Why Are We Talking About Captives

- Insurance carriers are in the business of making money!
- Increasing health care costs across the board
- Growing prevalence of high cost specialty drugs
  - The most prevalent specialty medications are increasing in price at 10%-15% annually, further contributing to unpredictability of future claims

The Standard Fully Insured Market = Minimal Control, Minimal Transparency

- Unanticipated rate increases
- Cyclical plan marketing
- Available responses
  - Change carrier
  - Change benefit levels
  - Change contribution schedule

Today's annual cost increases will double premium in 6 years

Advantages of Group Purchasing and Captive Strategies

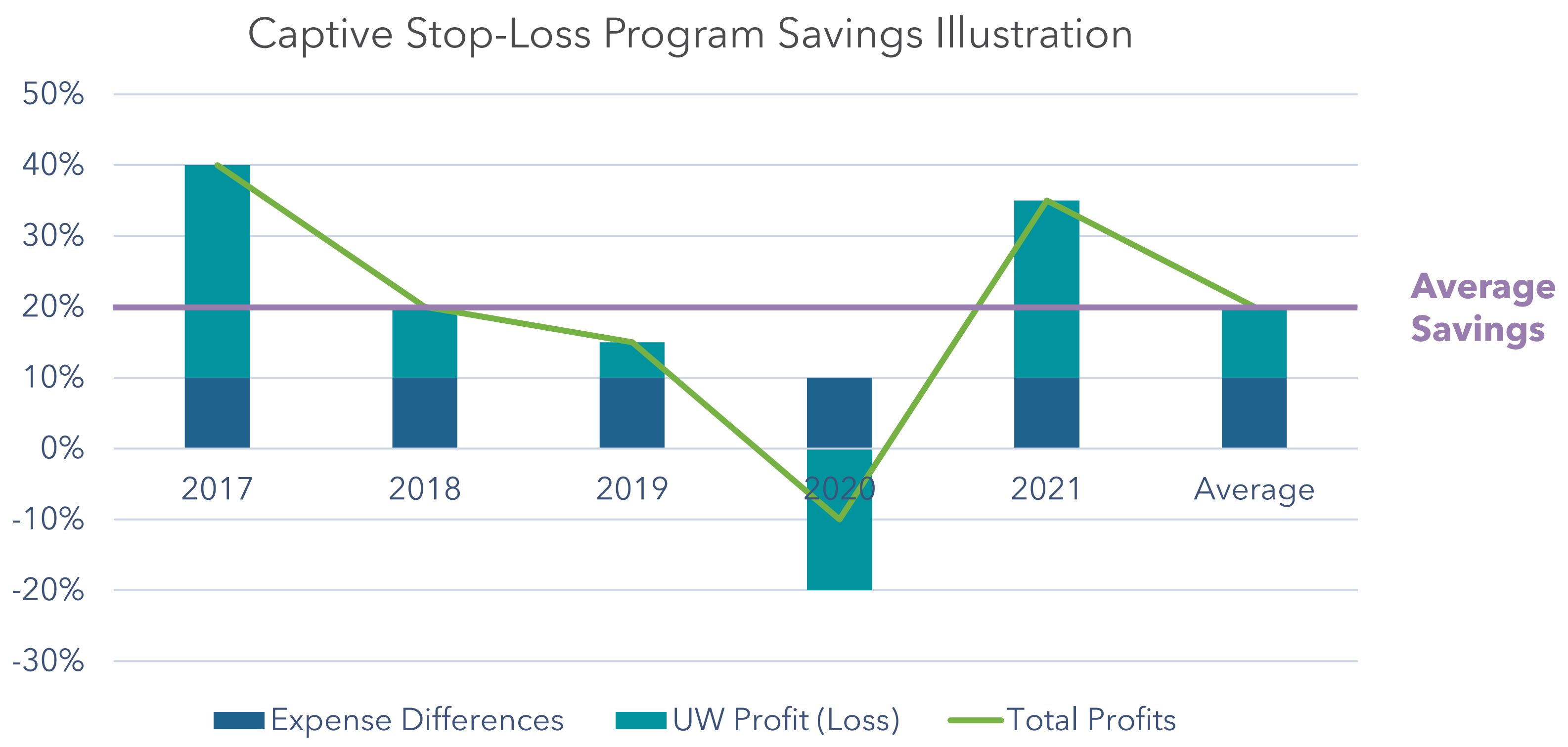
- Pricing stability
- Underwriting flexibility
- Stop Loss Group Purchasing
- Collaboration with other like-minded employers (homogeneous or heterogeneous)
- Return of underwriting surplus
- Retain insurance carrier profits

Why Captives?

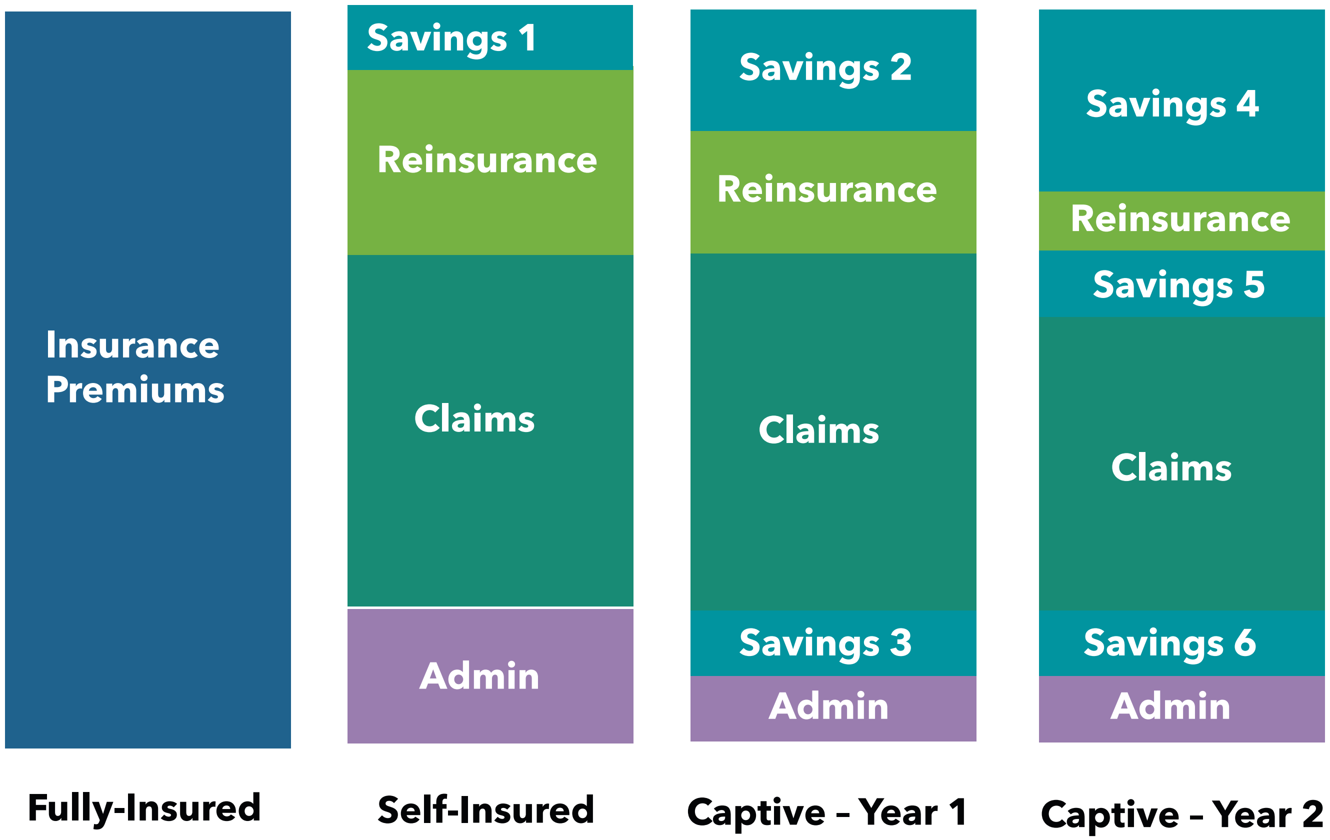
- Underwriting savings
  - Captives allow a company to recapture administrative and profit charges that would have normally been retained by traditional insurers
- Improved cash flow efficiency
  - An insurance company may accrue and deduct certain reserves for losses that are not normally deductible until paid at a corporation
- Investment income
  - Earned on reinsured reserves from longer-term programs, such as LTD
- Increased control over claims
  - Flexibility to address unintended consequences
  - Additional control over costs, due to access to data
- Tailoring benefits and plan designs to incentivize desirable behaviors among employees, such as return to work, leading to lower costs

- Stop-Loss in a captive can save money on average over commercial stop-loss insurance on a self-insured account
- Quantitative advantages:
  - Lower stop-loss costs - elimination of carrier profit, premium taxes, administrative fees
  - Improved cash flow – employer holds on to the claim
  - Reduces reliance on commercial market renewals and trends
  - Creates a purchasing forum for addressing future needs
- Qualitative advantages:
  - Customized to meet unique needs of employers' demographics
  - Reduced volatility and greater predictability via captive layer by mitigating the impact of claims unpredictability
  - Promotes long-term price stability and cost-savings potential

Captive Savings – Medical Stop Loss



Savings Drivers – Illustrative for Group Programs



- **Savings 1** – result of stripping away carrier profits
- **Savings 2 & 4** – result of coming together as a group to buy stop-loss reinsurance, benefiting from group purchasing power
- **Savings 3 & 6** – lower admin cost due to group purchasing power
- **Savings 5** – ability to access solutions that individual group may not be able to, such as Rx carve outs

Current Trends to Buck the Trend!

- Pharmacy Cost Growth – A Major Driver
  - Specialty drugs continue to drive a significant portion of total healthcare cost growth
  - Employers are considering alternative PBM arrangements, such as transparent pricing models to contain costs
- Carrier Cost-Shifting & Plan Design Adjustments
  - Many employers are utilizing higher deductibles and copays to offset rising claims costs, but this only shifts costs to employees
  - Employers are increasingly looking at narrow network plans, reference-based pricing, and high-performance networks to reduce costs
- Wellness, Virtual Care & Cost Containment Strategies
  - Employers are turning to telemedicine, chronic disease management, and mental health support programs to reduce claims costs
  - Value-based care arrangements are gaining traction to incentivize better outcomes and cost efficiency, and carriers are incentivizing onsite or near-site clinics and direct primary care (DPC) models to help control long-term costs

Suggested Design

- The Credit Unions will have choice but keep in mind that the more of the same vendor the members use, the lower the costs will be, the more we can get multi year rate guarantees
- Choice of TPA/Administrators – but 2 Preferred TPAs with access to the Blue Cross, Harvard, Tufts, United, and Cigna networks
- Each Credit Union can keep their own plan design and can choose different options; pricing is partly based on plan design (many of you can eliminate those PPO plans you have in place for out of staters; you can have one plan across the country)
- One common Rx PBM to maximize cost reductions and rebates
- One common Data Analytics vendor to lower the per head per month costs
- Choice of other vendors that focus on cost containment (such as advocacy services, cancer care,…..)
- Year 1 initiatives will be on getting used to the captive, Rx Carve Out, and Data Analytics