THE PARTNERS GROUP

EMPLOYEE BENEFITS

So You're Thinking About Joining A Captive...

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Last fall, I wrote about why more mid-sized employers are exploring healthcare captives. As we get closer to the 2027 renewal cycle, that interest continues to build. If your leadership team has started asking whether a captive makes sense, you're in good company.

Most conversations still start in the wrong place, though.

They start with a spreadsheet showing projected first-year savings and view a captive as just another way to lower stop-loss costs. However, a captive manages healthcare spend over multiple years. Long-term results depend on program structure, capital management, and readiness to operate differently.

That shift in thinking should carry through to how the decision is evaluated.

CEOs should ask if the structure ensures stable, controllable costs over time. CFOs need clear insight into risk retention, capital deployment, and the impact on balance sheet volatility. HR leaders should look past funding and assess if the plan performs better for employees each year.

With these perspectives in mind, it's essential to dig deeper into specific elements that shape captive performance. Before moving forward with a captive for 2027, there are four areas worth close attention.

RISK STRUCTURE AND REINSURANCE STRATEGY

A captive sits between your self-funded plan and excess-loss or reinsurance coverage, but the structures vary. You should understand how each layer is structured, where your specific deductible ends, how the captive layer is defined, who bears liability, and what happens with large claims.

Aggressive underwriting often appears here. Some programs seem appealing at first but become less predictable later. Features like no new lasers and rate caps are enticing, but only last if aggressive membership growth supports them amid rising claims or undisciplined underwriting. Sometimes, a flexible laser approach is steadier over time.

CAPITAL MODEL AND FUNDING DYNAMICS

This is where many decisions stall. Moving to a captive changes how cash moves through the plan. Instead of paying a fixed premium, you fund claims, cover program costs, and post collateral.

Finance teams should know how collateral is set, adjusted, and released. The type of collateral, whether cash or a letter of credit, affects liquidity. There also needs to be clarity on how deficits are handled, how surplus is returned, and how much of your outcome is driven by your own claims compared to the broader group.

A strong structure uses capital efficiently. A weak one ties it up without clear benefit.

VENDOR PERFORMANCE

A captive structure brings increased visibility into how vendors affect program outcomes.

With more financial responsibility, your TPA, PBM, and clinical partners' effectiveness becomes more visible. If those vendors are not actively managing care, a change in funding structure will not improve results.

This is especially important in areas such as specialty pharmacy and complex claims, which account for significant spend. Without a focused clinical strategy, the funding model alone will not change outcomes. Expect full transparency, clear pricing, and accountability tied to results. The plan should also be easier for employees to navigate.

GROUP COMPOSITION AND GOVERNANCE

In a group captive, your results are tied to the other employers in the pool. That makes underwriting discipline and governance critical. Check out The TPG Difference episode on captives, or as Case Escher sometimes calls them, "exclusives".

Stronger groups maintain defined entry standards, balance risk across participants, and share data openly. They operate with a long-term view. Other groups prioritize growth and bring in new members without the same level of scrutiny, introducing risks beyond your control.

Often-overlooked components of captive sustainability are the captive manager's track record, the captive's board structure, and the voting rights members have in decision-making. Captives tend to work best when leaders truly lean in, attend member meetings, seek guidance, share best practices, and constantly look for ways to improve the status quo.

EVALUATING A CAPTIVE STRATEGY

Captives can cut healthcare spend, but structure drives savings. Before moving forward, your team should be able to answer direct questions:

- Do we understand the key elements of the captive and feel comfortable with the manager?
- Are we committed as a leadership team to "leaning in" and being more proactive in how we approach and manage our healthcare costs year over year?
- Are we comfortable with the growth rate of the captive, underwriting integrity, and the employers we're coming together with?
- Do we feel our Consultant has a true understanding of the program structure and can effectively advise us on operating a self-funded plan?

At TPG, we start by seeing if the structure fits your situation, not by pushing you into a program prematurely. A captive should be judged by long-term performance, even during high claims periods.

If you still think this fits your business, we'll discuss how to review, when to start (spoiler: now!), and cover these topics in more detail next time.