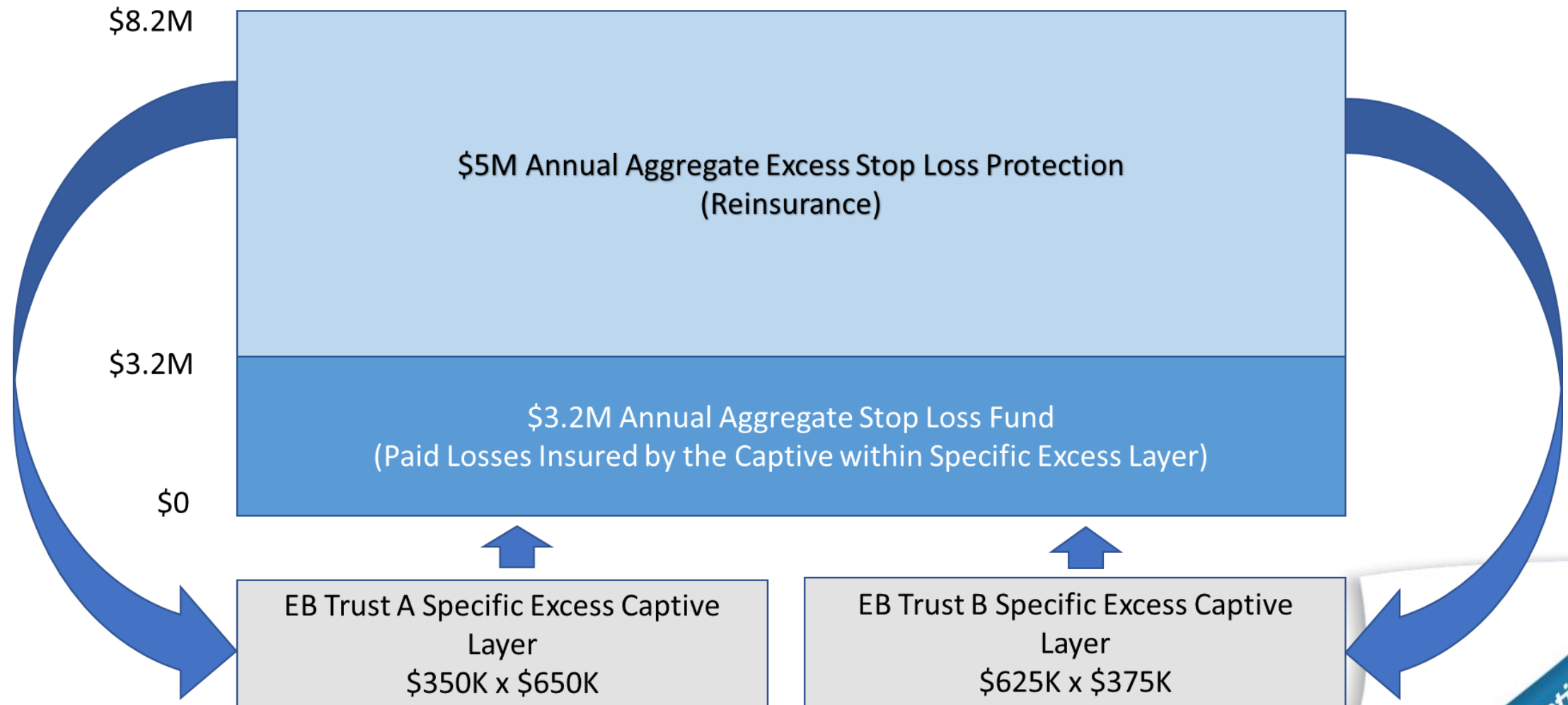
- \$5M limit excess of ~ \$3.2M in paid claims “combined” for EB Trust A and EB Trust B between their respective Specific Excess Medical Stop Loss attachment points and \$1M Captive Policy limit
- Once ~ \$3.2M in paid claims threshold met, Reinsurance would replace the Captive’s respective Specific Excess layers for up to the next \$5M in paid claims
- If paid claims exceed \$8.2M (~\$3.2M + \$5M), the Captive would, once again, insure the respective Specific Excess Layers on an unlimited basis for remainder of 12 month reinsurance contract term

FCC Services  
Specific Excess Medical Stop Loss Program Structure



## FCC Services

### MSL Aggregate Stop Loss Reinsurance Protection for the Captive



# Q & A

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