



The Advantages and Benefits of Reinsuring Voluntary Benefits Through a Captive

What are Voluntary Benefits?

Voluntary benefits are 100% employee-paid and are designed to provide financial security and protection for covered employees for large medical deductibles, co-insurance, and other out-of-pocket expenses. The most common voluntary benefits are accident, critical illness, hospital indemnity, and legal insurance. Premiums for each line of coverage average approximately \$10-\$30 a month and are paid directly by employees through payroll deductions. Claims are paid directly to the insured, and typically do not exceed a few thousand dollars.

While these benefits have been around for years, employers are now beginning to take a new approach to funding the benefits - reinsuring them via their captive insurance company.

Payroll deductions are remitted to the fronting carrier, which then reinsures a portion of the coverage to the captive. The fronting carrier provides underwriting, claims adjudication, and customer service.

Most Beneficial Voluntary Programs to Reinsure in a Captive

Three of the most beneficial voluntary programs to reinsure in a captive are:

- Group Accident plans pay cash benefits to employees when unexpected medical and everyday expenses begin to add up after a covered accident. More than 50 events trigger benefits payments including fractures, dislocations, emergency room visits, x-rays, sutures, ambulance transportation, and physical therapy, among others.



- Group Critical Illness plans offer a guaranteed issue policy of up to \$30,000 for certain medical conditions, such as heart attack, stroke, cancer, major organ transplant, and coronary artery bypass surgery. This provides a financial cushion at a time when an employee may need it most.
- Hospital Indemnity plans work well for new families and/or aging adults. The plans typically pay \$1,000-\$2,000 upon admittance into the hospital and \$100-\$300 per day of confinement. An employee or covered individual staying three days in the hospital for labor and delivery would receive \$1,600-\$2,900. They could receive twice that amount if ICU was required.

Providing coverage for an employee's out-of-pocket medical expenses is just one of many voluntary benefits employers can fund through their captive. Other voluntary benefits that may be reinsured by a captive include legal insurance and ID theft protection.

Advantages of Reinsuring Voluntary Programs in a Captive

The advantages to reinsuring voluntary benefits through a captive are many:

- Voluntary benefit programs typically have much lower risk and loss ratios than other lines of coverage. On average, programs are designed on a 45-50% loss ratio and have expenses of approximately 30-35%.
- These programs diversify the risks covered by the captive which can provide stability to the captive's financial results.
- HDHPs are far less expensive than traditional health insurance plans. Employees are more likely to enroll in an HDHP if they know that a significant portion of those unexpected medical expenses will be covered by a voluntary policy.
- Employee benefits are considered unaffiliated third-party business, providing potential tax advantages to the captive.

Stakeholder Benefits

Stakeholders across the organization benefit from reinsuring voluntary benefits in a captive, including:

- Human Resources is able to offer custom-designed voluntary benefit plans not available in the general marketplace, additional funding for new or existing employee programs, and becomes a key business partner to Risk and Finance. Another aspect of this programs is a beneficial impact to absenteeism, turnover, and a competitive edge to attracting and



- retaining talent.
- Risk/Captive Management gain diversification, low risk/highly predictable short tail lines, capital leverage, unimpeachable third-party premium, ability to control medical claims severity and disability and workers compensation frequency, and increased return on investment.
- Finance/Treasury experience enhanced cashflow and potential tax benefits.
- Employees receive enhanced benefits selection, increased coverage, reduced premiums, and improved financial security.

It is important to note that funding employee health and welfare benefits through an employer-owned captive insurance company must, under the federal Employee Retirement Income Security Act (ERISA), be reviewed and approved by the U.S. Department of Labor (DOL). This is an expensive, lengthy, and unpredictable process. However, Marsh McLennan Agency has developed BeneCap, a proprietary risk-sharing solution that addresses these challenges.

BeneCap allows employers to grow their captive by integrating 100% employee-paid voluntary benefits with their existing risk management strategies. The program offers pre-structured fronting arrangements with leading insurance carriers such as AFLAC, American Public Life, and Securian. The carriers cede the business to our pooling facility, which then retrocedes a proportional pooled share of business to each participating employer's captive. These transactions are not prohibited by ERISA and do not require DOL review and approval.

In short, these programs present unequivocal benefit to employers as well as their employees. Employees have added financial security for medical expenses, an especially important benefit with HDHPs because of their higher out-of-pocket cost. Many employers and employees don't realize that by utilizing the monthly premium savings of typically \$300-\$400, by switching from a traditional PPO to an HDHP and purchasing all three voluntary medical benefits for \$50-\$100 a month, they could save thousands of dollars per year and, in the event of a covered claim, have more robust coverage than with a PPO plan. Plus, the additional savings could be used to fund their Health Savings Account, for everyday out-of-pocket medical expenses.

Business and captive owners interested in hearing more about the BeneCap Solution can visit <https://mmaeast.com/benecap/> or contact us at +1 877 652 6712 or Captives@MarshMMA.com.

