

EmCap — an Innovative Health Insurance Captive Program

Lawley Proactive- Captive Deductible Decision



Agenda

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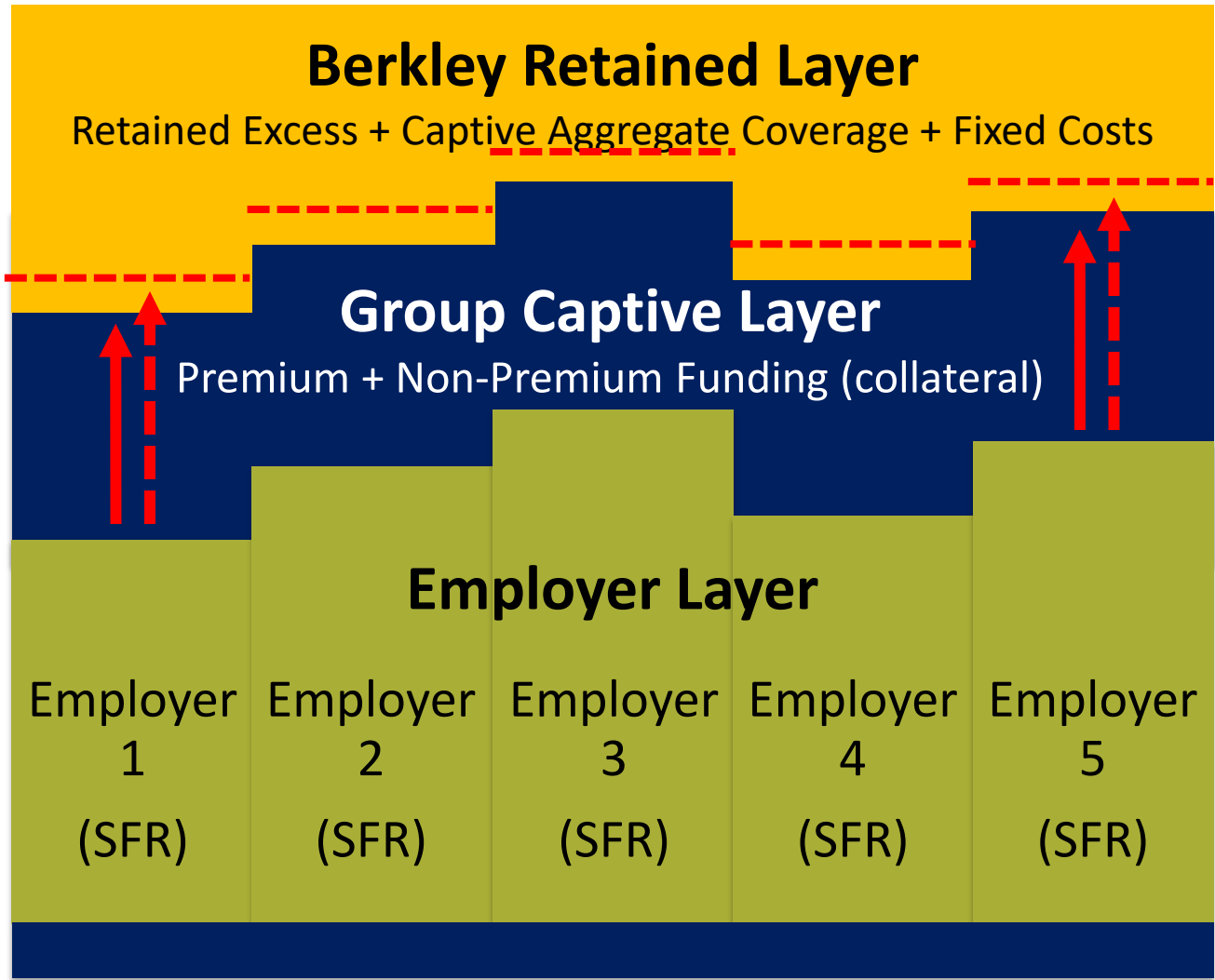
Overview

- Lawley Proactive Health has performed much better than expected as a captive program with an estimated \$6m in surplus over the past 5 years.
- Berkley has modeled changes in the individual limit providing a greater opportunity to participate risk - reward continuum.
- Currently the individual limit/captive deductible is a floating \$225k layer above the policyholder's chosen specific stop loss deductible.
- Today we are reviewing an increase to a floating \$300k layer.

Risk Layers and Claims Exposure

Retain. Share. Transfer.

Today's discussion is going to be focused on the decision to increase the Group Captive Layer. Please note this does not impact nor require changes in the gross premium or the attachment points.



Risk shared among members in captive

No risk sharing
Employers pay for claims up to Stop Loss (Individual or Aggregate claims)

Claims History

Lawley Proactive Health Captive

Retrospective Analysis of Changes to the Captive Layer

Current Captive Layer

Captive Year	Net Ceded Risk Premium	Captive Losses	Surplus/ (Deficit)	Loss Ratio
2015	\$3,237,270	\$2,103,683	\$1,133,587	65.0%
2016	\$3,617,725	\$2,516,442	\$1,101,283	69.6%
2017	\$3,970,408	\$2,636,199	\$1,334,209	66.4%
2018	\$5,198,329	\$4,787,703	\$410,626	92.1%
2019	\$6,467,026	\$4,462,395	\$2,004,631	69.0%
TOTAL	\$22,490,759	\$16,506,422	\$5,984,336	73.4%

Increase Floating Captive Layer From \$225,000 To \$300,000

Captive Year	Est. Net Ceded Risk Premium	Captive Losses	Surplus/ (Deficit)	Loss Ratio
2015	\$3,466,842	\$2,272,190	\$1,194,652	65.5%
2016	\$3,858,868	\$2,516,442	\$1,342,426	65.2%
2017	\$4,221,418	\$2,636,199	\$1,585,220	62.4%
2018	\$5,494,067	\$4,987,282	\$506,786	90.8%
2019	\$6,823,191	\$4,542,471	\$2,280,720	66.6%
TOTAL	\$23,864,387	\$16,954,584	\$6,909,804	71.0%

Change from Current Captive Layer

Net Ceded Risk Premium	Captive Losses	Surplus / (Deficit)
\$229,572	\$168,507	\$61,065
\$241,143	\$0	\$241,143
\$251,010	\$0	\$251,010
\$295,738	\$199,578	\$96,160
\$356,165	\$80,076	\$276,089
\$1,373,629	\$448,162	\$925,467

Increase Floating Captive Layer From \$225,000 To \$350,000

Captive Year	Est. Net Ceded Risk Premium	Captive Losses	Surplus/ (Deficit)	Loss Ratio
2015	\$3,572,578	\$2,372,190	\$1,200,387	66.4%
2016	\$3,971,769	\$2,516,442	\$1,455,327	63.4%
2017	\$4,340,395	\$2,636,199	\$1,704,196	60.7%
2018	\$5,633,533	\$5,071,769	\$561,764	90.0%
2019	\$6,992,816	\$4,592,471	\$2,400,345	65.7%
TOTAL	\$24,511,091	\$17,189,071	\$7,322,020	70.1%

Change from Current Captive Layer

Net Ceded Risk Premium	Captive Losses	Surplus / (Deficit)
\$335,308	\$268,507	\$66,801
\$354,044	\$0	\$354,044
\$369,987	\$0	\$369,987
\$435,204	\$284,066	\$151,138
\$525,790	\$130,076	\$395,714
\$2,020,332	\$682,649	\$1,337,683

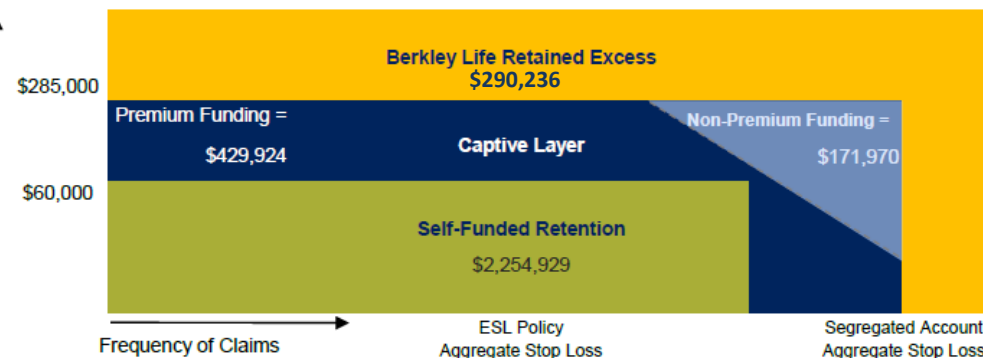
Sample Impact of Policyholder's Renewal

Floating \$225,000

Effective Date: January 1, 2020
 Specific Stop Loss Deductible - Per Individual: \$60,000
 Captive Deductible: \$285,000
 Attachment Point: 110%
 Proposed Specific Contract Type: 36/12
 Proposed Aggregate Contract Type: 36/12
 Aggregating Specific Deductible: N/A

	36/12 Annualized Terms	Proposed Terms
Self-Funded Retention*	\$2,254,929	N/A
Estimated TPA Fees	\$231,090	N/A
Employer Stop Loss Policy Premium:		
Policy Expenses	\$290,236	N/A
Captive Layer	\$429,924	N/A
Policy Premium	\$720,160	N/A
Non-Premium Funding	\$171,970	N/A

*Aggregate Stop Loss Attachment Point



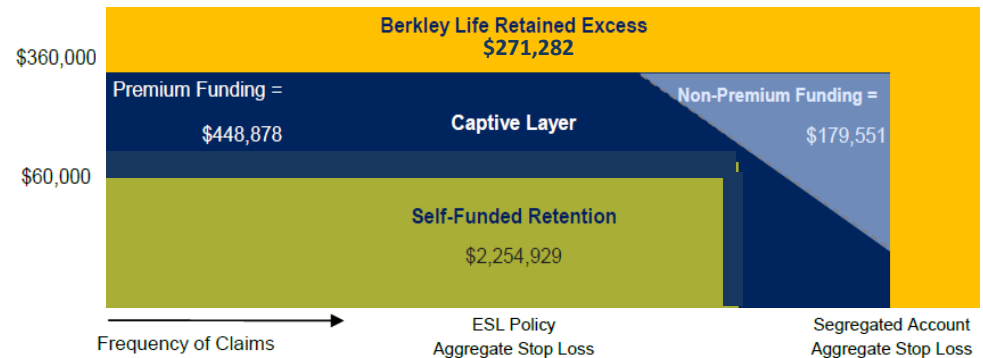
PROPOSED

Floating \$300,000

Effective Date: January 1, 2020
 Specific Stop Loss Deductible - Per Individual: \$60,000
 Captive Deductible: \$360,000
 Attachment Point: 110%
 Proposed Specific Contract Type: 36/12
 Proposed Aggregate Contract Type: 36/12
 Aggregating Specific Deductible: N/A

	36/12 Annualized Terms	Proposed Terms
Self-Funded Retention*	\$2,254,929	N/A
Estimated TPA Fees	\$231,090	N/A
Employer Stop Loss Policy Premium:		
Policy Expenses	\$271,282	N/A
Captive Layer	\$448,878	N/A
Policy Premium	\$720,160	N/A
Non-Premium Funding	\$179,551	N/A

*Aggregate Stop Loss Attachment Point



- The policy expenses decrease \$18,954 while the captive layer increases by \$18,954.
- The collateral increases \$7,581 due to additional risk in the captive layer.

Impact Estimate

Estimated Change from Current 2020

Policyholder Impact	\$300K Floating Layer		\$350K Floating Layer	
	Captive Layer	Retained Premium	Captive Layer	Retained Premium
Average Impact	+5%	-20%	+8%	-29%
2020 Total	\$6,935,364	\$1,901,580	\$6,935,364	\$1,901,580
Adjustment	\$7,311,592	\$1,525,351	\$7,490,673	\$1,346,270
Estimated Impact	\$376,229	-\$376,229	\$555,310	-\$555,310

- Each policyholder would be underwritten and would expect different adjustments to retained premium and captive premium.
- At a floating \$300k captive layer, it is estimated in 2020 that there would be an additional \$376,229 in the captive layer shifted from the policy expenses.
- At a floating \$350k captive layer, it is estimated in 2020 that there would be an additional \$555,310 in the captive layer shifted from the policy expenses.

Actuarial Incidence Review

Actuarial incidence of claimants exceeding the captive deductible of each policyholder		
	<u>Current Floating</u> <u>\$225,000</u>	<u>Proposed Floating</u> <u>\$300,000</u>
Incidence Estimate	10.63	5.76
<i>Change</i>		4.87
Captive Year	<u>Claimants Above</u> <u>Floating \$225,000</u>	<u>Claimants Above</u> <u>Floating \$300,000</u>
2015	2	2
2016	0	0
2017	1	1
2018	6	4
2019*	2	1

**Reporting through 8/20/20*

It would take an estimate of 4.87 claimants reaching the limit to negate the savings with this change in approach.

Since 2015, Proactive Health has outperformed the 2020 actuarial incidence of claimants above each unique policyholder's captive deductible.



Considerations

1. This does not impact nor require changes in the gross premium or the attachment points.
2. More opportunity to capture underwriting profits as a result of positive claims experience in the captive as a whole.
3. However, there is risk that this decision impacts the 2021 treaty year surplus unfavorably.
4. Trade fixed costs for variable costs, shift premium into captive layer
5. Catastrophic large claims could deplete the captive layer as a result of increased exposure to the claim.
 - Medical cost trend is expected to continue to rise even during COVID
 - New releases of Prescription Drugs are always on the horizon
6. Required collateral increases in relation to the increased exposure of losses to the captive.



Questions?

These examples are illustrative only and not indicative of actual past or future results. Stop Loss is underwritten by Berkley Life and Health Insurance Company, a member company of W. R. Berkley Corporation and rated A+ (Superior) by A.M. Best, and involves the formation of a group captive insurance program that involves other employers and requires other legal entities. Berkley and its affiliates do not provide tax, legal, or regulatory advice concerning EmCap. You should seek appropriate tax, legal, regulatory, or other counsel regarding the EmCap program, including, but not limited to, counsel in the areas of ERISA, multiple employer welfare arrangements (MEWAs), taxation, and captives. EmCap is not available to all employers or in all states.