Healthcare reform: Potential opportunities for captives

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Passed in March 2010, the Patient Protection and Affordable Care Act (PPACA) represents the single largest healthcare reform legislation since the introduction of Medicare during the 1960s. This act will undoubtedly transform many facets of our nation's healthcare system. With an increasing number of captives providing coverage for costs related to medical benefits, captive managers and sponsors may be wondering how their plans will be affected. This article focuses on how key aspects of the PPACA may create new opportunities for the captive insurance industry.

In particular, the PPACA introduces a variety of new organizations into our healthcare system that may have implications for captive insurers. New entities include state health insurance exchanges, consumer operated and oriented plans (CO-OPs), and accountable care organizations (ACOs).

EXCHANGES

State-wide exchanges[1] will become effective in 2014 and serve as a marketplace for individuals and small employer groups to purchase health insurance. Private insurers will offer a set of standard plan design options to individuals who do not receive group health benefits through their employer as well as to small employers who wish to purchase coverage directly from the exchange. Individuals with group health benefits may leave the group plan and purchase coverage from the exchange if exchange premium rates are more favorable than group rates, especially if premium subsidies or tax credits are available.

With the establishment of exchanges, employees are presented with a new option for obtaining healthcare coverage, and thus it may be advantageous for some employers to cease providing medical benefits to their employees. Captives that serve as pooling arrangements for stop-loss coverage for employers may be affected by participating employers that drop medical coverage. Employers who use a captive for stop-loss coverage may be affected if they drop the employer-sponsored coverage or if certain employees drop out of the employer's plan to purchase coverage from the exchange. Captive managers, risk managers, and employee benefits managers need to consider the impact of employer options and employee decisions in a post-reform world with exchanges to minimize disruption to the captives' operations.

CO-OPS

CO-OPs are not-for-profit organizations that offer individual and small group health insurance to its members. The PPACA creates a new tax-exempt status for CO-OP health insurance issuers. In addition to a new tax-exempt status, the PPACA delineates a federal grant and loan program for CO-OP health insurance issuers. Loans are intended to assist CO-OPs with meeting start-up costs. Grants will be awarded to help CO-OPs meet statutory solvency requirements. The PPACA stipulates that federal loans and grants must be awarded to applicants by July 1, 2013.

It is not clear what type of risk-taking entity may be used to form a CO-OP. Captives may be allowed to serve as the legal entity for CO-OP formation in the coming years. Captives may also be able to reinsure some of the medical benefits provided to the members of the CO-OP.

ACOS

ACOs offer a *new*[2] integrated delivery system concept that coordinates the delivery of healthcare services for the persons it serves. As an incentive to effectively manage care, the ACOs must have *financial risk* based on the care delivered. Organizations with limited experience in the financial risk-taking business, such as physician groups, hospitals, and other providers, may create ACOs to benefit from their efficient delivery of medical services. With a wealth of experience in risk-taking and the management of

[1] Various exchange-related papers are available at www.milliman.com/hcr.

[2] Kipp, R. & Mattie, L. (July 2010). Controlling healthcare costs the old, new way. Milliman Healthcare Reform Briefing Paper. Retrieved Jan. 20, 2011, from http://publications.milliman.com/publications/healthreform/pdfs/controlling-healthcare-cost-old-new.pdf.

risk, captives may be an attractive solution for healthcare providers looking to either share some financial risk or establish a successful risk-taking entity.

THE BOTTOM LINE

Among the many elements of the PPACA is the introduction of new risk-taking organizations to our nation's healthcare system. Until regulations are issued, it is not clear what type of legal entity will be allowed to serve the needs of each type of new risk-taking organization. With words like *solvency requirements* and *financial risk* included in the PPACA, captive insurance could be the right fit. Captives are in an extraordinary position to have a role with the implementation of the PPACA for a variety of reasons:

- An increasing number of captives are providing coverage for costs related to medical benefits
- Flexibility is a key strength of captive insurance companies
- The captive insurance industry possesses the necessary expertise and experience to create financial risk-taking entities

Captives have the potential to serve the needs created by healthcare reform. It is truly an exciting time for captives in the medical benefits arena with the recent passage of the PPACA.

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