BUSINESS INSURANCE

Companies look to fund employee benefits through captive insurance programs

Collection of data leads to better control

Posted On: Feb. 10, 2013 6:00 AM CST

Mike Tsikoudakis (mailto:mtsikoudakis@BusinessInsurance.com) And Rodd Zolkos (mailto:rzolkos@BusinessInsurance.com)

Employers increasingly are looking at their captive structures to reduce rising medical costs globally.

AVENTURA, FLA. - Companies are increasingly looking to fund employee benefits through their captive insurance programs as they seek efficiency, greater control over their benefits programs, reduced costs and greater control over data, among other advantages.

Employers funding medical benefits through captive insurance structures, for example, are able to get access to critical medical data they can use to reduce claims and the overall cost of health care.

Employers increasingly are looking at their captive structures to reduce rising medical costs globally, panelists said during a session at the 22nd annual World Captive Forum late last month in Aventura, Fla.

Bill Fitzpatrick, London-based vice president of corporate risk benefits and insurance and risk management at Deutsche Post A.G., said the Bonn, Germany-based transportation and logistics company's global medical spending is approximately e600 million ($818.5 million).

The overall medical costs that run through DHL's captive are e100 million ($136.4 million), which includes 100 countries and 600 legal entities, he said.

“If you do absolutely nothing in the next five years, you can see (medical costs) increasing basically e60 million ($81.9 million) per year” for DHL, Mr. Fitzpatrick said. “Since we're operating on such low margins, we're going to have to figure out a way to go out and control medical costs on a long-term basis.”

DHL's employee benefits captive program has eliminated frictional costs “through the elimination of brokers” and negotiated retention levels with vendors, which saves the company 20% to 21% a year, he said.

But the captive program also provides crucial data that helps DHL figure out the cause of certain claims, Mr. Fitzpatrick said.

Francis Coleman, director of international consulting at Towers Watson & Co. in Universal City, Calif., said inadequate health care systems around the world have shifted the cost of care to employers.

“The ability to control costs is much greater under a captive,” Mr. Coleman said, who also moderated the session. “Medical data is absolutely critical. Without that, you can't really manage anything.”

Medical data collected by the captive also helps an organization align its corporate wellness strategy in different parts of the world, said Stacy Apter, Atlanta-based director of global benefits financing and asset management for The Coca-Cola Co.

“You want a broad-enough wellness philosophy from (a human resources) perspective, but the captive gives you that detailed information to really be able to make it practical and measurable on a local level,” she said.

“If you take that data you're getting from the captive, you can turn that into very tangible things. You can really start addressing what the issues are in those local countries,” Ms. Apter said.

In a case study session, Ms. Apter said Coca-Cola runs international life, disability and medical insurance; U.S. life, accidental death and disability, and post-retirement medical benefits; and pension plan funding through its captive program.

In December, the U.S. Department of Labor proposed allowing Coca-Cola to also fund U.S. employee life insurance benefits through its South Carolina-domiciled Red Re Inc. captive.

Running the benefit programs through the captive provides central management and increased efficiency and control of the benefits plans, Ms. Apter said. Using the company's captives for benefit coverage also reduces costs, provides greater control of data, provides security to plan members and more efficient funding to the company, allows the company to take advantage of scale by consolidating pension plan assets and allows for more efficient tax treatment of captive premiums by bringing third-party business into the captive mix, she said.

“These things do require a lot of attention,” she said. “Obviously, you've now entered into a crossover between HR and finance.” Support from the top in both areas of the company is critical to the captive benefits program's success, Ms. Apter said.

Michael Lusk, vice president of insurance and risk management at Decatur, Ill.-based Archer Daniels Midland Co., whose company was one of the first to win Department of Labor approval to fund U.S. employee benefits through its Vermont-domiciled Agrinational Insurance Co. captive in 2003, said a captive employee benefit program must have cooperation between human resources and risk management or “it's doomed to failure at some point in time.”

“HR and risk management are both working to make the corporation better,” Mr. Lusk said. To successfully put employee benefits in the captive, it's necessary to determine “how you meld those two capabilities.”
