Vol. 68, Issue 4 Thursday, January 25, 2024

Guest Column: Why Self-Funded Employers Join Captives: Complementary or Complicated?

By Jason Nordby, M3 Insurance, WHA's Premier Partner

Employers have more options than ever to fund their benefits. Even a decade ago, fully insured options were the go-to for most employers. Today, employers with an innovative and cost-conscious mindset are looking into alternative approaches like self-funded plans and employee benefits captives to help them meet their goals, which range from holistic wellbeing among their employee population to lower costs driven by data-led decision making.


Jason Nordby

But, with all the options at your disposal, what funding mechanism makes the most sense for your organization? If you're already self-funded, could it make sense to move to a captive arrangement, or would it just complicate things?

Why Are Self-Funded Employers Exploring Captives?
Making the move to a self-funded arrangement was likely a big undertaking – but you did it with good reason. Self-funding provides many opportunities, including increased access to your population's data, and the ability to make decisions that can affect your plan and population directly.

And yet, there are drawbacks. Your team might even be living through some of these challenges today:

- Feeling like you have to figure it all out on your own
- Navigating an unknown stop loss pool
- Frustrating lasers
- Increasing large claimants
- Escalating stop loss

For some, these challenges may outweigh the benefits of an entirely self-insured plan. If your team is at a tipping point with your benefits, a captive model might just pique your interest.

What is the Difference Between Self-Funded Plans and Captives?
While at the heart of it, self-funded plans and captive models are both technically self-insured, there are key differences that could make an employee benefits captive a better option for your organization.

Share Your Risk…With Like-Minded Partners
The beauty of self-insurance is that you're tying your organization's performance to your health insurance costs. Your costs are not influenced by lower-performing organizations in a fully insured pool.

The downfall of self-insurance is that you're tying your organization's performance to your health insurance costs. If you have a particularly bad claims year, you're on the hook.

A captive model provides a happy medium. While you maintain a level of control over your costs based on your performance, a bad claims year won't throw you off. You will have the support and risk sharing of a smaller pool of like-minded employers (i.e. also focused on population health improvement, quality of care, cost containment, etc.) to keep you steady.

Curated Peer Group Support
In a captive model, you're not on your own. Self-insurance can be complex, but being able to navigate your questions with a group of organizations who are similarly focused on high performance (in collaboration with a knowledgeable broker) can make insurance feel simple again.

Captives are extremely discerning when choosing members. This keeps a captive pool from becoming like any other funding pool – you're sharing risk with organizations who are like you: in benefits philosophy and sometimes in size, industry, or geography.

In our experience, we've seen that captive members find value in the best practice sharing that takes place in these curated groups. Employers like you can discuss strategies to impact your talent attraction and retention, your HR approach, benefits communication, cost savings and risk management, and more, all in an environment where you're invested in each other's success.

Purchasing Power + Stability
Captives give you greater purchasing power than a self-insured model. By going to market with a group of high-performing organizations, you're better able to negotiate contracts that reflect your focus on employee health and cost containment.

Financial Opportunity
Captives have dividend opportunities for members – and the distribution of these dividends could be tax advantageous for each member. The dividends that captive members receive are the funds that the captive has left after all payments have been made. This model incentivizes high performance and could be an impactful difference for your organization.

Integrated Risk Management
Many captives offer data analytics and holistic wellness resources and tools as a part of their membership, because of the impact they can have on overall population health and the resulting health care costs. This feature makes it simple for organizations – no vendor vetting required.

Does a Captive Make Sense for a Self-Insured Employer?
Self-insurance is an innovative solution for employers who are looking to take control of their benefits, but is a captive or self-funded plan better? Already self-insured employers may explore an employee benefits captive to take advantage of greater stability, peer risk sharing and support, financial opportunities, and integrated data analytics and wellbeing tools.

It's important to know your options before making a choice to change. Consult with your M3 team to discuss what might make sense for your organization, what benefits you could see from joining a captive, and what the process might look like to make a switch.

Other Articles in this Issue

- Rick Pollack, President/CEO of the American Hospital Association, to be Keynote Speaker at 2024 Advocacy Day
- Join WHA in Washington, D.C., April 15-16 for AHA Annual Meeting
- Wisconsin Quality Residency Program 2023 Graduates New Group of Leaders
- Less Than Two Months Away – Register for the March 15 & 16 Physician Leadership Development Conference Today
- Guest Column: Why Self-Funded Employers Join Captives: Complementary or Complicated?