Is a Stop Loss Captive Right For You?

COUNT ON US!

It's our business to be there for you in the MOMENTS THAT MATTER.

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WORLD CLASS. LOCAL TOUCH.

Agenda

1. **Self-Funding**
2. **Stop Loss Captive**
3. **MMA CapAbility^{Plus}**
4. **RightPath**
5. **RightPath vs MMA Capability Plus**

THE CURRENT CHALLENGE

Employers are facing challenging market conditions:

Fully insured groups have little control on costs, plan designs & are subject to state mandates

The traditional stop loss market is hardening quickly with more risk being transferred to the employer with high renewals and lasers

When the claims run well the carrier keeps the savings, whether it's through fully insured medical or traditional stop loss

For employers that want to manage their risk and stabilize stop loss costs, **MMA has a solution.**

SELF-FUNDING

Self Funded By Firm Size

Firm Size	% Self Funded
50-199 Workers	20%
200-999 Workers	50%
1,000-4,999 Workers	87%
5,000 or More Workers	91%

61%

Of all size firms were self funded in 2018

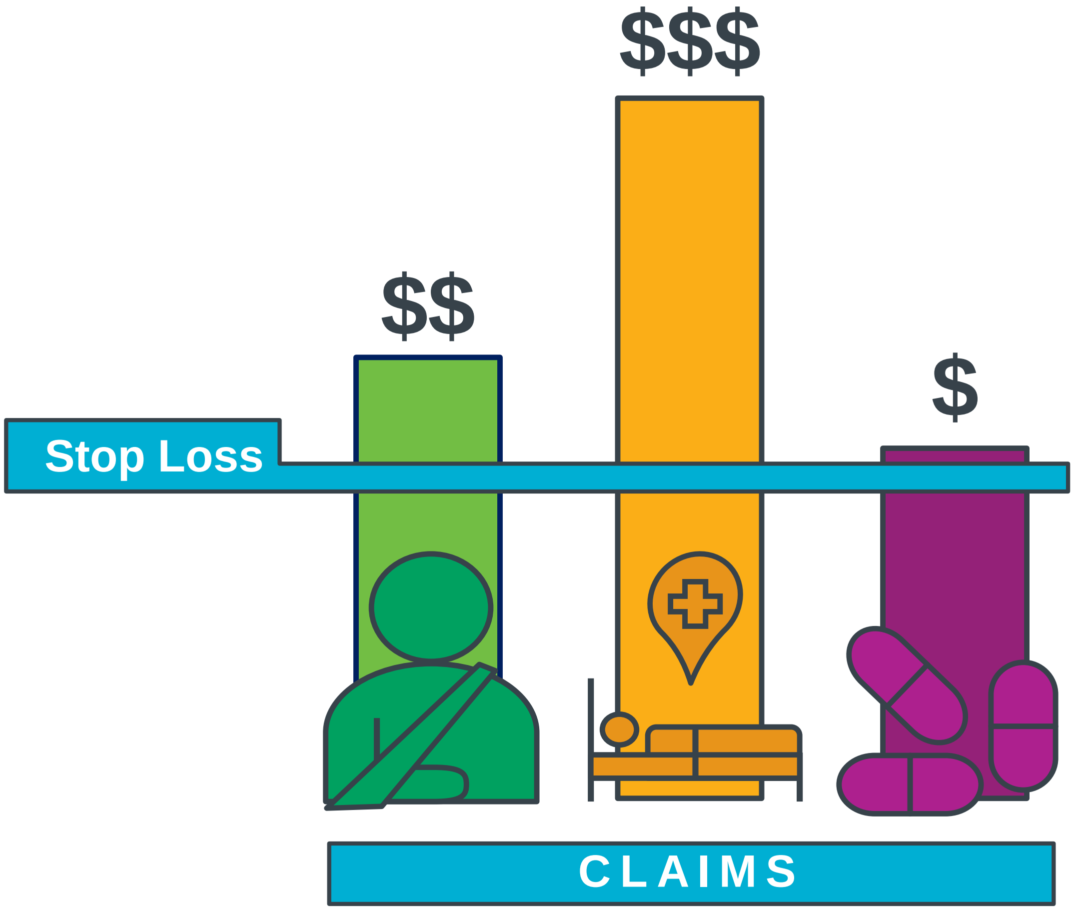
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2018.

SELF-FUNDING

Self-funded employers operate their own health plans and assume the **financial risk** for employee claims.

SELF-FUNDING

To protect themselves from **catastrophic claim expenses**, self-funded employers will purchase **stop loss insurance**.



INSURING YOUR RISK

Captive Solutions can help Employers take advantage of self funding while capping their exposure.

STOP LOSS **CAPTIVE**

Stop Loss Captive

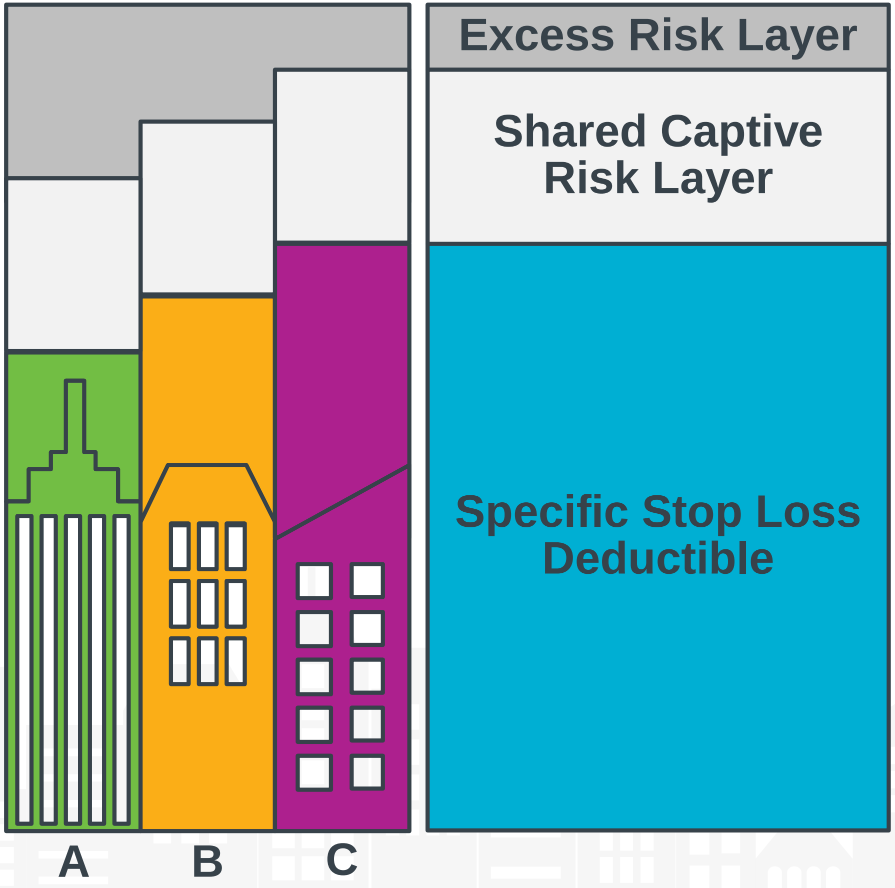
A group of employers coming together to ***spread the risk*** of their self-funded medical/Rx plan through multiple layers of stop loss insurance

Each employer covers their own claims up to a set deductible, then that risk is shared or pooled across the captive. ***Catastrophic risks are insured through the carrier***

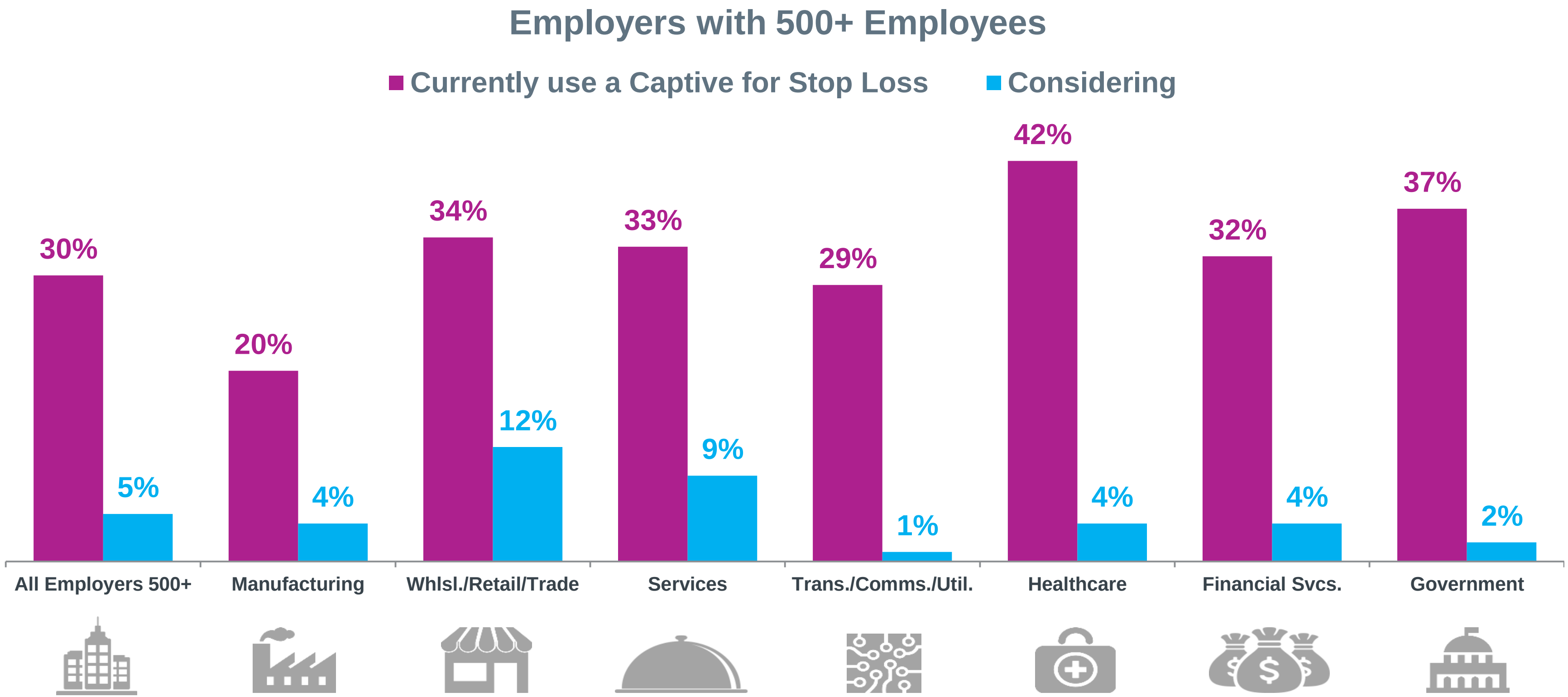
Enables member employers to ***share in the savings*** if claims experience is good

STOP LOSS CAPTIVE

1. Multiple employers of varying sizes join the Captive cell.
2. Each employer chooses their own Specific Stop Loss Deductible, TPA and Benefit Plan Design
3. A portion of the specific stop loss premium is ceded to a shared captive risk layer to cover claims and fees.
4. The Stop Loss Carrier reinsures the excess risk layer above the Specific Stop Loss Deductible and Captive layer.
5. Employers participate in the insurance profits and losses of the captive cell



INTEREST IS GROWING



Source: Mercer's National Survey of Employer-Sponsored Health Plans 2018.

STOP LOSS CAPTIVE GOALS

Move Small to Mid-Size employers to self-funding while minimizing volatility

Employers can see benefits from paying their own claims without insured admin costs

Lower fixed cost increases

Help employers take control of their data

Profit distribution to participating employers

MMA CapAbility Plus

RightPath

MMA CAPTIVE SOLUTIONS

MMA *CapAbility*^Plus STRUCTURE

$100,000 Captive Layer Deductible

Specific Stop Loss Only Risk

Captive Manager and Reinsurance Carrier: Tiokio Marine HCC

No Start Up Capital Required

Floating Layer Captive Deductible

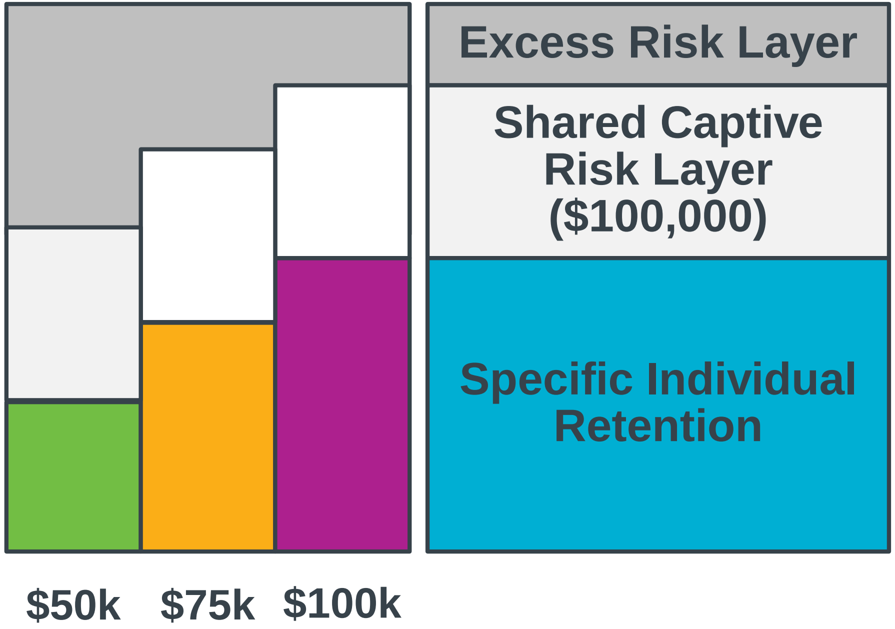
July 1 renewal date once in the Captive

Collateral required upfront to cover claims that exceed captive premiums collected

Small to Mid-Size Employers (50-750)

Best in Class contract options
No Laser,
Rate Cap

FLOATING CAPTIVE LAYER



1. Each employer chooses their own specific deductible based on their own risk tolerance and premium needs.
2. Captive layer is the same for each employer above each specific deductible ($100,000).
3. A set portion of the stop loss premium is “ceded” to the shared captive risk layer, “floating” on top of each emploeyr’s specific deductible.
4. If the premium ceded to the captive layer exceeds claims/fees, profit is shared among participating employers.

JULY 1 RENEWAL DATE

JULY 1, 2019
12 Month Contract

AUGUST 1, 2019
Short contract, renew July 1, 2020

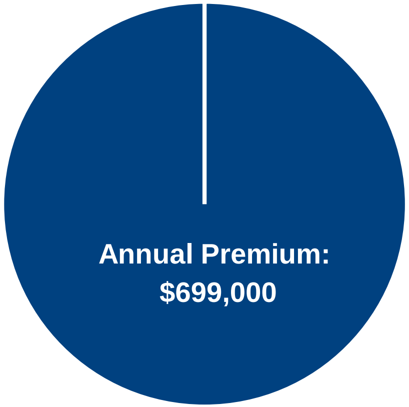
MARCH 1, 2020
Short contract, renew July 1, 2020

APRIL 1, 2020
Long contract, renew July 2021

JUNE 1, 2020
Long contract, renew July 2021

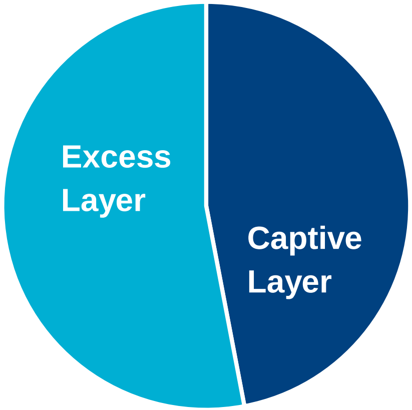
CAPTIVE PRICING EXAMPLE

Traditional
Stop Loss Insurance
$60,000 Specific Stop Loss Deductible



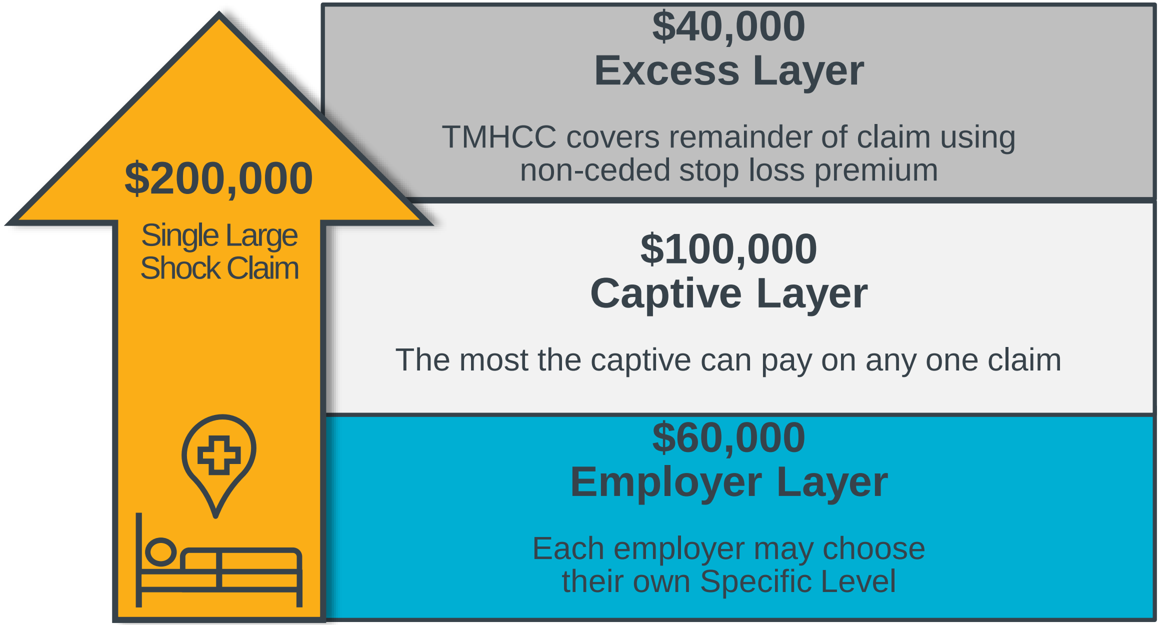
Employer has 282 covered employees

MMA Capability Plus Stop Loss Captive
$60,000 Specific Stop Loss Deductible



Total Annual Premium: $699,000
Captive Layer: $331,000
Excess Layer: $368,000

SINGLE CLAIM EXAMPLE

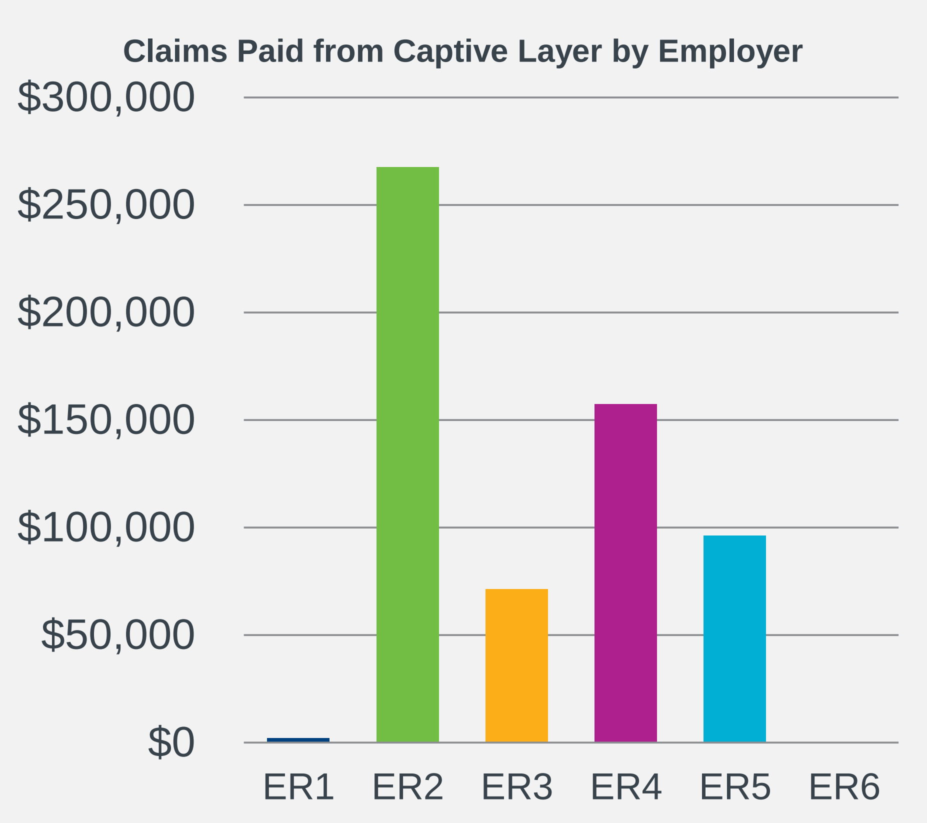


PROFIT DISTRIBUTION EXAMPLE

Total Claims Fund from Premiums ceded to the Captive Layer: $713,000

Claims Paid from the Captive layer claims fund: $594,000

Money left over in the Captive Claims Fund will be distributed to all employers: $119,000



WHAT IS COLLATERAL?

Stop Loss Risk
Employers agree to take on portion of the risk in captive layer.

Securitization
Employers provide securitization to captive manager

Profits
If premium ceded to captive layer exceeds claims/fees, collateral is returned.
OR
If premium collected does not cover claims in the captive layer, collateral is used.

(Net Ceded Premium X 125%) **- Captive Claims Fund** **= Required Collateral**

CAPTIVE LAYER MAXIMUM LIABILITY

The **Captive Aggregate Attachment Point** is the maximum liability of the Captive.

It is the expected claims plus a 25% corridor.

Expected Claims

Ceded Premium less Carrier Front & Admin Fees and Premium Taxes plus any commissions

25%

Corridor

Made up of employer's collateral and only used if claims exceed expected

Performance

The captive performs poorly when there is a high frequency of large claims – not severity of individual claims

HOW IS COLLATERAL PAID?

LETTER OF CREDIT

Employer requests Letter of Credit from bank for specific amount and period of time

Must be good through 6 months after close of policy period

Must provide original LOC each year they participate in captive

LUMP SUM CASH PAYMENT

Employer provides cash payment to captive manager to hold in trust for the year

MONTHLY CASH PAYMENT

Employer pays 1/12th total collateral as a line item on a monthly premium payment to captive manager

CASE STUDY

How A Captive Strategy Made Self Funding A Reality

The Client: A Health Services Provider | 110 Employees

The Objective: Seeking long term solution to increasing costs of their fully insured medical plan

The Challenge

They had favorable claim experience and good employee demographics but were continually receiving double digit renewal increases from their insurance carrier.

Interested in self-funding but wanted limited risk and little volatility

The Solution

Taking advantage of their favorable claims experience, they implemented a self-funded medical plan choosing their own third party administrator and purchased a specific stop loss deductible of $55,000 with Tokio Marine HCC (TMHCC).

By purchasing aggregate stop loss insurance with TMHCC they knew their what maximum claim liability would be.

They also joined the MMA Capability Plus Stop Loss Captive with TMHCC for NO ADDITIONAL premium.

At the end of the year, the MMA Capability Plus Stop Loss captive will refund them some of the specific stop loss premium they paid if the captive runs well despite the employer's own claim experience.

The Result

Despite having several large claims the first year of self-funding, their claims and fixed costs were lower than the fully-insured premiums they paid the year before.

Their first renewal with TMHCC resulted in just an 8% increase to their specific stop loss premiums.

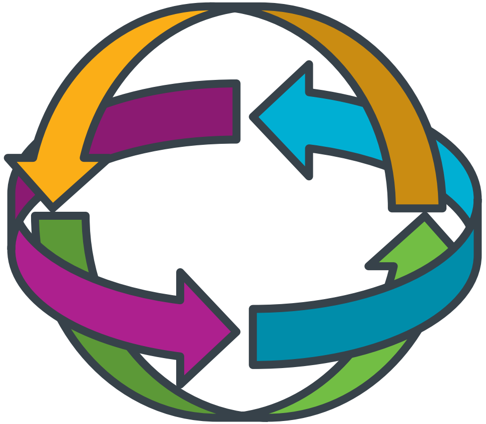
Because the captive as a whole ran well, they were refunded over $30,000 which equaled 15% of the total specific stop loss premium paid to TMHCC that first year of self-funding.

CALCULATION FOR CAPTIVE EMPLOYER RENEWALS

BLOCK RENEWAL

Employers will not face the **volatility** of a renewal increase based on just their group's claim experience

Law of Large Numbers will result in **lower** fixed cost increases



Advantages

- Employers chose their own TPA., design their own benefits and set their own specific stop loss deductible.
- Pay the same premium as traditional stand alone stop loss coverage.
- Premiums are refunded to every employer participating in the captive when premiums paid exceed claims.
- Less volatile renewals.

MMA CapAbility Plus

RightPath

MMA CAPTIVE SOLUTIONS

RIGHTPATH STRUCTURE

STRUCTURE

Individually Underwritten

Jan 1
renewal date

Underwritten by TMHCC who covers 700 Employers through Captives today

$200,000 Floating Captive Deductible Layer

Available to MMA, Marsh and Mercer Clients

DIFFERENTIATORS

$1.125 Million
in surplus returned over last 4 years

Profit Sharing

Single Digit
average renewal

TLO Option

Modest 20% Collateral Requirement

Captive Aggregate covered at no additional cost

Proprietary Captive

SUPPORT

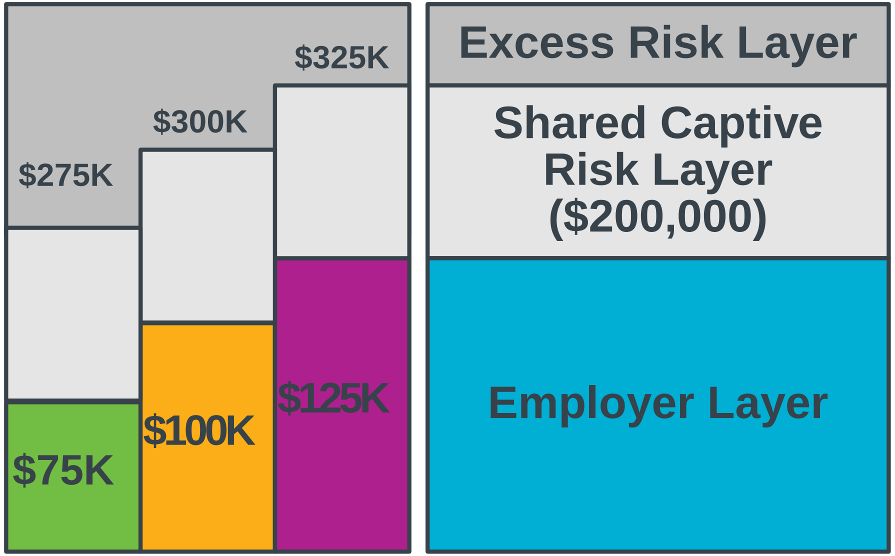
Monthly reporting

Annual Board Meeting in Grand Cayman

Managed by Marsh Cayman

Cost Containment Strategies
brought to the Captive members for consideration during virtual
quarterly meetings

FLOATING CAPTIVE LAYER



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4. If the premium ceded to the captive layer exceeds claims/fees, profit is shared among participating employers.

*No Aggregating Specific Deductibles with the Captive.

JANUARY 1 RENEWAL DATE

JANUARY 1, 2019
12 Month Contract

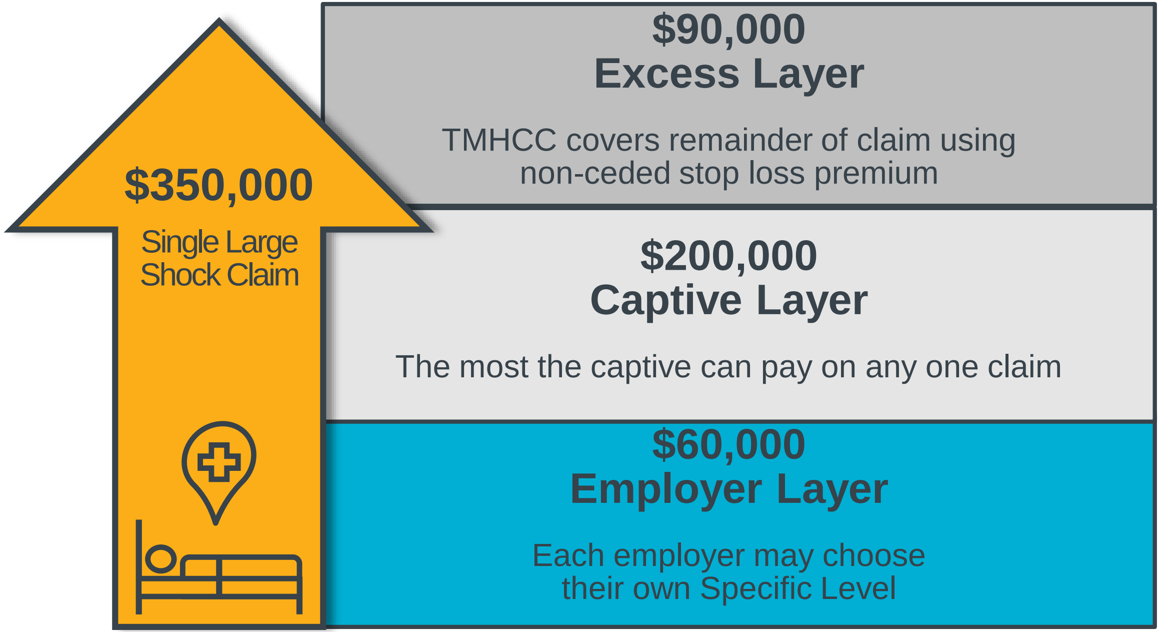
FEBRUARY 1, 2019
Short contract,
renew January 1, 2020

AUGUST 1, 2019
Short contract,
renew January 1, 2020

SEPTEMBER 1, 2019
Long contract,
renew January 1, 2021

DECEMBER 1, 2019
Long contract,
renew January 1, 2021

SINGLE CLAIM EXAMPLE

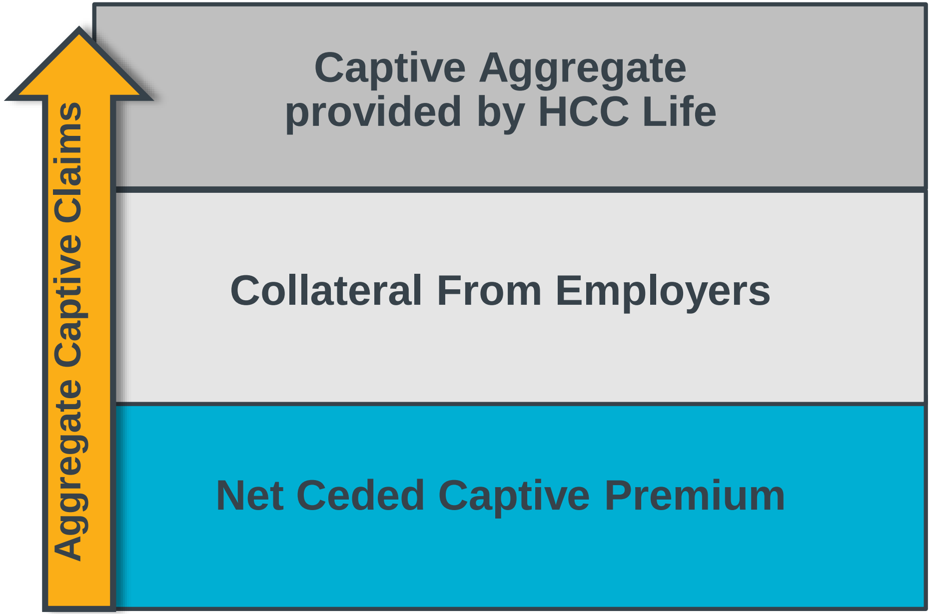


AGGREGATE CLAIM EXAMPLE

Captive Risk limited to 120% of Net Ceded Premium

TMHCC covers captive claims beyond the 120% with Captive Aggregate Risk

Employer's collateral covers gap between end of Net Ceded Premium and beginning of Captive Aggregate



CASE STUDY

How RightPath Saved An Employer $332K

The Client:
Health Care Services Company | 278 Employees

The Challenge

The client was looking at the self-funded market standard in order to have more flexibility in the plan design and better manage their overall risk. They chose a comfortable $25,000 specific deductible level with a total premium of about $886k .

The Solution

Taking advantage of their favorable claims experience, they selected the RightPath Captive with Tokio Marine HCC (TMHCC).

The Client purchased $25,000 for one share of RightPath Stock.

The Result

After the initial stock purchase, reduction for captive expenses and the accounting for the captive as a whole was completed, the Client received a net surplus of more than $332K.

Since joining RightPath this client has saved more than $425k and has an average stop loss renewal of 3% vs. just accepting the leveraged trend renewals each year.

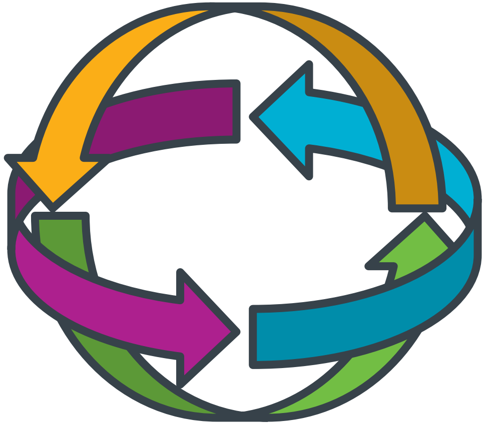
	RightPath	Traditional Stop Loss
Total Premium	$885,669	$841,386
Premium Ceded (Paid) to the Captive	$753,039	N/A
Less Captive Expenses	-$234,411	N/A
Net Ceded (Paid) Premium	$518,628	N/A
Total Claims	-$134,590	$0
Shared Risk Transfer	-$26,465	N/A
One Time Stock Ownership Purchase	-$25,000	$0
Net Surplus Returned to Employer	**$332,573**	**$0**

CALCULATION FOR RIGHTPATH RENEWALS

INDIVIDUALLY UNDERWRITTEN

The Premium is **based on each member company's experience**

Allows the Captive to determine how to **best handle and manage the risk** (including use of lasers)



CAPTIVE FINANCIAL MODEL

	Captive Member 1	Captive Member 2	Captive Member 3	Captive Member 4	Captive Member 5	Totals
A Claims Loss Fund	$227,500	$292,500	$357,500	$422,500	$487,500	**$1,787,500**
B Loss Fund Claims	$323,000	$142,500	$393,250	$300,000	$100,000	**$1,258,170**
C Member Surplus/Deficit **(A-B)**	-$95,500	$150,000	-$35,750	$122,500	$387,500	
D Experience Assessment (Collateral Call)	$45,500	$0	$35,750	$0	$0	**$81,250**
E Captive Member Excess Loss Sharing	$50,000	-$9,500	-$11,500	-$13,500	-$15,500	
F Percent of Premium		19%	23%	27%	31%	
G Collateral to secure experience assessment and captive aggregate layer	$45,500	$58,500	$71,500	$84,500	$97,500	
K Captive Net Surplus(Captive Member Dividends) (C+D+E)	**$0**	**$140,500**	**$0**	**$109,000**	**$372,000**	**$621,500**

In this scenario Captive Members 2, 4 & 5 had a surplus but Captive Members 1 & 3 still benefited because their bad claims experience was spread over the rest of the captive.

Next Steps

MMA CAPTIVES COMPARISON

Right Path Reinsurance	MMA CapAbility^{Plus}
Moderate risk	Low to moderate risk
Highest rate of return	Participate in program profitability
Greater control due to ownership	Turnkey solution
Best in class Contract Options	Best in class Contract Options
Individually underwritten	Block renewals

MMA ADVANTAGES

KEY VENDOR PARTNERSHIP

TOKIO MARINE HCC

MARKET LEADER

Customized proposal for each group: **35 years of experience and ability**

SUCCESS

18 + current captive cells
820+ covered employers
$303m + in stop loss premium
more than 120,000+ employees reinsured

HIGH INDUSTRY RATINGS

Financial stability confirmed by major rating agencies

MARSH CAPTIVE EXPERTISE

MARSH & McLENNAN COMPANIES

CAPTIVE EXPERTISE

Dedicated captive management, consulting, and actuarial colleagues **around the globe**

MARKET LEVERAGE

Captives managed by Marsh write more than **$44b of premium**

20% of the world captives are managed by Marsh

CREATIVE SOLUTIONS

MARSH & McLENNAN AGENCY

FLEXIBILITY

MMA captives offer **you choice and control**

CLIENT FOCUS

Center of excellence team focused on **innovation and education**

Questions?

Contact Your MMA Representative for a Captive Stop Loss Proposal

MarshMMA.com