Covenant Choice

Frequently Asked Questions

Q: **What is a captive?**

A: A captive is a collective of individually owned companies that come together to gain economies of scale for the purchase of health plan stop loss insurance. In a captive, employers retain a certain layer of risk (risk taking), share a certain layer of risk with other participating employers (shared risk layer), and shift a layer of risk to a third-party stop loss reinsurance carrier (shifted risk layer). The third-party stop loss reinsurance carrier is also known as the "fronting insurer."

Sample Illustration

By coming together and having a shared risk layer, smaller employers gain the buying power of a larger employee pool. They are further able to gain the advantages and flexibility of self-funding that at one time was reserved exclusively for large employers. Self-funding allows employers to retain greater control over their plan design to include carving out coverages that do not honor Christian values. Members collectively and individually own 100% of the underwriting data and have access to transparency of data in the entire health insurance and employee benefit plans.

Q: **Who is the fronting stop loss insurer for Covenant Choice and what is it's A.M. Best rating?**

A: Berkley Life and Health Insurance is the fronting stop loss carrier for the Covenant Choice captive. A.M. Best Company is the premier insurance industry rating agency that provides credit ratings and financial data and information for the insurance industry. A.M. Best's purpose is to strengthen the overall financial condition and operating performance of the insurance industry by researching the financial stability of insurance companies and providing credit ratings and information services to help consumers evaluate insurance companies like Berkley. A.M. Best rates Berkley with an A+ rating, which is deemed by AM Best to have superior ability to meet its ongoing insurance obligations. Berkley was among the first US insurance companies to offer a captive and has been in the captive business since 1997, insuring US and International based captives.

Q: How is the Covenant Choice captive structured?

A: The captive is fully (100%) underwritten such that Berkley is accepting responsibility for the full risk of the stop loss contract purchased directly from Berkley on a Berkley stop loss contract. The CEA Covenant Choice risk participation that lies between the member's individual stop loss deductible retained by each captive participant to the maximum liability of the entire captive, is between the captive and Berkley. Members have no additional risk beyond their contract provisions and the posted collateral for their individual contracts.

Participating members pay Berkley a premium which includes an allowance set aside by Berkley for the shared risk layer. The maximum liability illustrated in the proposal is the maximum liability, period. The captive is stable as evidence of the superior A.M. Best rating provided to Berkley as the fronting insurance carrier and reinsurer of all contracts affiliated with the CEA Covenant Choice program.

Q: How is the Covenant Choice captive regulated?

A: The captive is domiciled in Tennessee and regulated by the Tennessee Insurance Department.

Q: If we are joining other separately owned employers outside of our own controlled group, is this considered a Multiple Employer Welfare Arrangement (MEWA)?

A: No, the captive is not considered a MEWA. Claims are not co-mingled. All claims are paid by the fronting insurer Berkley and each member has their separate stop loss contract. Berkley is the insurer of the risk. The arrangement between the captive members and Berkley for data sharing and excess reserve sharing is accomplished outside the individual stop loss contracts of the members.

Q: What are the risk-sharing levels and overarching stop loss level?

A: Covenant Choice's minimum individual stop loss per employer is set at $35,000. Covenant Choice participates through a ceding agreement in the corridor of the next layer of risk of each individual insured by the Covenant Choice program.

Q: What stop loss contract options do I have as an individual participating employer in the captive?

A: Each employer selects its level of individual stop loss from a minimum of $35,000. As any other stand-alone stop loss contract, employers may add an aggregating specific deductible, choose a "no new lasers" clause, add a terminal liability option (TLO) rider, and select the contract terms it wishes. A laser is a practice whereby the stop loss company allows the employer to set its individual stop loss deductible at a certain limit, but then increases or "lasers" the individual deductible for a specific high-risk member or members. A "no new lasers" provision prohibits the stop loss company from increasing the stop loss deductible on any one individual in the plan due to that member's increased risk exposure. A TLO rider is an optional provision that an employer can purchase to provide stop loss protection for claims incurred during the employer's policy period but paid after the end of the policy period. This TLO rider is sometimes referred to as "tail" stop loss coverage. Aggregate stop loss is also available up to 125% of expected claims. In the illustration provided below the first question in this FAQ, the expected claims are represented by the "Risk Taking" layer of the captive illustration. Most all stop loss features available in the traditional stop loss market can be purchased under the Berkley Stop Loss contracts.

Q: Is there a collateral requirement to participate in the captive? If so, how much is required?

A: The collateral requirement is currently 20% of the annual premium paid by a member. The collateral is retained by the captive but booked by the participating employer as an asset. Any remaining collateral is returned to the employer upon termination from the captive (for members who observe a two year "stay" period and meet the requirements of the Program and Company Agreements). Covenant Choice allows participating employers to spread the payments over the first 3 months.

Q: What is the country/state of domicile and taxation?

A: This is a United States captive, domiciled in Tennessee and taxed as a US entity.

Q: Do participating members receive dividends when the captive performs better than expected?

A: When the captive performs such that an excess surplus is achieved (above and beyond the actuarial targeted reserves and operating costs), and the member has been in the captive more than 2 years, dividends may be distributed. If distributions are made, they are made as soon as practically possible following 6 months after the policy period year end and may be made in the form of a premium holiday. This allows time for year-end lag, adjustments, and a complete audit of the captive financials. All participating members that experience less than a 5% subsidy from the shared risk pool in a given policy year may participate in the dividend distributions on a pro rata basis, based on their risk sharing contribution percentage.

Q: Does Covenant Choice require that we use a specific third-party payer (TPA) or pharmacy benefit manager (PBM) or network?

A: Not currently. You have the flexibility of using your preferred vendors. That said, Covenant Choice has pre-negotiated arrangements with a group of best-in-class national vendors that offer a pre-packaged solution should you wish to streamline the selection process. During this phase of growth, each member size and individual stability dictates the flexibility of the TPA, PBM and network choices. CEA and Covenant Choice do not pick up additional liability by working with TPA's and vendors that Berkley has good and predictable arrangements with.

Q: Do participating employers maintain control over their own plan designs?

A: Yes. Each employer reserves the control over its own plan design decisions.

Q: Is a copy of a sample participation contract available for review and decision support?

A: Yes, the Program Agreement is available and is part of the due diligence package made available to each prospective participating employer upon completion of a signed nondisclosure agreement (NDA).

Q: Has independent ERISA/legal counsel reviewed and endorsed the participation agreement?

A: Yes, this independent legal review has been conducted. Independent legal counsel is available for questions regarding the captive structure at no cost to you.

Q: Is there a strenuous financial data collection requirement checklist that is required of the employer prior to being accepted into the captive? (i.e.: audited financials or tax documents required prior to admission?)

A: While standard claims, census, and other data elements are required like any other stop loss provider, unlike many captives in the marketplace, Covenant Choice does not require audited financials or tax statements. The captive is collateralized and backed by the credit of the fronting insurer, Berkley, through risk shifting all liability over and above the maximum projected liability.

Q: Are there value-added services provided that are unique to Covenant Choice?

A: Yes. Participating members of the Covenant Choice captive receive:

- 5 hours of ERISA legal support in year one
- Complimentary access to HR360 – an HR/benefits compliance portal
- Periodic compliance updates
- Alliance Defending Freedom's Faith in the Workplace document
- Association status that allows for protection through legally-filed exemptions to support Christian employer rights allowing exclusion of:
    - Abortifacients
    - Transgender treatment and surgery