

Changes in Health Care Risk Financing: Opportunities for Captives

Even before the passage of The Patient Protection and Affordable Care Act (PPACA), anticipated changes in the way that health care risks would be financed were driving structural and operational changes in the health care industry. Hospital organizations and medical professional groups have been looking for opportunities to improve their purchasing power in order to reduce service costs. In some states tort reform measures have been enacted in an effort to control medical product and service supplier costs. These types of changes impact the risk profile of health care provider organizations, and therefore could impact medical professional liability (MPL) insurers.

The key unknown for MPL insurers is how any service efficiencies instituted in the effort to drive down the cost of supplying medical services will impact the long term cost of risk for health care organizations. Captives that finance their owners' retained MPL risk may be well positioned to share the benefits of any future reduced loss costs. Meanwhile they have to be able to adapt to the structural changes

~ *Kate Westover, Innovative Captive Strategies*
that seem to be leading, among other things, to risk concentration. As a result of merger and acquisition activity in the health care industry, RRGs may find that the number of members goes down while the total exposures are unchanged. At the same time physician-owned RRGs may lose members as hospital captives start to insure more employed physicians.

On the other side of the medical cost inflation coin, of course, you have the consumers. They have already seen the impact of sky-rocketing MPL rates which have in some cases lead to shortage of providers in high risk specialties. Hospitals and physicians seek to transfer the high cost of MPL risk to consumers, driving up not just health insurance but workers compensation premiums. If health care provider cost of risk can be contained or reduced by PPACA and the changes already underway in the delivery of health care services, health care buyers may reap some of the benefit over time in the form of lower health insurance and workers compensation premiums. The addition of a number of healthy young adults to the group health insurance pool (as insureds under their parents' policies) may perhaps help offset some of the inevitable cost inflation arising from the elimination of pre-existing condition exclusions.

Meanwhile employers that provide group benefit plans are asking whether PPACA will have an immediate impact on the way that they finance their current health care risks. Employers can not wait to find out the eventual impact of PPACA on the total cost of risk for health care organizations and on health insurance rates. They need to understand as soon as possible if there are any changes in health care risk financing opportunities for captives.

In the June 16th professional development session "Changes in Health Care Risk Financing – Opportunities for Captives," David Liner, an

(Continued on page 2)

inside:

Changes in Health Care Risk Financing Seminar	1,2
30th Anniversary of Vermont Captives	2
Conference Keynotes	2
Welcome New Members	3
Message from the President	3
ICCIE Auction	5
Message from the Chair	5
ICCIE Auction	5
Board Meeting Notes	7
Conference Sponsors	7
Member News	8
Upcoming Events	8
Conference 2011 Preview	9

Coming Thursday!

Don't Miss VCIA's:
"Changes in Health Care Risk Financing: Opportunities for Captives"

June 16th, 2011 2:00 - 4:00pm ET
Audio-conference

Dial in to this important session;
CPE/CLE credits available!

Register today at www.vcia.com



Register Online Today for
"The DNA of Captives"
VCIA's 26th
Annual Conference!
www.vcia.com

(Continued from front cover)

actuary with Milliman, and Kathleen Waslov, a consultant with Willis, will therefore begin by addressing the immediate impact of PPACA on a captive's ability to reduce the cost of providing group medical plans. Kate Westover, as consultant with Innovative Captive Strategies and the Executive Director of the Community Blood Centers' Exchange RRG, will then focus on the potential longer term impact of health care reform.

It is recommended that session attendees should have a basic understanding of how and why captives are currently used to finance employee benefits and professional liability risks. Please visit the VCIA website at www.vcia.com to access the recommended reading materials and to register online. We hope to have many on the line for this informative session.

About the Author:



Kate Westover was born in Leicester, England, and received a degree in Politics, Philosophy and Economics (PPE) from St. Hugh's College, Oxford University. She spent nine years working as an overseas volunteer, teaching English in Trinidad, Tanzania, Madagascar and Rwanda, before moving to the US with her husband and four children in 1978.

After teaching Economics for three years at Champlain College, Burlington, VT Ms. Westover pursued a successful career in the Captive Insurance industry, and is President of Captive Advisory Services, an Argonaut consulting company, based in Vermont. She has regularly published articles on the use of captive insurance. She has also published a book entitled 'Captives and the Management of Risk.'

Join VCIA's LinkedIn Group!

Pose a question, start a discussion, announce captive news, even post a job opening on VCIA's group on the professional networking site LinkedIn! The group name is Vermont Captive Insurance Association. Join today and benefit from all the networking, captive information and professional connections to be made.

Celebrate 30 Years of Captive Success!



It's been 30 years since Vermont's original captive insurance legislation was signed into law (above) by Governor Richard Snelling. Join The State of Vermont and VCIA on June 22nd from 4:30 to 6:30 p.m. at Union Station in Burlington to celebrate 30 years of captive success. Governor Peter Shumlin and former Governor Jim Douglas will be our distinguished guests. To RSVP, please visit www.vermontcaptive.com. Don't miss this historic event!

VCIA Conference Keynotes:

VCIA is pleased to feature **two** distinguished Keynote Speakers during our Annual Conference August 9 - 11th!



Dr. Robert Hartwig, President of the Insurance Information Institute and Chief Economist, will share his views at the general session on August 10th. Hartwig will provide a fast-paced session that will analyze recent trends, (both micro and macro); as well natural and man-made disasters that will affect the outlook of the U.S. property/casualty insurance industry.

Kevin Carroll, author, entertainer and agent for social change will speak at the luncheon on August 11th. Carroll inspires organizations and individuals by embracing their spirit of play and creativity. By doing so, he is able to maximize human potential and sustain meaningful business and personal growth. He has helped turn creative ideas into reality for many high visibility organizations such as The National Hockey League, The National Basketball Association, ESPN, Nike, The Walt Disney Company, and Starbucks. Join us for his fascinating story.



*Book Signing
August 11th!*

President's Message

Dear Members and Friends,

If you haven't already done so, register today for VCIA's upcoming Annual Conference August 9th – 11th! Our theme this year is "The DNA of Captive Insurance," and the event promises exploration and discovery of all things captive as never before.



Rich Smith,
VCIA President

New for 2011 is a full day of education on Tuesday including Captives 101 and 102 and a first-ever "Captive Board Member Boot Camp" all at the UVM Davis Center. Attendees at the Annual Members' Meeting will hear remarks from Vermont's new Commissioner of Banking, Insurance, Securities and Health Care Administration, Steve Kimbell. And Governor Peter Shumlin has been invited to welcome conference attendees at the General Session. Our Keynote Speakers (two of them this year) will be excellent (see page 2 for details).

We continue to have great support from the State of Vermont with Governor Shumlin and his team and the Vermont legislature. Governor Shumlin recently signed H.438 into law, a bill that contained many important changes to Vermont's captive statute. This illustrates again that Vermont can be nimble in addressing the needs of this evolving industry. At the federal level, there continues to be discussion about insurance regulation in general and Risk Retention Groups in particular. Items to watch are issues potentially affecting captives in the administration's budget and the financial services reform bill being shepherded through the Senate, as well as a draft bill that would expand the risk retention act to include property coverage. The NAIC continues its discussions on the regulation of Risk Retention Groups. We will continue to monitor these items.

In speaking with many of you these past few months, the outlook for captives in 2011 looks positive. The folks from Vermont's Captive Division said they had many good meetings at the RIMS conference in Vancouver a few weeks ago, and the State is on track to license another 30-plus captives this year.

As always, VCIA will continue to look for ways to add value for our members through education and networking opportunities throughout the year. We are planning four of VCIA's famous Road Shows for the fall and winter: Washington DC on October 25th, Boston in November, and then off to Detroit and St. Louis next winter. Details to follow!

I look forward to seeing you soon!

Welcome New VCIA Members!*

<u>Name:</u>	<u>Member Type:</u>
● Advocate Reinsurance Partners, LLC	Associate
● Alan Gray, Inc.	Associate
● Assurant Solutions	Associate
● Barclays Capital	Associate
● Broadline RRG	Trial 1 Year
● CareSource Insurance LLC	Full
● Catholic Relief Insurance Company of America	Full
● CCR LLP	Associate
● Citibank, N.A.	Associate
● Crowe Insurance Company LLC	Trial 1 Year
● CUP Re, Inc.	Full
● First British Vermont Reinsurance Company	Trial 1 Year
● First Merit Risk Management, Inc.	Full
● Fusion Sleep	Associate
● HVHC Risk Management Corp	Trial 1 Year
● McDonough & Keegan Insurance Agency, Inc.	Associate
● MGU Specialty Risk Services	Associate
● Olentangy Reinsurance, LLC	Trial 1 Year
● Prime Captive Services	Associate
● Provident Risk Management, Inc.	Full
● QBE the Americas	Associate
● Spirol International Holding Corp.	Affiliate
● Standard & Poor's	Associate
● Stein LTC Group	Affiliate
● The Omni Agency	Associate
● Trinity Assurance	Full
● VIP Insurance	Associate
● Weingarten Realty Insurance	Affiliate

*Joined between July 26, 2010 and June 1, 2011

Showcase your brand
in exclusive coverage of VCIA's
30TH ANNIVERSARY MEETING



Business Insurance

Daily News and Conference Coverage

BUY 2 ADS FOR THE PRICE OF ONE!*

VCIA 2011

Burlington, VT | August 9-11

(Ad Close: July 27)

Business Insurance is the exclusive publisher of the Official Show Daily of the VCIA 2011 Annual Conference, providing a targeted opportunity to reach attendees of the largest captive insurance conference in the world.

Reach the following decision makers:

- Captive Insurance Company Owners and Prospects
- Risk Managers
- Benefit Managers
- Captive Managers
- Law Firms
- Accountants
- Investment Managers

Business Insurance - the world's most respected commercial insurance news publication - will provide coverage of the following at VCIA 2011.

- Breaking news and in-depth analysis from the event.
- Exclusive on-the-spot interviews with key industry figures.
- Daily News from around the world reported by BI's editorial staff.
- Coverage of the scenes and activities surrounding this annual gathering.

As the Official Show Daily of the conference, you can be certain that your advertised message will reach your clients and best prospects.

Plus, a PDF of each daily edition will be available online at BusinessInsurance.com, so even non-attendees will see your ad.

ADVERTISING SPECS

	Non-Bleed Width x depth	Bleed width x depth
Spread	16" x 10"	16 1/2" x 11 1/8"
Full pg	7" x 10"	8 3/8" x 11 1/8"
Half pg	7" x 4 7/8"	8 3/8" x 11 1/8"
Quarter pg	3 3/8" x 4 7/8"	n/a
Marketplace	3 3/8" x 2"	n/a

Publication Trim Size: 8 1/8" x 10 7/8"
Live matter should be kept 3/8" from trim edges of bleed plates.

ADVERTISING RATES

Center Spread:	\$8,500
Back Cover:	\$5,908
Inside Front Cover:	\$5,525
Inside Back Cover:	\$5,100
Full Page:	\$4,930
Half Page:	\$2,958
Quarter Page:	\$1,785
VCIA Marketplace:	\$275 (net)

The rates quoted above will guarantee an ad in each daily edition at the conference.
All rates are gross except where noted.
*Receive one ad in each show daily.

Contact your regional sales office or email sstilwill@businessinsurance.com for more information.

Mid-Atlantic/International 212-210-0136 | Midwest/West/Hawaii 303-898-4043
Northeast/Canada/UK/Bermuda 617-292-4856 | Southeast/Classifieds 212-210-0129

ICCIE Hosts Online Auction

Coming June 13th -- a new online auction event: The ICCIE Summer Sale. Come browse and bid on thousands of dollars worth of items from the worlds of art, sporting memorabilia, household goods, gift baskets and much more. And 100% of the proceeds go to benefit ICCIE. (Contributions and additional donated items can also be offered through the online auction.) Look for more information at www.iccie.org.

Follow VCIA Conference updates on twitter and Linked In!



A Unique Industry Demands a Targeted Focus

Johnson Lambert is North America's Largest Insurance-Focused Audit and Tax firm.

Since Johnson Lambert & Co. LLP's inception in 1986, we have focused on distinct industry niches where we can distinguish ourselves as possessing an unparalleled depth of technical expertise and experience specifically relevant to our clients' needs.

Financial Statement Audit Internal Control Review
Tax Compliance Tax Planning & Consultation



(802) 383-4800 Burlington, VT
Jprescott@jlco.com or Mwelch@jlco.com
WWW.JLCO.COM

VERMONT • SOUTH CAROLINA • FLORIDA • NORTH CAROLINA • NEW JERSEY
VIRGINIA • ILLINOIS • GEORGIA

Message from the Board Chair



Dianne Salter,
VCIA Board Chair,
Jefferson Health System

30 years ago, Governor Richard Snelling signed into law Vermont's first captive insurance statute that set in motion a vibrant industry in the state that would have seemed unimaginable back then. As Vermont's current Governor, Peter Shumlin, signs into law updates to the state's captive statute, one can only marvel at where we stand today. With over 900 of the world's 5000+ licensed captives, Vermont ranks as the world's third largest domicile in number of licensed captives. 42 of the Fortune 100 and 19 of the Dow 30 have captive insurance companies licensed in Vermont. Now, more than 30 states have laws allowing the formation of captive insurance companies, many copied verbatim (including typos!) from Vermont's statutes.

Clearly, other domiciles see the success Vermont has had in the industry over the past 30 years and are seeking to share in this success, including premium tax revenue and well-paying jobs especially in a time of economic dislocation. However, Vermont stands out as the leader in the captive insurance industry, embodying the "Gold Standard" label. Why? There are a number of reasons, but it comes down to consistent support and superior knowledge from the regulators, service providers, policy leaders and your captive trade association, the VCIA.

Working closely with Vermont's captive regulators, the VCIA spearheaded changes to Vermont's captive statutes that eliminate the sunset on the first year premium tax credit; allow a protected cell of a sponsored captive insurance company to be formed as an incorporated protected cell; expand the potential types of companies that may be sponsors of cell structures; and, create greater flexibility within cell structures. In addition, the VCIA and the State of Vermont have worked tirelessly to ensure that the voice and interests of our industry are accurately heard and represented on Capitol Hill and to national regulatory bodies.

We continue to see growth in the formation of captive insurance companies in Vermont, due primarily to Vermont's steadfast approach in regulation and legislation that responds quickly to the ever evolving needs of the industry. Despite the continued challenging economic conditions, Vermont licensed 33 new captives last year – the most of any state in the country. Captive insurance companies continue to be a significant tool in the management of risk.

The reputation of the State and the VCIA will empower Vermont to continue to play a leadership role in attracting global organizations. From the outstanding support of our Governor and the Legislature, to our nationally recognized regulatory leadership, Vermont is all about teamwork and partnership that will build on the strong foundation built 30 years ago!

Dianne P Salter

Now Available

Risk Retention Group Directory & Guide 2011

Your Gateway to the Risk Retention Insurance Industry

To take advantage of the opportunities in the dynamic and growing Risk Retention industry, you need the help of the only publication that tackles the marketplace from the State to the National level. The annual *Risk Retention Group Directory & Guide* has been developed over 20 years to bring you comprehensive, key information for every Risk Retention Group and their Service Providers.

At your fingertips is everything you need to know about individual RRGs and the industry as a whole. Each RRG Profile includes:

- Contact information
- Comprehensive descriptions of the group and coverages
- Service providers
- Financial information



Other key features in the *Risk Retention Group Directory & Guide* are:

- Complete text of the LRRRA and the 2010 *Risk Modernization Act*
- Indexes of RRGs by domicile and business area
- Alphabetical index of service providers, with contact information, and indexed by service provided
- Industry contacts
- State-by-State survey of regulation, including fees and tax information
- Premium rankings of top RRGs, Domiciles, and Captive Managers

New This Year: Expanded State-By-State Survey of RRG Regulation and State Contacts Section!

Order Your Copy Today
www.rrr.com/order

Other Risk Retention Industry Publications

- Risk Retention Reporter
- RRG Industry Indicators
- Purchasing Group Users' Handbook
- Practical Guide to Purchasing Groups

For more information about these and our other publications, go to: www.rrr.com

Thank You 2011 Conference Sponsors:



Platinum:



Gold:



Silver:

- Travelers/Discover Re
- People's United Bank
- The Hartford Financial Services Group, Inc.
- Great American Insurance: Alternative Markets Division
- Johnson Lambert & Co.
- TD Wealth Management

Legislative News

This Just In...

VCIA is pleased to report that bill H.R. 2126 has been introduced in the U.S. House of Representatives. The Risk Retention Modernization Act of 2011 will update the Liability Risk Retention Act of 1986 to expand RRG's coverage to property, include a mediation process, and update corporate governance standards. The bill is co-sponsored by Representatives John Campbell (R-Calif) and Peter Welch (D-Vermont). VCIA and partners have been working on this bill for over 3 years. This year, VCIA staff and representatives have met frequently with the Rep. Welch and his staff who continue to show their active support for the captive industry.

We will continue to work with the House Finance Committee to urge passage and will keep you posted on the bill's progress as it makes its way through the legislative process. As always, if you have any comments, please email Rich Smith at smith@vcia.com.

Board Meeting Notes

The VCIA Board of Directors held its quarterly meeting on March 29, 2011, in Chicago. Rich Smith provided an overview of activities to date for 2011 including a very successful completion of the annual financial audit for 2010. Plans for the annual conference are well underway and membership trends are looking positive.

The vice chair nominees for VCIA's working committees were approved unanimously by the board. These people will become the chairs of the committee starting in September:

Legislative: David White, Chartis

Communications: Lisa Poulin, Milliman

Strategic Planning: Joe Janeczek, The Walt Disney Co.

Finance: Kate Boucher, American Excess Insurance

Exchange, RRG

Membership: Michelle Hubicki, Boeing

Conference: Chris Kogut, Milliman

VCIA's Director of Finance, Peggy Companion (formerly Clafin) reviewed the details of the finance report. The Board was pleased with the fact that the association ended up in the black after a tough economic year. Josh Partlow from Johnson Lambert & Co. reviewed the results of the audit with no exceptions noted and no recommendations for management. He highlighted that the strategic fund balance was back in compliance.

Rich updated the board on NAIC and federal issues indicating that the state is going to continue its proactive stance on the current issues. VCIA and the state continue to reach out and coordinate with other associations and regulators as necessary concerning these issues and their potential impact on captives and RRGs. Carol Pierce gave a brief update on the captive benchmarking project.

VCIA Member News

Patrick Theriault Joins Strategic Risk Solutions



Patrick Theriault

Strategic Risk Solutions (SRS) announced that Patrick Theriault has re-joined the firm. Patrick will lead the firm's efforts in the health insurance trust area and oversee the development of SRS's protected cell company, Y Bridge. He will also be active in supporting SRS's captive consulting and management operations and will serve as a relationship manager and peer reviewer on selected captive accounts. Mr. Theriault joins SRS from Wilmington Trust Captive Management Services.

Patrick previously spent five years with SRS as the Director of Operations and Finance for its Vermont captive management business. Patrick is a member of the VCIA Board.

CICA Honors 2011 Recipients of Prestigious Industry Awards



Michael Bemis

CICA honored the 2011 recipients of the CICA Distinguished Service Award and the CICA Outstanding Captive Award at the CICA Conference on March 13, 2011 in Tucson.

The National Catholic Risk Retention Group, Inc., was selected as the CICA 2011 Outstanding Captive Award winner. This award recognizes a successful captive insurance company or risk retention group that has shown creative uses for a captive, prevailed in difficult times, and gained a positive reputation among rating agencies, regulators, and colleagues in the captive industry. VCIA extends its congratulations to VCIA Board Member Michael Bemis and his company, the National Catholic Risk Retention Group, for this honor.

Business Insurance Risk Management Honor Roll



Mike Lusk

Business Insurance magazine recently honored their 2011 Risk Management Honor Roll members. They are: Laurie Solomon, director of risk management at Coca-Cola Co. in Atlanta; Françoise Carli, VP, insurance for Sanofi-Aventis Worldwide in Paris; Daniel Desjardins, senior director, global risk management and insurance at Bombardier Inc. in Montreal; and Michael Lusk, VP, insurance and risk management at Archer Daniels Midland Co. in Decatur, Ill. Awards were

presented at the RIMS conference in Vancouver. Congratulations to all, including VCIA Board Member Mike Lusk.

VCIA Members: If you have company news, please send it to halpern@vcia.com.

We Have a Winner!



VCIA member Joel Cramer, of AAM Company correctly identified our mystery photo from the last issue. The football star turned captive professional is Tim Padovese of Ophthalmic Mutual Insurance Company! Thank you to all those who attempted to guess his identity!

Upcoming VCIA Events:

June 16th

"Changes in Health Care Risk Management: Opportunities for Captives"
Audio-Seminar

June 22nd

30th Anniversary of Vermont Captives!
Ceremonial Bill Signing
with Governor Peter Shumlin
Union Station, One Main Street
Burlington, VT / 4:30 - 6:30pm

August 9 - 11, 2011

VCIA Annual Conference
"The DNA of Captives"
Sheraton Hotel and UVM Davis Center
Burlington, VT

September 2011

Educational Seminar, Topic TBD

October 25, 2011

VCIA Captive Road Show
in Washington, DC

November, 2011

VCIA Captive Road Show
in Boston

Details www.vcia.com



Register Today for VCIA 2011: “The DNA of Captives!”

~ Derick White, Strategic Risk Solutions, VCIA Conference Chair



Derick White, VCIA
2011 Conference
Committee Chair

The building blocks have been laid for VCIA's 26th Annual Conference and strands are evolving. “The DNA of Captives” is the theme and the course of studies includes the basics through the advanced on using captives to fit evolving needs. Register now for VCIA's 26th Annual Conference to be held August 9th - 11th in Burlington, Vermont!

The VCIA Annual Conference is well-known in the industry as one of the top conferences because of the educational sessions offered during the two and

a half day conference. CPE and CLE credits are offered throughout the conference and the cost of the credits is included in the registration fee. Come and get your credits and experience the value of the VCIA educational sessions!

The opening day will see a return of the very popular “Captives 101 and 102,” presenting captive formation, tax and other considerations. Running concurrently is a new “Captive Board Member Boot Camp,” a day long primer for any Board Member or serious service provider. This will include a working lunch to ensure all topics are covered. Other attendees are invited to start the conference in the field with VCIA's Annual Vermont Captive Open Golf Tournament at the Vermont National Country Club.

Vermont's new Governor Peter Shumlin is invited to speak at Wednesday's opening session followed by insights into insurance politics on a national level by Bob Hartwig, President of Insurance Information Institute and Chief Economist. Panel sessions include updates by respected experts in all relevant areas as well as case studies by owners themselves.

The Conference also offers plenty of opportunities to network with other professionals, and ask questions of the experts in a relaxed environment. Wednesday evening's reception will be held at Waterfront Park, a scenic and centrally located venue overlooking Lake Champlain. The Conference will conclude on Thursday with a luncheon and our closing keynote speaker Kevin Carroll, author, entertainer and agent for social change.

The VCIA Annual Conference in Burlington, Vermont is everything you need in an industry conference – convenient and economical venue; substantive educational sessions with CPE/CLE credits; and terrific networking opportunities among the captive experts in the industry. The Conference is a must attend for you this year. On-line registration is open at www.vcia.com. Join us in Burlington in August!

Comment on VCIA Conference Seminars on Twitter

Each 2011 conference seminar will have its own hashtag this year, to enable Twitter users to comment on the sessions as they occur, as well as before and after. The hashtags will be printed in our conference program, and posted on the VCIA website in advance. We look forward to this new way of hearing from you!

follow us @vciainconference on Twitter



2011 Conference Highlights:

- The captive industry's largest education and networking event, with attendees from around the globe
- 50 expert panelists with critical information on the changing economic and regulatory world
- Top quality seminars and roundtables for every level of industry experience. CLE and CPE credit offered
- New addition: “Captive Board Member Boot Camp” will be held on Tuesday at the UVM Davis Center
- General Session on Wednesday morning will feature Keynote Speaker Dr. Robert Hartwig, President, Insurance Information Institute and Chief Economist
- The conference will close Thursday with a festive luncheon and keynote speaker Kevin Carroll, author, entertainer and agent for social change
- Conference updates are available via Twitter and Linked In
- A “DNA Exhibitor Map” of the VCIA exhibit hall will allow attendees the chance to win fabulous prizes from many places, including: The Essex, Vermont's Culinary Resort and Spa; Topnotch Resort and Spa; Stowe Mountain Lodge; and Stowe Mountain Resort and Spa!