MB CAPTIVE TOOLKIT

What is a Captive?

A health insurance captive is a form of self-insurance where a group of companies collaborate to form their own insurance company.

This allows them to pool their resources and manage their risks collectively. A captive allows member firms to retain the autonomy of managing their own health plan while leveraging purchasing power to buy stop loss insurance.

How it Works

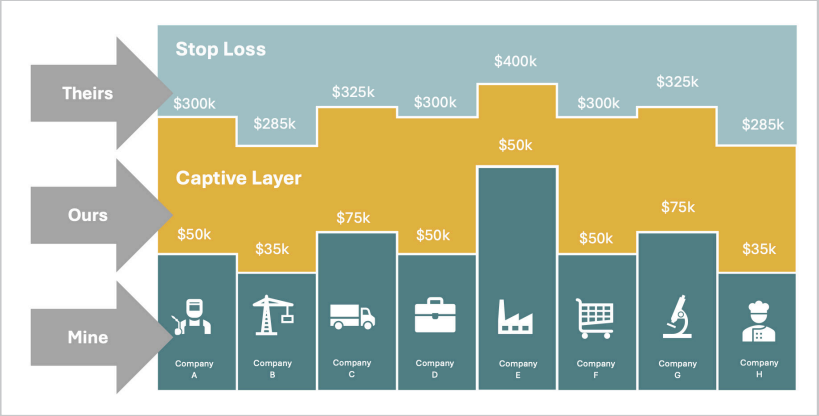
The captive model can be broken into three parts:

- The member's self-funded layer
- The captive layer
- The stop loss layer

Self-Funded Layer (Mine)
Each member firm self-funds their own layer (mine) at a risk level of their choosing. The self-funded layer includes the dollar amount the member firm is responsible for (per claimant-individual) before the risk is shared with other captive members.

Captive Layer (Ours)
If a member firm experiences a claim that exceeds the member firm's self-funded (mine) amount, then the member firm dips into the captive layer (ours). A portion of the member firm's fixed premium funds the captive layer, which is shared with other member firms to help pay claims above the member firm's self-funded amount.

Stop Loss Layer (Theirs)
The member firm pays a monthly premium for stop loss protection to protect against catastrophic claims (theirs). If a member firm's claimant exceeds the captive layer's responsibility (ours), the risk is passed to the stop loss carrier (theirs).



Benefits of a Captive

One major advantage of the captive insurance model is that it offers protection during bad years and rewards during good years.

If claims experience is below the member firm's self-insured amount, they keep 100% of that amount. If the captive member firm doesn't spend more than they contribute, they are eligible for a pro-rata distribution back. If a captive member firm experiences several high claims in a single year, they are protected by the captive and stop loss layer, which provides them with stability.

You Might Be a Good Fit If...

- 25 – 1,500 Employees
- Want increased control over healthcare costs and greater plan transparency
- Want to move away from the fully insured model and self-fund your benefits program, but also want to enjoy the purchasing power benefits of partnering with other organizations. In addition, groups who would like greater stability over their benefits program are a good fit.

Next Steps:

If you are interested in learning more about McGohan Brabender's various captive solutions, please contact your MB Account Manager. Your MB team will schedule a Captive 101 education session for you with our partners to ensure strategic alignment.

Video

Podcast

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Taxation & Compliance Requirements:

- Taxation: The structure of a captive may result in a tax obligation to the employers in the captive.
- Some captives are structured as partnerships, where each participating company is considered an owner/partner and net income of the captive is allocated to each partner and taxed at the end of the year as ordinary income. These earnings are reported on a form K-1. In this situation, any distribution of earnings (or dividend) is not taxed to the partner.
- Other captives are structured as C-corporations, where any distribution of earnings (dividend) is taxed and reported on a form 1099. In this case, the captive net income is taxed at the corporate level (to the captive itself), and not taxed to each participating company.
- Please ask your tax advisor if you would like specific tax advice based on your circumstances. Your MB team can inform you of the structure of each captive option.

Health Coverage Reporting (Code Section 6055 and 6056):

The Affordable Care Act (ACA) created reporting requirements under Internal Revenue Code (Code) Sections 6055 and 6056. Under these rules, certain employers mustprovide information to the IRS about the health plan coverage they offer to their employees.

- Section 6055: Section 6055 requires every health insurance issuer, sponsor of a self-insured health plan, government agency that administers government-sponsored health insurance programs and any other entity that provides MEC to file an annual return with the IRS reporting information for each individual who is provided with this coverage. Related statements must also be provided to individuals. Reporting entities will generally use Form 1094-B, Transmittal of Health Coverage Information Returns, and Form 1095-B, Health Coverage, to report under Section 6055.
- Section 6056: Code Section 6056 requires ALEs subject to the ACA's employer shared responsibility rules to file information returns with the IRS and provide statements to their full-time employees about the health insurance coverage the employer offered to its full-time employees. The IRS uses the information provided on the information returns to administer the ACA's employer shared responsibility rules, which impose penalties on ALEs that do not offer affordable, minimum value coverage to their full-time employees (and dependents).
- ALEs will use Form 1094-C, Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns; and Form 1095-C, Employer-Provided Health Insurance Offer and Coverage.

PCORI: A fee that ACA imposes on sponsors of self-insured health plans to help fund the Patient-Centered Outcomes Research Institute (PCORI). The fee must be reported once a year on the second-quarter Form 720. This fee must be paid by July 31 of each calendar year.

RxDC Reporting: Group health plans and health insurance issuers must annually submit detailed information on prescription drugs and health care spending to the Centers for Medicare and Medicaid Services (CMS). This is comprised of several files, some of which might be submitted by your issuer, TPA, or PBM. You should check with your plan partners to see which information they will submit on your behalf. This reporting is due June 1st to report the data for the prior calendar year.

Gag Attestation: A federal transparency law prohibits health plans and health insurance issuers from entering into contracts with health care providers, TPAs, and other service providers that contain gag clauses (clauses restricting the plan or issuer from providing, accessing, or sharing certain information about provider price and quality.) Plans and issuers must annually submit an attestation of compliance with the gag clause prohibition to the federal government.

HIPAA Privacy Notice: Employers are responsible for informing covered individuals of their privacy rights under their health plan. Employers are required to provide notices at the following times:

- The time of enrollment for new employees
- Upon request
- Within 60 days of a material change to the Notice
- No less frequent than every 3 years

Video

Podcast