CONTROL BENEFITS COSTS

WITH A DEDUCTIBLE REIMBURSEMENT POLICY

Private Insurance is an alternative risk structure that uses an actuarially determined premium to prefund your specific deductible and aggregate attachment points as a deductible expense. Any part of that premium that is not utilized to pay claims is considered underwriting profit, which can be invested and allowed to grow on a tax deferred basis.

CAPALT
PRIVATE INSURANCE SOLUTIONS

Frequently Asked Questions

WHAT IS A PRIVATE INSURANCE?

A Private Insurance structure, which provides risk protection exclusively to its participants, is a wealth-building strategy Fortune 500 companies have used for decades. A Private Insurance structure works much like traditional insurance– determines risk, issues policies, accepts premiums and pays claims – but the similarities end there. In a Private Insurance structure, after claims and operating expenses are paid, the remaining funds continue to grow, often on a tax advantaged basis.

WHAT IS A DEDUCTIBLE REIMBURSEMENT POLICY?

A Deductible Reimbursement Policy is used by an employer who is self-insured for employee benefits. It allows the employer to prefund their specific deductible and aggregate attachment points via an actuarially justified premium. After the employer has hit the attachment point, a stop loss reinsurance policy kicks in to cover claims that exceed the prefunded premium.

HOW CAN A DEDUCTIBLE REIMBURSEMENT POLICY HELP EMPLOYERS CONTROL MEDICAL INSURANCE COSTS?

A Deductible Reimbursement Policy allows business owners to efficiently retain more predictable risk while transferring more volatile layers to a reinsurer. Much like renting versus owning a home (one is a profitable asset for your landlord, the other allows you to build wealth), such a policy allows the business owner to reduce costs, maintain control and retain underwriting profits that would otherwise go to a commercial insurer.

Case Study

A Mortgage Loan Provider

Our client, a successful mortgage loan provider, came to CapAlt looking to form a Private Insurance structure to protect against catastrophic risk. Within their first year of ownership, they quickly realized the significant benefit of retaining some of their business risk and rewarding themselves, rather than a commercial insurer, for their risk management efforts.

Meanwhile, with 800 covered lives, this client had been spending $6 million annually on employee medical coverage through a fully-insured commercial plan. Faced with a $1 million increase in premium at renewal, this client wanted to explore options for self-funding the medical portion of their employee benefits.

A program was designed with a $150,000 specific deductible per claim occurrence. The Segregated Asset Plan will fund everything below this stop loss attachment point. An aggregate attachment point of $5 million was also purchased to protect against the possibility of an unusually high claims year.

Through the underwriting process, claims were expected to be around $3 million. A TPA was selected to administer the plan for $1 million and an additional $1 million premium was spent on reinsurance.

	SELF INSURED WITH DEDUCTIBLE POLICY	EXISTING COMMERCIAL PROGRAM
PREMIUM		$6,000,000
3RD PARTY ADMINISTRATIVE COSTS	$1,000,000	
STOP LOSS	$1,000,000	
CLAIMS	$3,000,000	
TOTAL COST	$5,000,000	$6,000,000
CARRIER PROFIT & OVERHEAD		$1,000,000

1. If claims come in on target, an additional $1M goes to surplus
2. Employer has much greater control over losses and program costs

By retaining this manageable layer of risk, our client was able to maximize medical cost savings, enhance profitability and, most importantly, control risk.

Benefits of a Private Insurance **Strategy for Employee Benefits**

- STABILIZE THE COST OF HEALTHCARE BENEFITS
- SMOOTH CASH FLOW
- BUILD A LOSS FUND IN THE EVENT OF A CATASTROPHIC CLAIM
- INCREASE CONTROL AND FLEXIBILITY
- REDUCE DEPENDENCY ON TRADITIONAL COMMERCIAL INSURANCE MARKET
- CAPTURE UNDERWRITING PROFITS
- ACCELERATED TAX DEDUCTION; (TAX ADVICE SHOULD BE SOUGHT)

As medical costs continue to rise and uncertainties related to healthcare reform threaten employers' level of control within more traditional structures, the appeal of self-insuring will increase. For employers with at least 100 employees, properly structured private insurance solutions can help control healthcare costs and may even offer valuable tax savings.

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