Medical Captive Whitepaper:

The Fully-Insured Market, Small and Mid-Market Employers and New Opportunities

Achieving better results through collaboration.

ROUNDSTONE
TURNING RISK INTO RESULTS

HEALTH CARE SELF-INSURED PLAN
SELF-FUNDING CERTIFIED
NAHU

PWA INSURANCE SERVICES
focusing on the RIGHT solutions

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Most experts agree that many smaller employers will be turning to a self-funded medical plan in the very near future. The Medical captive concept will grow exponentially under PPACA. Roundstone offers a turnkey medical captive product for your market. I am providing a few reasons why self-funding groups between 50 and 500 lives is now a smart choice for many employers. I am also outlining why a captive vehicle is a good option for these smaller employers.

Smaller employers, who are not fully credible by themselves, join together to share the stop-loss risk in a large credible pool. The pool and catastrophic large claims ($500,000) are covered by stop-loss coverage. This allows smaller employers to have the same advantages as larger employers who are almost all self-funded.

Some reasons employers should consider self-funding:

1. Maximize control of the claims and future cost
2. Avoid state premium tax and the new ACA premium revenue fee
3. Minimize the effect of state mandate
4. Avoid the negative effects of the PPACA rate compression
5. Minimize the negative impact of MLR and exchanges contained in PPACA
6. Opens access to a network, wellness plan, and administrator that works best for the employer and not the insurance company
7. Allows for simple plan designs for employers with multiple state location
8. Provides transparency of cost and data for maximum claim management

Some reasons to select the Roundstone captive program when self -funding:

1. Safest choice for small employers to self -fund the medical plan
2. Avoid the need for annual marketing
3. Minimize claim volatility by spreading the risk among several employers while providing overall cap protection from a A+ insurer
4. Avoid a significant amount of insurance risk charges
5. Turnkey program options for simplicity
6. Excess stop-loss premium (underwriting profit) is refunded to the captive members annually and not kept by the insurance companies
7. An experienced independent captive manager administers the program
8. Employers can join an existing established captive

> *"To run a successful operation, small and midsize employers need full control over all aspects of their business. Self-insuring health benefits will put them in the driver's seat. "*
>
> \- Joanne Wojcik Senior Editor Business Insurance.

The Patient Protection and Affordable Care Act (PPACA) creates differences between fully insured and self-insured plans, which have cost benefits for the self-insured employer. These plans are explicitly exempted from some PPACA requirements.

Self-insured plans are:

1. **Not required to provide coverage with Essential Health Benefits -** *Self-insured group health plans, are not required to cover essential health benefits. The PPACA defines "essential health benefits" by specifying 10 categories of benefits that must be covered by all health insurance plans offered through an exchange.*
2. **Not subject to Fair Insurance Premiums mandates -** *insurers will be restricted in their use of rating factors as defined by states and the Secretary of Health and Human Services (HHS). The factors that can be used by underwriters to calculate a premium include geography (to be defined), age (3:1 compression ratio) and tobacco usage (1.5:1 ratio).*
3. **Not subject to Medical Loss Ratio (MLR) mandates -** *MLR is set at 80 percent in the small group and individual markets and 85 percent in the large group market.*
4. **Not subject to review of premium increases -** *insurers are required to have their premium increases approved by both the applicable states and the HHS.*
5. **Not subject to Annual Tax on Net Premiums -** *A new annual tax on net premiums divided by market share has been established by the PPACA effective January 1, 2014, that will apply to fully insured plans and raise a total of $14.3 billion (increasing on an annual basis). Each issuer of health insurance will be assessed a fraction of this yearly, phased-in, non-deductible fee.*

"2014 rates in California are estimated to increase over 30% over 2013 rates on average. "

- Covered California Website Q & A, April 23, 2013

As employers face higher costs and expanded requirements, many will turn to alternative risk transfer funding methods, such as self-insurance combined with a captive, to better manage their health plans and control costs. In the new healthcare marketplace, this strategy is the most viable solution to rising health care costs.

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Details of the Impact to Fully-Insured Premiums

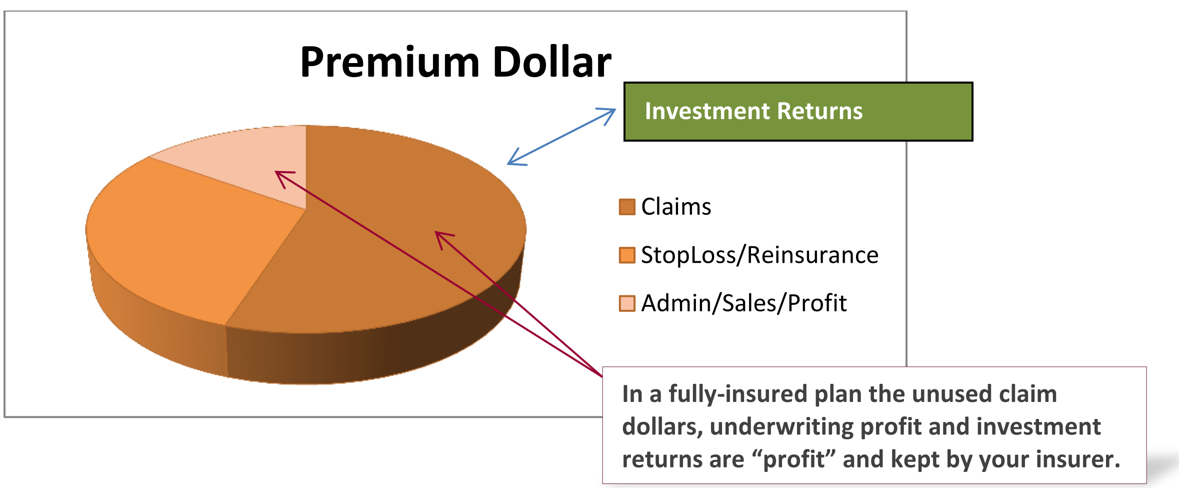
Benefits Typically limited or excluded under Most Plans	Estimated Cost Impact assuming no limit
Infertility Treatment	3.0%-9.0%
Chiropractic	.3%-2.0%
Bariatric Surgery	2.0%
Habilitative Services (Autism)	1.0%
Routine Foot Disorders	0.4%
Acupuncture	0.3%
Genetic Counseling	0.3%
Nutritional Evaluation/Counseling	0.2%
TMJ	0.1%
Total Estimated Range	**7.6%-15.3%**

Taxes	Estimated Cost Impact
Comparative Effectiveness Research Fee	$1 PPPY ~0.25%
Health Insurance Industry (Fully-insured)	2-2.5% of premium 2014 fully-insured
Reinsurance Assessment Fee	$60-$90 PPPY ~1.25%-2%
Total Estimated Range	**3.5%-4.75%**

Combined Estimate +11.1%- 20.05%

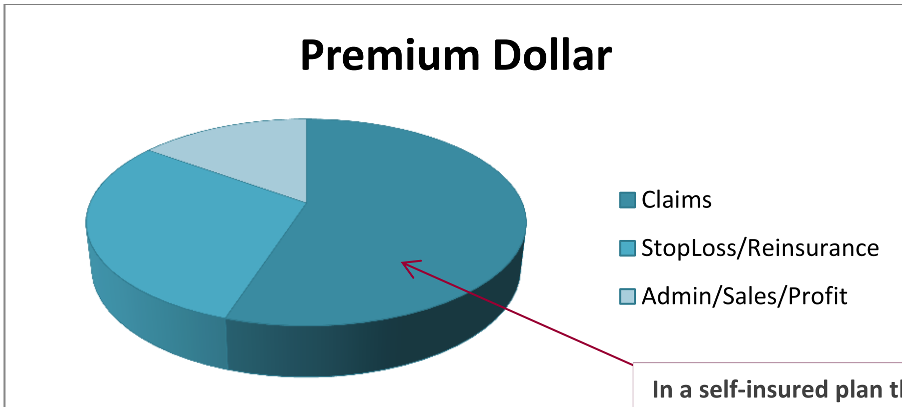
Your Premium Dollar: Where It Goes In A Fully-Insured Plan

In a fully insured program, you pay your premium to the carrier in exchange for them to provide care to your employees. You do not retain any of your premium dollars.



Your Premium Dollar: Where It Goes In A Self Insured Plan

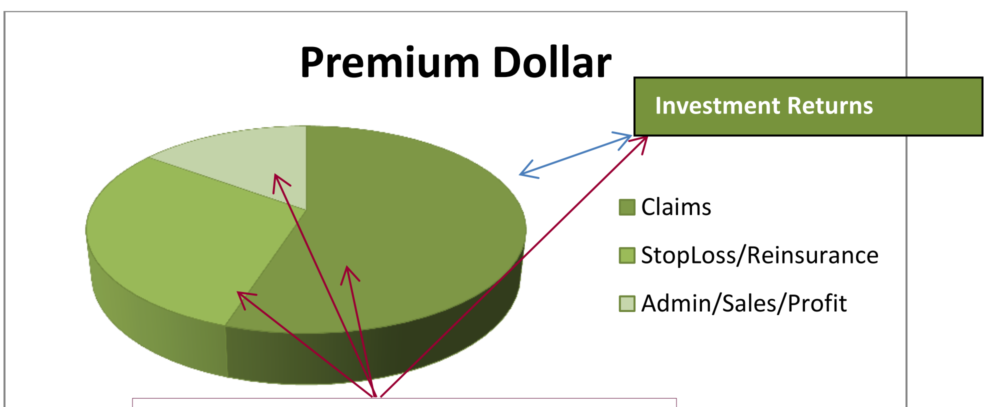
In a self-insured, if you are a good risk and have a good year you should receive a portion of unused claim funds in your plan. However, often additional savings are missed due to employers lacking the ability to apply employee health management tools to further control costs and some tools being too costly.



In a self-insured plan the unused claim dollars is returned to the employer giving the employer more control.

Your Premium Dollar: Where It Goes In a Medical Captive Program

In a Medical Captive program, you receive savings by receiving a return of unused claim dollar, through shared risk arrangements, underwriting profits and investment returns. You have the most control over the premium paid and since you are with other employers creating a larger pool, the availability of employee health management tools to further reduce costs and improve outcomes are available to you.



In a Medical Captive Program you are the insurance carrier and receive the unused claim dollars, savings from shared risk on reinsurance, underwriting profits and investment returns.