Independent Private School Funding Solutions Beyond Captives and Consortiums

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Facing cost increases and limited purchasing power, independent private schools have sought out alternative funding models like captives and consortiums. They both have advantages and limitations, but how do you know which is right for your culture and budget? Or would a solution beyond captives and consortiums be best?

Consortiums have long been popular among independent private schools as they offset the most risk while still offering cost savings, but the model is losing steam as more schools pivot to the captive model for a variety of reasons (including transparency and autonomy). However, some private schools ineligible for either consortiums or captives under ACA regulations are seeking other vendor partners to create sustainable programs while maintaining high-level benefits to keep their schools competitive.

Here are the pros and cons of both consortiums and captives, their limitations and the other viable options outside of those two solutions.

Understanding Captives and Consortiums

Both captives and consortiums allow smaller employers to band together to self-fund and reduce risk, bundle services and improve cash flow. In the consortium model, an informal group of organizations pool together to purchase together, sharing stop-loss insurance and administrative services, which results in more purchasing power and can lower renewal increases.

Consortiums are a good option for schools with lower risk tolerance, experiencing high rates or having a bad claims year. However, with this safer option comes higher-than-market rates and a lack of claims transparency (not all consortiums actually provide individual claims data even if they promise to provide it).

For many, the biggest downside of consortiums is the lack of control over the benefits program. Since your school is joining an existing group with established plans, there are no options to customize coverage for your faculty and staff. The consortium offers the same plans to each member. This limitation, along with high rates, can often push schools to seek other options.

Meanwhile, the captive model trades higher risk for more autonomy. Each employer in the pool is self-funded but shares the risk and cost of stop-loss insurance to reduce claim minimums. Individual employers take on the risk below the minimum and then transfer risk to the captive above that amount.

This can allow schools to provide more flexible coverage, reduce fixed costs and provide the claims transparency associated with self-funding. However, their size and personal risk tolerance may prohibit them from participating.

Limitations for Small Organizations

There is a large gap in these two funding solutions: Most captive and consortium models don't cover small private schools with fewer than 100 plan participants. For consortiums specifically, groups under 100 are not eligible to join.

Some schools have benefited from exceptions but, due to changes in federal regulations under the ACA, that may be ending in some cases.

This has led to a core problem for many independent private schools: If your group is ineligible for a captive or consortium, or you don't have significant purchasing power, how do you secure cost-effective coverage?

Alternative and Custom Solutions

There are several opportunities in the small group marketplace where groups can see significant savings and increased transparency.

Third-Party Vendor Solutions

There are several solutions where vendors partner with nonprofits and schools between 50 and 500 people to help them navigate increasing benefits costs. These vendors offer savings for employers and customized benefits solutions for faculty and staff while ensuring financial predictability and data transparency.

With these vendor options, schools can take back control over their benefits programs, delivering personalized benefits to their employees while still experiencing cost savings.

Individual Coverage Health Reimbursement Arrangement

Individual Coverage Health Reimbursement Arrangements (ICHRAs) have been gaining traction among smaller and mid-sized organizations because they allow employers of any size to provide health insurance coverage for their employees—or defined classes of employees—by reimbursing them for health insurance premiums that employees purchase.

The ICHRA model may be a smart and safe alternative for independent private schools that don't fit into a consortium or captive because ICHRAs can reduce the pricing volatility associated with self-funding and can make health insurance costs lower and more predictable.

Ask your broker about which custom benefits solutions could work for your culture. Regardless of your group size, changes in federal regulations under the ACA may result in changes in some benefits for participants in captives or consortiums. Even eligible groups looking for those benefits should seek other viable options. Talk to your benefits consultant to inquire about vendor solutions that could bring the most opportunities to your school.

Follow the conversation with us on.

For more information, please call: **877.426.7779**