

# Why Self-Funded Healthcare is Gaining Popularity

In the realm of employee benefits, the trend towards self-funded healthcare is unmistakable as the regulatory landscape continues to change and healthcare costs continue to escalate. The National Association of Insurance Commissioners estimates that approximately 90% of Fortune 500 companies have captive subsidiaries. Captives are specialized insurance subsidiaries that companies use to manage risks more effectively and economically.

**The nine reasons to choose captives for employee benefits include:**

## **1. Frictional Cost Reduction**

Utilizing captives in healthcare strategies leads to a reduction in frictional costs associated with employer-sponsored health insurance. By self-funding the health plan and using alternative funding for medical stop loss – a form of reinsurance that limits claim coverage – through captives, employers can optimize gross written premiums by reducing certain expenses, taxes, and underwriting margins.

## **2. Enhanced Risk Management and Long-Term Stability**

Both single-parent and group captives empower employers with control over their risk management, especially in employee benefits. The inclusion of stop loss in a captive setting enhances an organization's opportunity to strategically manage risks associated with employee benefits. Captives can absorb liability through alternative specific deductibles for particular conditions, creating more opportunities to control related expenses through a variety of point solutions.

## **3. Customization and Flexibility for Employers**

Employers can tailor medical stop loss coverage through captives to meet unique needs. This flexibility includes customizing stop loss contracts, choosing service providers, setting coverage levels, and managing financial surpluses.

## **4. Efficient Financial Utilization and Dividend Returns**

Single-parent captives can enhance underwriting profits and investment returns from medical stop loss layers. Surplus derived from the captive's performance can be returned to the employer through dividends, distributions, or strategically deployed to offset future plan costs, expand benefits, or manage financial volatility. This efficient financial utilization enhances the overall value proposition of captives in healthcare strategies.

## **5. Leverage with Carriers and Service Providers**

Single-parent captives provide significant leverage for negotiating premiums, limits, and terms. Captive owners may assume a risk layer in their captive vehicle instead of transferring it to a reinsurer if they believe it is worth managing. Group captives also allow employers to collaborate for better terms with carriers and service providers. This collaboration is especially beneficial for mid-sized companies, offering volume-related discounts and pricing stability.

## **6. Better Data and Analytics**

Captives allow employers to access better data and analytics, enabling more informed decision-making. With a captive, companies can gather detailed information about their claims and expenses, leading to improved risk management and strategic planning.

## **7. Improved Cash Flow Management**

By self-funding their health plans and using captives, companies can improve their cash flow management. This approach reduces the need for large upfront premium payments and allows for more predictable and manageable cash flows.

## **8. Greater Accountability and Control**

Captives provide employers with greater accountability and control over their healthcare strategies. This control allows for more precise management of plan design, claims processing, and overall healthcare spending.

## **9. Enhanced Employee Engagement**

Using captives can lead to enhanced employee engagement, as companies can design benefits programs that better meet the needs of their workforce. This customization can improve employee satisfaction and retention.

These insights highlight the strategic advantages of incorporating captives into healthcare plans, positioning employers to better manage costs and enhance the overall effectiveness of their employee benefits programs.

## **FAQs**

### ***How do captives benefit healthcare strategies?***

*Captives offer several benefits to healthcare strategies, including reducing frictional costs, enhancing risk management and stability, providing customization and flexibility, ensuring efficient financial utilization, and offering leverage with carriers and service providers.*

### ***What are frictional costs, and how do captives reduce them?***

*Frictional costs refer to the expenses associated with the administration and underwriting of insurance policies. Captives reduce these costs by allowing companies to self-fund their health plans and use alternative funding for medical stop loss, optimizing gross written premiums by minimizing certain expenses, taxes, and underwriting margins.*

### ***How do captives enhance risk management and long-term stability?***

*Captives empower employers with greater control over their risk management, especially in employee benefits. They allow for strategic management of risks associated with employee benefits, including the ability to absorb liability through alternative specific deductibles and control related expenses through various point solutions.*

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