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**Gary C. Becker pitched his group health captive to Teri Mallonee and St. John Properties.**

# Captive audience

*Twist on self-funded health care piques businesses' interest*

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Brace yourself for the latest twist in the business financing game of employee health benefits.

This one should particularly interest those small- and midsize-business owners struggling to keep their operations flush with cash and happy, healthy employees.

But this isn't just another story about the traditional insurance market's high-deductible health plan designed to shift more of the

cost onto the worker bee. Nor is it the latest explanation of why self-funding health insurance can be troublesome for a company with 25 employees.

Instead, try this: Take the 25-person company that doesn't mind paying for medical claims up to a certain point, match it with several other small or midsize businesses that have similar appetites for financial risk and better employee health, and throw them into a re-insurance pool known as a captive that could return some of their premiums if medical expenses are kept in check.

The plan — known as a group health captive or employee benefits captive — is the shiny new toy of some savvy health insurance brokers looking for business in the Baltimore area. And as small and midsize employers continue to look for ways to lower medical costs and navigate an increasingly regulated employee benefits market, more of them are going to want to play with it.

"The word is slowly but surely getting out, and before long we're going to have a runaway freight train on our hands," said Richard

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C. Goff, managing member of the Towson-based Taft Cos., which manages captives in other insurance products and is looking to create one with several employee benefits brokerage firms. "If you're looking for a way to circumvent [the federal health reform law] and retain control of your costs, this is it."

While captives have been part of the workers' compensation and property and casualty insurance worlds since the 1950s, and self-funded health insurance is already a growing phenomenon among smaller employers, the idea of marrying the two is foreign to many human resources managers and business owners. It's legal, but it's certainly not for everyone. Some employers don't want to take the risk of self-insurance, and many employees are not healthy enough for their employer to qualify.

But participating in an employee benefits captive while self-funding insurance could also be the solution for some businesses looking to escape double-digit premium rate increases that are common in the fully insured market.

At least, that is what Fireguard Corp. in Glen Burnie hopes happens.

For years, the fire protection company with about 100 employees drifted from one health insurer to another, from one benefits plan to another while paying every penny of its employees' insurance premiums. By 2009, after accepting another double-digit premium hike from Kaiser Permanente, Fireguard shifted some of its hundreds of thousands of dollars in medical expenses onto employees' backs.

Last year, with another double-digit rate increase on the table, Fireguard solicited offers from other brokers and carriers, in hopes of finding a cheaper alternative. That's when Gary C. Becker, of Becker Benefit Group in Owings Mills, called Laura Kaspar, Fireguard's HR manager.

Becker was marketing a group health captive that had just launched and included Baltimore's Saval Foodservice and St. John Properties. For about the same price Kaiser was going to charge Fireguard, Kaspar said Becker's captive offered more options in plan

designs, more teeth to employee wellness programs, more feedback about the success of those programs — and the chance to get some premium money back. Fireguard joined the group captive earlier this year.

"Kaiser can send my employees a glossy brochure telling them why to lose weight, but if I can get them to take a biometric health test and tie their smoking habit to how much they pay in premiums, I'm going to give that a shot," Kaspar said.

Participation in Becker's captive requires employees in the first year to agree to a combination of biometric screenings, an online health risks survey and a consultation from a health care provider, Becker said. In later years, the captive could require spouses to participate in the screenings and offer incentives for better health scores, he said.

The money to fund a group health captive could look something like this: A company with about 120 employees decides to pay up to \$25,000 in claims for an individual in its group for a year, and budgets to spend about \$700,000. This is the company's self-insurance layer.

The company then pays another amount — a premium determined by an insurance company based on previous claims and work force demographics — that goes to the stop-loss insurance carrier for covering claims above the company's self-insured limits. Some of that premium money goes into the captive; the rest to the stop-loss carrier.

The captive and stop-loss insurer — which can be two companies or divisions of the same company — then set a medical claims amount each will cover. In Becker's plan, the captive could take about \$300,000 of the premium cash to cover claims up to about \$250,000. The stop-loss insurer could get another \$150,000 to pay for the highest but less-frequent claims.

Saval Foodservice didn't spend as much as it budgeted on health claims during its first year in Becker's group health captive, said President Paul Saval. And NorthBay Adventure, an outdoor and environmental education provider in Cecil County, which joined Becker's captive May 1, anticipates paying less than half of what it paid for full insur-

ance, said George Comfort, the company's executive director.

Some savings Comfort said he expects to see could come from the captive's portion of the premium. For example, if 10 companies join the captive at \$300,000 apiece, but the captive only spends about \$1.5 million of its members' money on medical claims in a year, there is another \$1.5 million that could be divided among the companies after the captive takes its administrative fees. Companies put different amounts into the captive — again, based on claims history and demographics — so the payout will vary based on the up-front premium.

St. John Properties, which joined during the first year of Becker's captive, expects to find out soon whether it will receive some premium money back from the health plan year that ended in February, said Teri Mallonee, the developer's HR manager. The first check for half the reimbursed amount would come in July, the rest next year, Becker said.

St. John Properties — which for years has offered employees a gym on site, free vitamins and healthy snacks — had tried before to self-insure, but brokers always said the company, with 140 employees, was too small.

Joining the captive with employers of similar size and emphasis on wellness should allow St. John to self-insure and spread the risk of bad medical claims over a larger pool of employees, Mallonee said.

"I've always said that if an employer can be self-funded, it should be self-funded. And now with captives, it becomes much more realistic for companies that may have been too small or had one bad claim," said Rodger Bayne, vice president of marketing and product development for Group Benefit Services in Hunt Valley.

Bayne formed a captive — Benefit Indemnity Corp. — earlier this year that plans to market it to GBS' smaller clients looking to self-insure. But he said his prospects have to have a "higher than average" understanding of the health insurance market.

"Otherwise, you're just playing a shell game with someone who doesn't know any better," Bayne said.