CASE STUDY

# How an Employee Benefits Group Captive Helps HUB Clients Manage Healthcare Market Volatility

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The need to find sustainable solutions to the relentless rise in healthcare costs has only grown in urgency as million dollar-plus medical claims and prohibitively priced drug treatment protocols become more common.

For many middle market employers, the solution lies in employee benefit group captives, one way to achieve the benefits of self-insurance without the volatility. We tracked the experience over two years of 34 HUB International middle market clients in a leading employee benefits group captive. The clients spanned a variety of industries and were located in geographies across the U.S. The outcome:  our clients experienced an average healthcare cost increase of just 2.7% in 2019 and 32% saw costs decline.

This route to sustainable healthcare cost management can create a variety of benefits. But there is no easy button to push to make it happen. Here's what you need to know about captives.

## The captive concept and the payoff

Employee benefit group captives are a variation of captive insurance. Captives are owned by the insureds, and are designed to give members better control over their employee benefits costs by sharing the risks of expensive claims. As our clients' group captive is structured, members are responsible for their own smaller, routine claims. Each pays into a "pool" to cover medium-sized claims, sharing in losses or profits after payouts. Each provides for catastrophic medical and pharmaceutical claims through separate stop-loss insurance coverage with negotiated caps.

Among the 2018 and 2019 performance highlights for the HUB clients in the employee benefits group captive:

- Healthcare premiums increased an average of 3.8% in 2018 and 2.7% in 2019 versus 9% to 10% for fully insured plans.
- Clients experienced average savings in pharmaceutical plan costs of 25% to 30% compared to traditional plans.
- The healthcare stop loss trend of 6% compared to the industry stop loss trend outside of a captive of 26%.
- Healthcare expenses declined 24% in 2018 and 32% in 2019.

What really showed the impact of the well-designed and managed benefit group captive, though, is how these employers fared at renewal.

But the better story might actually lie in the "worst" renewals for both years – increases of about 15% experienced by some group members as a result of new, high-cost specialty pharmaceutical claims. Had they remained fully insured, rather than in a captive with a best-in-class stop loss contract, those risks would have pushed their budget increases catastrophically high, or in the range of 40% to 60%.

The best renewal for HUB's group of clients came in **15%** below the previous year's budgets for both 2018 and 2019.

## Unpacking the Employee Benefits Captive

HUB's clients are members of a leading captive that is managed by one of the largest stop-loss carriers in the U.S. It is known for its built-in turnkey cost-containment programs that are designed to address some of the most troublesome pressure points in healthcare.

Particularly notable is the captive's prescription drug consortium. Its best-in-class contract for high dollar prescription drugs saves members an estimated 32% over off-the-shelf carrier pharmacy benefit management contracts. Access to Fortune 100-quality pharmacy contracts is instrumental in keeping these costs down.

Members "layer" their benefits programs around the particular contracts that make the most sense for their groups. The pharmaceutical program is important, but there are other options available to combat other cost concerns. The cancer advocacy program, for example, covers second opinions on all cancer diagnoses to cut down the rate of cancer misdiagnosis. Another program takes aim at dialysis costs.

Such are the basic features that add value to the captive. Members also have the option to enhance their benefits lineup with "preferred" programs at preferred pricing. Many of these are designed to improve the plan member experience with benefits and encourage them to make smarter decisions about their health before they file claims. These include digital platforms that emphasize personalization of health service design and delivery, ultimately aiming for an experience that improves health and how healthcare is utilized.

## What it takes to make this strategy work

The captive strategy is not suited to every employer. It's not a question of size or employee profile. It's more about the attitude toward health insurance that's required to make it work – or to even get accepted into the more established and successful employee benefits group captive programs. Here's what can make a difference:

- A mentality where claims management is a critical aspect of health insurance, and where the leadership team understands there's more at stake than a one-year purchase with the lowest possible renewal rate. It's long-term stability in healthcare costs that's valued.
- A strong human resource team that gets in the trenches with knowledgeable broker-partners to make the captive strategy work. That's essential because setting it all up has many more moving parts than traditional plans, and that can substantially increase the workload.
- A leadership team that is cohesive and engaged overall and is bolstered by a strong finance team that understands the mechanics of self-insurance.

# Important starting point: Addressing "messy" claims

If there's a single barrier to success with the employee benefits group captive strategy, though, it's an environment of persistent and messy claims. Consider the cases of two that were initially not a fit for the employee benefits captive:

- One HUB client wasn't in a position to transition because nearly three-fourths of its claims stemmed from five employees who could have been on Medicare. We provided a team to coach the older workers on the ins and outs of Medicare and the pros and cons of enrolling in it versus staying in the employer's plan. Over time, all five transitioned voluntarily, the majority of the claims were cleaned up, and the employer was able to move its group to the captive.
- Another client with a 150-life group didn't have chronic health issues, but had two end-stage renal diseases and multiple cancers that made it a very high risk group. HUB recommended efforts to clean up the claims (see some best practices below) and then transition to the captive. This was accomplished by undertaking similar educational efforts with employees about Medicare, which led to two employees (accounting for 25% of claims costs) moving over. Getting into the captive's prescription drug program saved, too. Together, the moves had a 40% positive impact on the client's healthcare spend.

Cleaning up claims really involves paying attention to them and acting on emerging issues before they become big problems. Here are four areas to focus on:

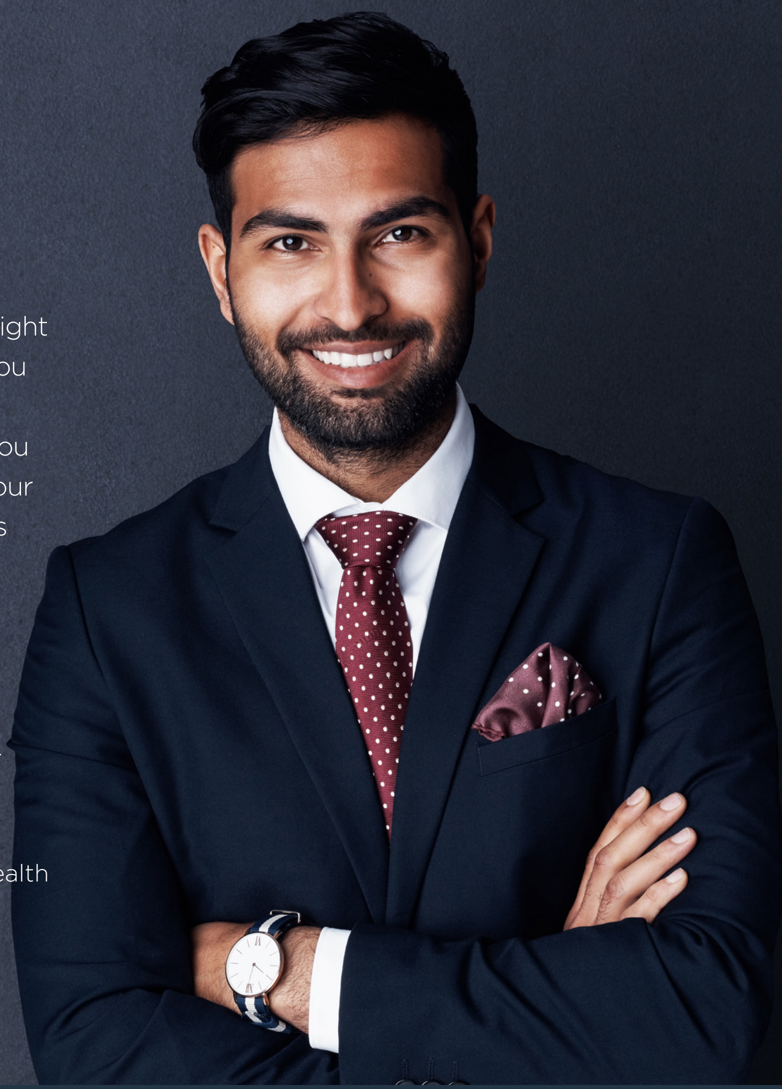
- **Large claims.** These should be evaluated consistently. One thing to look at is whether claimants on the plan could be eligible for government assistance programs like Medicare or MedicaidRx.
- **Cost control management.** What cost controls are in place to prevent wasteful spend around specialty pharmaceuticals? Are the right levers in place to ensure a high-cost drug is the best option for the patient when it is prescribed?
- **Care coordination.** It's important to arm employees with easy to access tools (commonly via mobile devices) that enable them to pick high quality, low-cost facilities.
- **Incentivize primary care.** By reducing the cost barriers around primary care, you'll see a major impact on claims over time. Look at opportunities to provide low- to no-cost access to onsite clinics, shared clinics, direct primary care contracts, and incentivize those who are taking advantage of such resources.

Exorbitant claims for medical procedures and pharmaceutical treatments are increasingly becoming the norm. It's forcing employers to dig deeper to find solutions that allow them to remain fiscally responsible while upholding their commitment to employees and their families. Employee benefit group captives are a good option for the employer who has worked hard to get his or her benefits "house" in order. The payoff comes in the long term.

# Strategic support that puts you in control

Is the employee benefits group captive strategy one that might fit with your organization? Your HUB advisor can support you with this or other solutions to help you better manage your employee benefits costs. Together, we will work to ensure you have a streamlined process and effective plan that meets your organizational goals, protects your employees and positions you optimally for tomorrow's challenges.

Contact a HUB advisor today at:
**hubemployeebenefits.com**



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