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**CIC-DC**  
**Beyond Health Care Reform**

**Using Group Captives to  
Create Co-operatives**

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## ***About Spring Consulting Group***

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- Headquartered in Boston, Massachusetts with offices in Westborough MA ,Connecticut and Texas
- Former U.S. Watson Wyatt Insurance & Financial Services Consulting Group
- MBO in March, 2004 to form Spring Consulting Group, LLC
- Services include:
  - Strategy consulting services to employers, insurance and financial service providers and captive owners
  - Employee benefits and property and casualty risk consulting and brokerage to employers and captive owners
- Expertise in retirement, life, healthcare (including retiree medical), disability, absence management, workers' compensation, captive insurance and strategic risk management
- An independent employee owned company

# ***The Healthcare Problem is Not Going Away Soon***

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- Benefits commitments have been a major factor in making U.S. companies uncompetitive in global markets
- Employer downsizing drives up health and disability utilization as employees anticipate losing their benefits
- All organizations are looking for ways to cut their benefits spend and reduce the rate of future cost growth
- Health reform provides no simple solution to “bend the curve” of health cost escalation
- The political and industry battle over healthcare will be long and painful

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## ***The Environment for Small Businesses, Employer Groups and Associations***

## ***Small Business Environment***

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- Health insurance costs are substantially higher for small businesses than for large employers
- In the small business sector, failure to pay medical bills is a dominant cause of bankruptcy
- As banks recover from the recession, small businesses continue to be starved of investment capital

***According to the Commonwealth Fund, administrative costs account for up to 25% of the cost of premiums for some small business health plans, versus 10% for large firms***

## ***Association/Employer Group Environment***

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- Many associations/employer groups are made up of small and medium sized businesses
- Under pressure to add value to their membership
  - Need to ensure that benefits of membership continue to outweigh the cost despite economic pressures
- Challenges in recruiting and maintaining members
- Looking for ways to leverage current distribution channels, marketing strategies and group purchasing initiatives into healthcare as well as other benefits

***A recent member survey for an employer group client indicated that their major cost escalation concern was health insurance***

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# ***The Co-operative Concept***

## ***Health Reform and Co-operatives***

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- The government is proposing co-operatives as part of the health reform
  - Encouragement for the creation of non-profit, member-run health insurance companies
  - Co-operatives will need to meet certain eligibility requirements to qualify for government funding
- Like many current associations, any profits made would be required to be used to add value to the membership through lower premiums, improve benefits, or for other programs intended to improve the quality of healthcare for members

***Employer groups and associations have an opportunity to take advantage of government support of healthcare co-operative programs***



## ***Current Co-Operative Developments***

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- Massachusetts small group health insurance co-operatives - an initiative in progress:
  - Allows small businesses to:
    - Combine their purchasing power in order to achieve lower premiums through a larger entity
    - Protect members from restrictions
    - Choose their own health products and promotions
  - Seeks to increase competition in the health insurance market
  - Utilization of the Connector (which also serves as the model for the national health reform insurance exchanges) as the purchasing group is one option being explored

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## ***Captive Co-operatives***

## ***Taking a Lesson from Risk Management***

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- Many organizations have property & casualty captives and see funding employee benefits as a logical next step
- Using captives as a solution to manage benefits costs is a well established process that addresses the current pressures on employers and associations
- Sustainable savings can be achieved across a wide range of active and retiree benefits
- Using a captive to fund employee benefits has become easier as there is now a well established process to gain approval
- A employee benefits captive solution can cover employer provided and voluntary benefits

***Risk Retention Groups are another legitimate alternative but there is some resistance to their use at the state level***

# ***Using Group Captives for Multiple Employers***

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- Group Captive
  - Very flexible model /potentially no Department of Labor approval
  - Already used for benefit coverage
  - Allows for individual member selection for risk retention and risk pooling
  - Typical trust interface protects funds at the member level
  - Reinsurance to cover catastrophic occurrences
- Advantages over current government co-operative model
  - Less government
  - Regulation already in place
  - Flexibility to respond to reform outcomes

***The Spring team helped form the first association group captive for healthcare in the Washington DC domicile in 2002***

## ***What a Group Captive Offers Participants***

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- A stable long term cost management solution
  - Cost savings and increased cash flow
  - Cost fluctuations are reduced and are more predictable
- A wider variety of plan choices
- Flexible employee contribution policy
- Reduction in risk costs
- Ability to purchase lower cost administration as the group grows
- Renegotiation of brokerage charges
- Ability to pay dividends from surplus accumulation

# ***Taking Health Management to the Next Level***

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- Managing the health of members as a group offers the ability to provide :
  - Sophisticated health management and wellness programs that work with larger employee populations
  - Programs customized to specific group health issues reducing wastage and improving ROI
- Over the long term the health of the population is improved and their costs decreased
- Other significant advantages for participants include:
  - Direct control over plan designs
  - Centralized program management
  - Control over membership
  - Additional benefits can be covered including life, disability, vision, dental, accidental death, post retirement risks and voluntary benefits

***Taking control of the healthcare program allows participants to selectively take advantage of health reform and new market developments***

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