CREDIT UNION EXECUTIVE'S GUIDE

IMPROVING ROA

BY JOINING A CREDIT UNION HEALTHCARE CAPTIVE

CU Benefits ALLIANCE

Well-Suited **for Savings**

The idea behind joining a health insurance captive — a form of self-funding — is to pool risk across its participating companies to save significant amounts of money for each. But what happens when your company's employees often represent the 'good risk' holding up the 'bad risk' within the pool?

That's precisely what can occur when credit unions enroll in a traditional health plan or join a generic health insurance captive. In fact, most credit unions share risk with high-risk industries, such as construction, roofing, maintenance, even asbestos removal. While this may provide cost savings benefits for companies within those industries, it results in unnecessarily high expenditures for credit unions and exorbitant costs for their employees.

With an average age younger than 40 and the number of annual medical claims nearly a quarter below other industries, credit unions' risk level is among the best in the U.S. Don't let that positive performance go to waste. Instead, get to know the ins and outs of health insurance captives and how a CU-specific captive can maximize healthcare cost savings for your credit union without compromising on the quality of your benefits plan.

What is a health insurance captive?

A health insurance captive is a type of self-funded health plan. Rather than the traditional fully insured model where companies pay premiums to an insurance company in exchange for healthcare coverage, the health insurance captive is essentially its own insurance company owned and controlled by its members.

The participating companies pool funds to support claims payments. The captive then buffers large claims through tiered risk levels. Typically, at the first tier, a participating employer will be responsible for paying claims up to a predetermined ceiling that signifies it's reached its maximum cost threshold. The captive's shared risk pool will be responsible for the next layer of stop-loss coverage until it, too, reaches its cost ceiling. The final tier activates on substantial claims that rise above the captive's shared risk maximum. The captive's reinsurance company covers the third tier.

Premiums paid into the captive's shared risk layer (the middle tier) but not used within a plan year can be returned to participating organizations. For credit unions that adopt the captive model, this type of rebate is a major shift in the financial relationship between credit unions and their health plan. At present, most credit unions go the opposite direction, producing about 25% in wasteful employee benefit spending each year. That's $225,000 lost for a group of 100 employees.

25% in wasteful employee benefit spending each year = **$225,000** lost for a group of 100 employees.

Because the captive owns its health plan data, member credit unions have full access to claims trends. Free from the constraints of a fully insured plan, the captive can develop its health plan network, benefit structure, and incentives to best meet its membership demographic's needs.

Understanding Captives' **Tiered Risk Levels**

Tier 3

The captive's reinsurance company covers the cost of any substantial claims that reach this tier.

Tier 2

The captive's shared risk pool funds claims from any of the participating companies that exceeded tier one's cost level until it reaches its cost ceiling. Premiums paid for this tier's stop-loss coverage can be returned to participating organizations at the end of each plan year if they do not meet or exceed the cost ceiling.

Tier 1

Each employer participating in the captive is responsible for paying claims up until a predetermined maximum cost threshold.

The many benefits of joining a health insurance captive

As a supercharged self-funded plan, health insurance captives can lower costs, maximize transparency, and improve benefits.

By pooling risk with like-minded partner credit unions, captive members can tailor insurance coverage to reflect the group's loss exposure more accurately. Each participating employer is rated and charged individually. As a result, credit unions are rewarded or penalized for their individual expenditures and risk while still benefiting from the overall group's performance. How? Underwriting gains from the captive's shared risk layer (middle stop-loss tier) are returned proportionally to the members each plan year.

Because captives offer a level of transparency and flexibility not available through a fully-insured plan, they don't subject members to surprise bills or treatment sticker shock. A properly managed captive will improve the employee experience through guided medical management that ensures each plan member's healthcare is accurate, timely, optimally priced, and produces the desired result.

Health insurance captives are compliant well beyond the minimum coverage requirements of the Affordable Care Act. In addition, the self-controlled mechanism of a health insurance captive means that members can customize services, providers, and coverage to meet the unique needs of their employees, offering adaptability and customization not found in traditional health insurance coverage.

Why captives are even more beneficial for credit unions

With an average age of 39 and the low-risk nature of their employment, credit union employees form a particularly favorable risk pool — a healthy group whose lower overall claims mean much lower group insurance costs than other industries. Demographics mean everything in health insurance pricing, and for credit unions, this can be a huge financial advantage for those who act on it.

CU Benefits Alliance medical claims analytics reports show that credit unions' per-employee-per-year (PEPY) medical claims are 23% less than other industries. Even when compared to other financial services workers, credit union employees display far lower PEPY medical claim costs.

A credit-union-specific captive harnesses the predictability of those claims, rating and charging its members appropriately — and financially rewarding them through lower premiums. Instead of acquiring stop-loss with other employers (and covering those groups' higher risk in the process), participating credit unions' stop-loss premiums are based exclusively on the low-risk-profile credit unions enjoy.

How Is A Captive Different From **Other Forms Of Self-Insurance?**

Self-funding: The captive health insurance model reflects many of the same elements as a solo self-funded plan. The most significant difference is that the risk is spread across the group of participating credit unions rather than taking on the risk within a single credit union — often a cost-prohibitive prospect for smaller businesses. So it's no surprise that workers at a large company (200+ workers) are 61% more likely to be in a self-funded plan than small-company employees (82% vs. 21%).[1]

Level-funding: A growing number of small employers (fewer than 200 workers) are using level-funded health plans as a bridge to self-funding. Level-funding involves paying a level premium each month to the insurance carrier with the opportunity for a potential year-end rebate if claims are lower than expected. The number of small employers who use this form of coverage jumped from 13% in 2020 to 41% in 2021.[1] A significant increase. However, it's worth noting that although technically in the self-funded category, level-funding does not offer the same benefits as a fully self-funded or captive plan. For example, it lacks plan design flexibility and protection from claims volatility.

A masterclass on risk management

One of the most beneficial elements of a captive is its members' retention of health plan data. The resulting transparency into plan member health trends is invaluable in the pursuit of reduced claims and lower costs. The CU Benefits Alliance captive, Credit Union Healthcare Coalition (CUHC), takes full advantage of this information to actively improve health plan outcomes every quarter.

As a member of our CU-exclusive health insurance captive, executives from each participating credit union take part in quarterly meetings to discuss better ways to manage large claims risk. In many instances, these are strategies a credit union's fully-insured carrier cannot or will not offer.

The regular deep dives into plan data help participating credit unions target underlying causes of potential expensive future claims and take proactive steps to lower costs. As a result, participating in the captive continually improves each member's ability to manage risk within its credit union.

Why You Shouldn't **Be Afraid Of A Captive**

Some companies have concerns about the word 'captive.' After all, in another context, it means being taken prisoner or confined. Like any health plan arrangement, a captive must be administered correctly and with the right intentions.

Telltale signs of improperly organized captives include members with an overly risky risk pool or policies that are unduly generic and simplified to suggest that the plan does not expect to manage any real claims.

A captive also must have adequate capital and show that it makes significant claims. Otherwise, it could be a red flag signaling intentional design to serve as nothing more than a tax shelter. Using the model as a tax shelter, especially in property & casualty, has drawn the scrutiny of the IRS and the Securities and Exchange Commission.[2]

Bad apples aside, a health plan captive created with the right partner and plan design eliminates these warning signs — leaving its members and participants with a positively ***captivating*** experience.

Examples of the proactive steps CUHC's member credit unions take to anticipate, manage, and prevent expensive claims among employees include:

- **Medical tourism.** Coined to describe traveling to a different state or outside of the United States for less expensive healthcare procedures, and promotes the use of designated centers of healthcare excellence across the U.S. and abroad. For example, a captive health plan might cover the expenses of a plan member and their spouse to travel to a facility specializing in hip replacement or knee surgery at half the local price.

- **Pharmacy benefit management.** Using their group buying power, captives can negotiate better pharmacy benefit manager contracts that improve employee prescription costs and put drug rebates in the hands of the captive — not an outside insurance company.

- **Wellness programs.** Full access to plan data allows captive members to tailor their wellness programs to incentivize areas of improvement specific to their plan members. Harvard Medical School research shows employers that offer wellness programs report a 13.6% higher rate of employees who actively manage their weight and an 8.3% higher regular exercise rate than those who do not have a wellness program.[3]

Why didn't my broker tell me about this model before?

Brokers who primarily deal with fully-insured health plans — or the agents who represent them — may be reluctant to talk about captives or other alternative health plan models. Not necessarily for nefarious reasons; health insurance captives can be more complicated to manage, so they may not be in a broker's wheelhouse.

Brokers sometimes operate with a limited approach to alternative self-funding arrangements. As a result, a credit union's health plan decision-makers may not be aware of the captive model. Although, ironically, traditional health insurance companies often participate in their own captive strategies to help cut their expenses.

Additionally, only a handful of credit union captives are active in the United States. Most brokers, even if they are familiar with the captive insurance concept, simply don't have access to a credit-union-specific captive.

Join forces with like-minded credit unions

With the right partner and plan design, health insurance captives are a proven alternative that can save credit unions 20% or more on healthcare expenses.

For every dollar spent on a fully insured plan, CUHC members save $0.27. This would equate to $270,000 in annual cost reduction for every $1,000,000 in premium.

save credit unions
20%
or more
on healthcare expenses.

For every dollar spent
on a fully insured plan

CUHC members **save $0.27**

This would equate to
$270,000
in annual cost reduction
for every
$1,000,000
in premium.

CU Benefits Alliance's Credit Union Healthcare Coalition embodies the proven benefits of the health insurance captive concept to capitalize on the advantageous risk pool shared by credit unions across the country. CUHC is specially designed to accentuate savings through better healthcare coverage. No shuffling of expenses from the credit union to its employees in the form of higher deductibles, monthly premiums, and other out-of-pocket costs.

With predictability and affordability at its centerpiece, CUHC provides a seamless employee experience. Our exclusive Medical Management platform empowers plan members to navigate the insurance system with all the information and tools they need to receive optimal care without facing the health insurance system alone.

Don't throw away the advantages of your credit union's healthy risk pool. Instead, schedule a meeting with a CU Benefits Alliance representative to learn how your credit union can soon take control of its healthcare costs, become more competitive, and share a portion of annual premium returns.

CU Benefits ALLIANCE

CONTACT US

www.CUBenefitsAlliance.com

Western Office

503-616-7500

1500 NW Bethany Blvd., Suite 330
Beaverton, OR 97006

Central Office

972-347-4500

2121 W. Springcreek Pkwy
Plano, TX 75023

References

1. Kaiser Family Foundation. 2021 Employer Health Benefits Survey; Section 10: Plan Funding.
https://www.kff.org/report-section/ehbs-2021-section-10-plan-funding/

2. Insurance Information Institute. Background on: Captives and other risk-financing options.
https://www.iii.org/article/background-on-captives-and-other-risk-financing-options

3. JAMA. Effect of a Workplace Wellness Program on Employee Health and Economic Outcomes A Randomized Clinical Trial.
https://jamanetwork.com/journals/jama/article-abstract/2730614