# Large Deductible

Large deductible programs are for those employers large enough to wonder why their premiums are so high and yet their losses are so little. Briefly, large deductible programs are for those who want an option to paying high primary or first dollar premiums without much visible return. The traditional pay a premium and go away approach no longer works for this employer. A 'Retro' program no longer works for this employer. Any premium returns are years away and the ultimate claim reserves at the time any dividend is calculated are controlled by the carrier.

A large deductible program would be a perfect solution, but how does it work? With the right advisors it is just grunt work. The reinsurer says they will 'front' a policy, but you, the employer, have to pay them back for any losses they may incur beneath the high deductible. Any payments above the SIR will be paid by the reinsurer. The reinsurer provides 'fronting' company (a company that issues the policy in their name) that will provide all the necessary paperwork to satisfy State reporting requirements as would a 'first dollar' or primary carrier. In order to guarantee that the reinsurer will be able to collect on losses they pay within the SIR, a letter of credit (LOC) is required by the reinsurer should a default occur. The amount of the LOC is determined by the reinsurer and makes up a major component of the quotation. The LOC is generally required to be automatic renewable and non-cancellable during the term.

Once the employer is large enough to carry a substantial retention, their premium is greatly reduced, but what does this mean in dollars? We have handled over 15,000 self-insured and/or high deductible accounts. Putting some numbers to this will give you a decent handle on what can be expected. An employer was paying $3,049,906 in premium to a strong primary insurance company. They decided to go with the high deductible option which is more expensive than a full self-insured program as way of easing into a fully self-insured program. Their premium was $331,382 to protect against any loss exceeding a $500,000 deductible, but this premium does not represent the total cost of a high deductible program. Additional fees and loss costs are also incurred to satisfy State requirements. For example, in this case, total claims paid during the policy period was $523,897, additional costs include taxes, set up costs, claims fees and letter of credit (to protect the underwriter against employer in solvency), totaled about $103,000. That was a savings of about $2,000,000 in only the first year.

We are asked all the time whether a company is large enough to self-insure. This can be a complicated question for an employer and an easy answer for a specialist.