MSL Captives
An SRS Company

Community Health Captives

With many regional and community hospitals looking at developing closer direct ties to local employers through direct contracting, how can captives play a role? The community aspect of a group captive is a perfect vehicle to bring together local employers to work with the local hospital and provider network.

How Does it Work?

Local employers who self fund their employee healthcare negotiate a contract directly with the local health provider (hospital facility and associated medical providers) as part of their self-funded health plan. The contract will provide discounted treatment rates in exchange for a commitment to use the local health system. This may lower the total cost of care for the local employer and improve cashflow and revenue for the health system. Direct contracts are still administered through a third-party administrator, but they can also lower the administrative time and costs for the provider in collecting payments. The employer will supplement the direct contract with a wrap network in its health plan to address situations where treatment falls outside the direct contract.

Direct contracts may be put together by the employer and negotiated directly with the hospital or health system or employers may use a third party who specializes in direct contracts. The health system will typically work off their own template and discounts for direct contracts. With the effort involved in developing an individual direct contract for an employer rather than using a network, these arrangements are typically limited to larger employers or groups of employers, which is where the captive comes in.

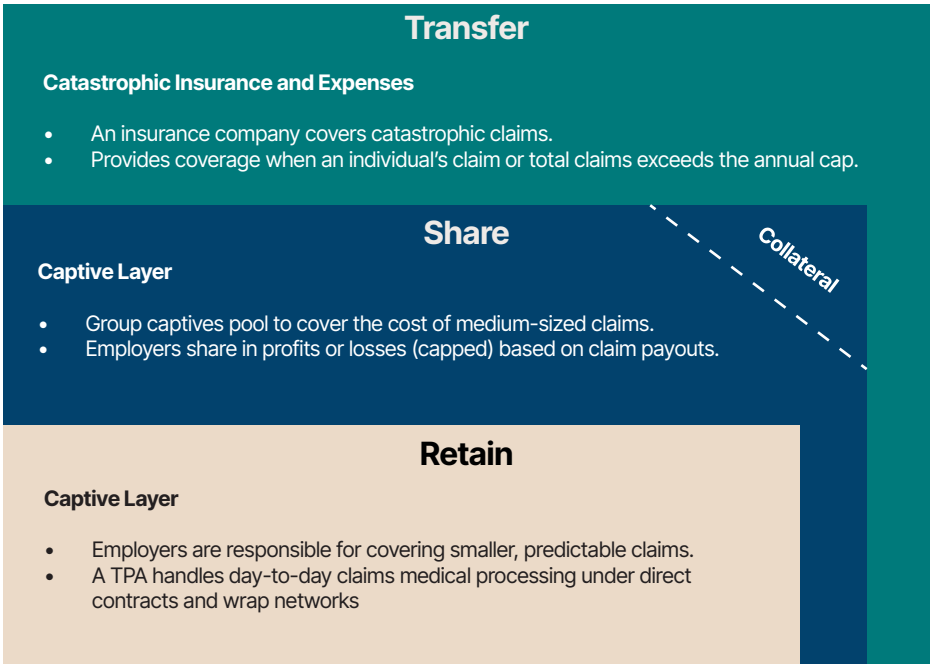
The Role of the Group Captive

A group captive is owned or rented by a collection of employers to participate in the combined experience of the medical stop loss policies of those employers. It is licensed under captive insurance regulations and if it does not have a commercial license typically operates as a reinsurer to a commercial stop loss insurer. Pooling the risk of the employers in the captive provides more stability in their stop loss claims experience. The use of cost containment measures helps control claims costs and leads to experience refunds to the employers through distributions from the captive based on the combined experience of the pool.

One of the major advantages of a group captive is the community it creates among the participating employers. With their interests aligned financially through risk sharing in the captive layer, there is a sharing of information among employers on how to manage the total cost of care and the efficacy of various cost containment initiatives. Group captives can be structured along industry lines (homogeneous) but many are heterogeneous covering different industries and form different regions. Building a regional group captive involving the local health system provides a closely knit community in the captive.

In addition to being the provider for local employers in a community health captive, the local hospital and health system is typically also one of the larger local employers. Including the health system employees in the captive program provides an anchor employer for the captive program and aligns interests between health system and employers.

Group Captive Structure



The structure of the group captive programs is shown in the exhibit above.

- Employers retain risk in their self-funded layer with claims being processed under direct contracts where applicable.
- The captive takes a layer above each employer's specific deductibles with the risk in this layer pooled among the participating employers. The captive's risk is typically capped at 120-125% of the claims fund in the captive layer with collateral provided to cover the difference between the claims fund and the aggregate limit.
- Above the captive layer, the stop loss insurer assumes the risk. This will usually be individual high cost claims or an accumulation of claims exceeding the annual cap.

The Operation of the Captive

Most group captives rent a cell in a captive facility rather than forming their own captives. This approach simplifies governance and typically has slightly lower costs to administer the captive program. The rental of the cell is governed by a participation agreement. Individual employers may sign individual participation agreements or the employers are often organized into a LLC that signs the participation agreement and forms the legal entity bring the employers together. In a community health captive the LLC can also serve as the contracting entity with the local health system for a single direct contract rather than multiple contracts. The participating employers can attach to the contract through the LLC or a rejoinder to the direct contract. The collective size of the group captive would be a minimum of 1,500 employees putting the group in the same category for direct contracts as a larger employer.

A key aspect to the successful operation of a group captive is member engagement. This covers both the proactive approach to cost containment but also involvement in the governance and running of the captive. Employers will see reporting monthly and regular meetings, which should occur more frequently in a geographically focused captive. With the health system also participating in the captive and the membership limited to the local community, this is an ideal forum to address healthcare in the local community. Not only do you have a collection of local employers legally joined to tackle their collective cost of care but they are financially incentivized to do so through the shared risk in the captive.