SELF FUNDING OR CAPTIVE PARTICIPATION

A Simple Year-1 Decision Guide

Lee Arledge
Senior Employee Benefits Consultant
o: 470.428.9746 | c: 678.852.5852
lee.arledge@usi.com

www.usi.com

Start With This Principle

Self-Funded and Captive strategies must align with the organization's **risk tolerance**.
Success depends on **timing and financial structure** – not just the **strategy.**

Financial discipline requires being willing to wait when those conditions are not met.

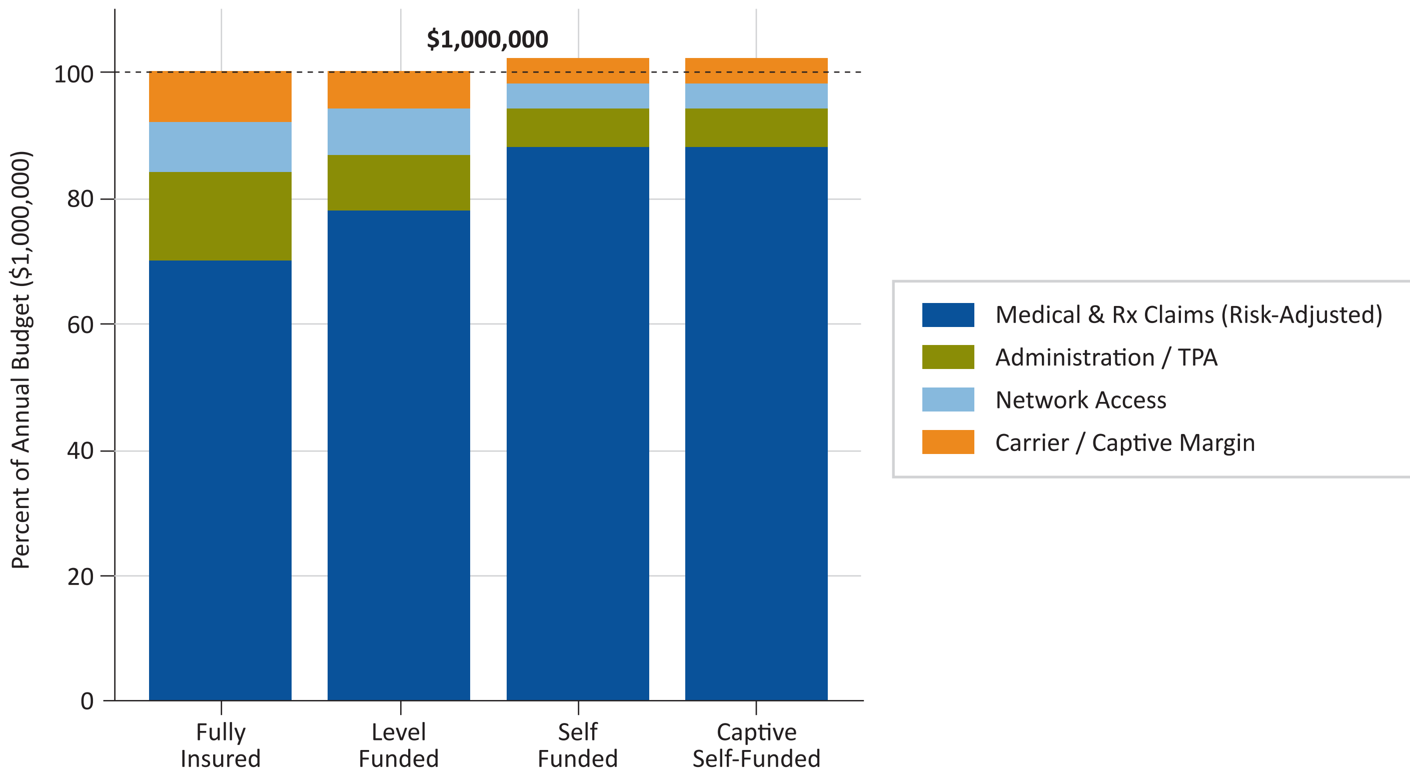
These decisions are fundamentally about how the organization finances and manages risk, not just which plan it chooses.

THE USI ONE ADVANTAGE®

Self-Funding or a Captive Makes Sense When:

- Year-1 funding decisions are grounded in **maximum claim liability**, based on how the plan is structured – not expected claims.
- The plan works **even if claims run poorly** in Year 1.
- **Maximum Year-1 liability is equal to or meaningfully competitive** with fully insured or level-funded alternatives (typically within a few percentage points).
- Any projected savings come from **fixed-cost structure**, not artificially low claims funding.
- Leadership is comfortable with the **worst-case outcome**, not just the average.

WHEN SELF FUNDING MAKES SENSE
CLAIMS SCALE WITH RISK – SAVINGS COME FROM FIXED COSTS

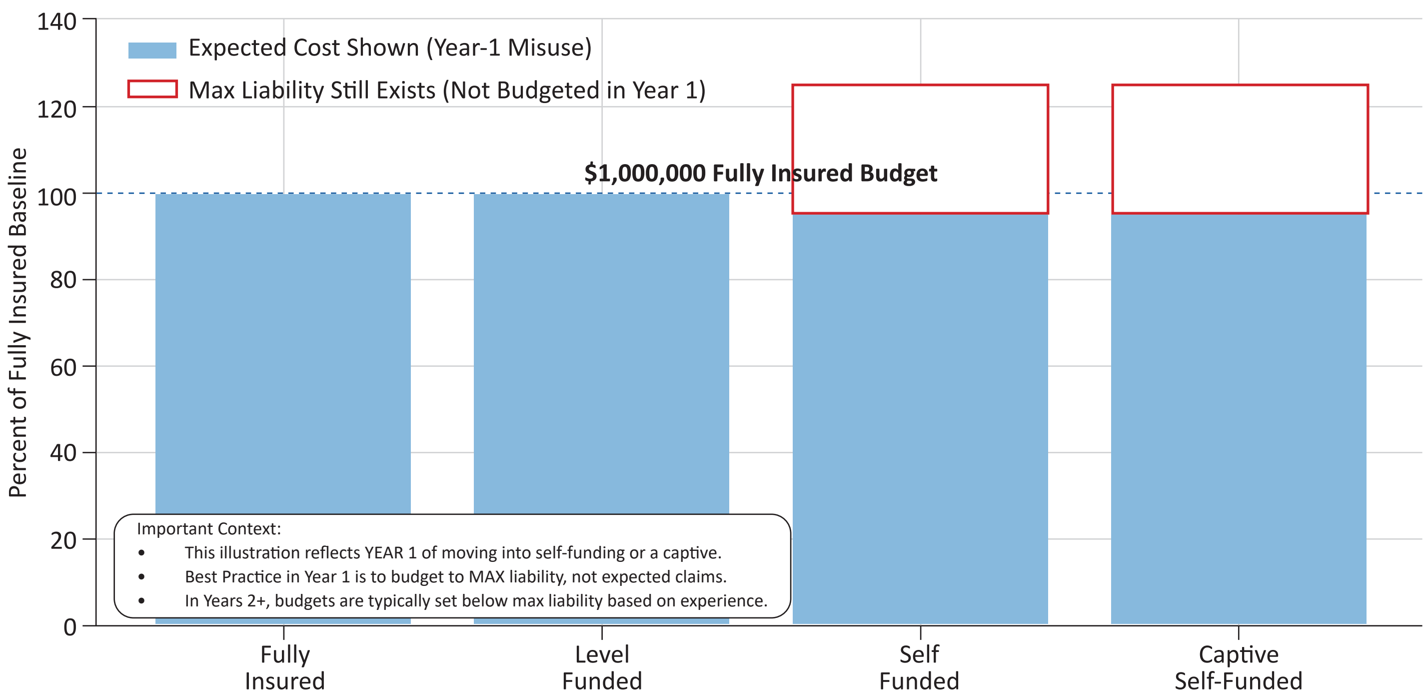


Self Funding or a Captive Does Not Make Sense (Yet) When:

- The illustration only looks attractive using expected claims.
- Claims remain flat while risk clearly increases.
- Maximum Year-1 liability creates a materially worse risk outcome than fully insured or level funded options with no clear benefit.
- The decision depends on immediate savings to be successful.
- Leadership would regret the decision if claims hit the upper end of the range.
- Claims history is highly volatile or unpredictable, making outcomes difficult to manage in Year 1.

In these cases, waiting is not conservative — it is **responsible**.

WHAT NOT TO DO: Using Expected Claims When Entering Self-Funding
Year-1 Transition from Fully Insured or Level Funded



Critical Context

- **Understanding and stress-testing decisions against maximum Year-1 liability is a required entry discipline, even when the final budget reflects how the plan is structured**
- In Years 2 and beyond, budgets are often set below maximum liability using **actual claims experience**, trend, reserves, risk tolerance, and plan structure.
- The organization must be able to absorb not just the total risk, **but the timing of when claims are paid throughout the year.**

Simple Decision Test

If an employer were choosing between two fully insured carriers, and one option was 20% more expensive with no meaningful difference in coverage, they would not select it.

The same logic applies here.

If self-funding or a captive:

- **Creates significantly higher Year-1 liability**, and
- That liability can be avoided.

Then it often makes sense to **save the money, limit risk, and re-evaluate next year.**

Why Other Organizations May Benefit Now

Some groups are benefiting today because:

- Their claims experience aligns favorably
- Market conditions support the move
- The **risk to reward tradeoff makes sense right now**

For others, the math does not work **yet** — and that does not mean the strategy is wrong.

It simply means **timing matters**.

The Goal

The goal is not to move to self-funding or a captive as quickly as possible.

The goal is to:

- Choose the best strategy today
- Avoid unnecessary liability
- And make the move when it can be done successfully

Waiting for the right time is not hesitation. It is disciplined risk management.

A Disciplined Long Term Perspective

Self funded and captive strategies can be highly effective and, over time, often outperform fully insured or level funded plans when **entered into correctly and managed with financial discipline.**

The purpose of this framework is **not** to discourage self funding or captive participation, but to ensure these strategies are implemented at the right time and under the right financial conditions. In Year 1, that means prioritizing maximum liability awareness, capital preservation, and downside protection.

When the economics do not yet support the move, **waiting is a strategic leadership decision—not a missed opportunity**. As claims experience, pricing, and broader market conditions evolve, these options should be re evaluated annually with the objective of entering when the organization can responsibly assume risk and maximize long term benefit.

NOTES

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How Can We Help?

Lee Arledge
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