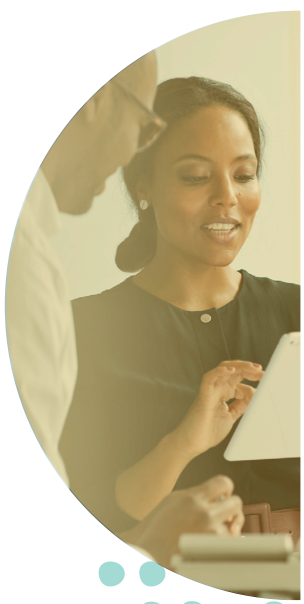

WHITE PAPER

GLOBAL CAPTIVE SOLUTIONS

Employee Benefit Captives for Global Companies

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GLOBAL CAPTIVE SOLUTIONS

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Offering employees the 'best of' global benefits—regardless of where they live—can elevate well-being, attract top talent, and simplify complexity through a captive strategy.

Ask corporate leaders around the globe about the greatest challenges they face, and no matter the industry, attracting and keeping high-quality employees will be near the top of the list. The same technology that has given businesses the flexibility to hire people from far-flung locations has sharpened the competition for skilled candidates, allowing the best people to become even more selective about where they choose to work.

Employee benefits programs have always been a visible demonstration of the importance a company places on supporting their workforce, and most corporate leaders take great pride in creating attractive programs offering industry-leading benefits. As they hire people across borders, though, ensuring everyone receives similar benefits creates its own challenges. That makes the need for global coordination of benefits increasingly critical.

For example, scores of countries provide some type of statutory government-funded coverage for healthcare needs. Every resident is entitled to that coverage at little or no out-of-pocket cost. However, the specific coverages available through each country's government-sponsored healthcare may vary. Being able to offer all employees benefits that represent the "best of" the nations may give those employees access to coverages that aren't normally available to their country's residents.

Captives Can Simplify

The captive insurance concept provides a versatile strategy for supporting and funding multinational employee benefits programs. Beyond providing the many traditional advantages of a captive insurer—among them cost control and the ability to develop and deploy surpluses—using a captive can dramatically simplify the process of compiling and streamlining benefits for employees in many countries.

A true employee benefits captive is a fully-funded multinational employee benefit program. The company creating the captive can bundle all sorts of health-related coverage and other benefits, such as life, long-term disability, dental, mental health, and higher levels of maternity and paternity benefits. (U.S. regulations preclude the use of a captive to fund traditional health insurance, although the other types are generally acceptable. We'll discuss the reasons and options shortly.)

For example, a company may want to ensure that employees receive the same level of maternity services and leaves that team members living in Scandinavia enjoy. A captive can create a mechanism for covering those claims as economically as possible. In theory, and generally in practice, offering these improved benefits will enhance the well-being of the workforce, reducing the likelihood of claims for serious conditions.

Just as important as the nature of the benefits is the wealth of data available through a multinational captive. Advanced analytical tools allow companies to explore and understand their claims histories in ways that haven't previously been feasible. That makes it easier to highlight opportunities for claims reduction related to issues resulting from the nature of the company's work.

For Voluntary Benefits, Too

Captives may also be used as a vehicle for making voluntary benefits. Some captives have been deployed for benefits such as life, disability and specialist travel and accident insurance. However, since those benefits are funded by employee contributions, they cannot be commingled with employer-paid benefits. An approach that provides an excellent alternative is to participate in a group captive arrangement with other companies wishing to offer the same set of benefits.

It's worth noting that it probably won't make sense to use a captive for predictable low-dollar claims with low risk thresholds, such as vision, dental, and short-term disability.

International Coverage and Legal Considerations

Creating an effective multinational employee benefits captive requires addressing a significant amount of information and regulatory oversight. For example, many countries have complex labor laws around benefits, taxes, and investment. In the European Union, the Solvency II regulations set steep restrictions for insurance structures on matters such as capitalization. Other laws like Europe's GDPR and the PDPA in parts of Southeast Asia govern how the company and captive protects personally identifiable information.

U.S. Differences

As noted earlier, the complexity of regulation of employee benefits in the U.S. can create issues for companies that want to combine coverages within a captive. Health insurance and other programs for health and welfare operate with oversight from multiple federal departments and laws like the Employee Retirement Income Security Act of 1974, better known as ERISA. Within the U.S., captives generally cannot be used to provide health insurance to employees and their households.

That said, employers large enough to think about the captive approach will usually pursue another form of self-insuring. To protect themselves from catastrophic claims, they can instead put a layer of reinsurance on their plan through a stop-loss program. Such a program can be structured for individual-specific claims (ISL) or aggregate claims (ASL). If the employer is self-funding the risk, they're required to comply with ERISA guidelines.

Technically, the use of stop-loss is seen as a risk retention tool and not a true employee benefit. Given that, there are two ways a U.S. employer can use the captive strategy with stop-loss coverage. The first is through a group captive arrangement involving multiple companies. The other involves combining that layer of risk in a captive with other coverages like property or cyber and obtaining a prohibited transaction exemption (PTE 79-41) from the Department of Labor. In either case, the captive avoids the requirement for ERISA compliance because the company is not covering the overall benefits, just a layer of risk for the self-insured plan itself. (The captive may be required to use a fronting carrier.)

The Pooling Process

Companies that want to create a captive to align benefits for international locations or employees who live in multiple countries will often begin through a pooling process. As the name suggests, pooling involves combining all of the company's employee benefits risk into a single program.

Because of the inherent complexities of that process, we generally recommend that companies develop a structured timeline that gradually adds individual countries into the captive over an 18-month period. As an example, the process may be structured around renewal dates for existing coverage. The company may add Japan and Singapore this month, Nigeria and Bolivia next month, and so on until every country with plan participants is covered.

Captives aren't just for employer-paid benefits—they can also support voluntary offerings and multinational risk strategies, unlocking flexibility while navigating global compliance.

It's possible that a particular country may have unusually low costs for the same benefit, so the local managers and employees may not want to be added to the pool. Some companies allow that option while others mandate full participation.

Creating the type of multinational benefit described here requires significant scale. A company may not have enough employees in any one country to make a captive feasible, but combining its entire global workforce under a single umbrella may allow it to tap into the benefits.

As global benefit costs rise and employee needs evolve, captives are becoming a powerful tool for funding everything from fertility support to mental health and DEI-focused programs.

What's Happening

Despite the volatile global political environment and its many economic impacts, the use of captives continues to accelerate. In recent months, our team has observed several clear trends regarding the strategy:

- **Increases in claim costs** continue to fuel interest in self-funding for employee benefits and strategies like medical stop-loss. Beyond the cost savings, access to data from across the multinational program offers insight into spending patterns and inefficiencies, as well as ways to keep employees happier and healthier.
- **Non-core benefits** such as fertility support and elder care increasingly appear in company plans.
- **Coverage for sensitive areas** such as mental health, wellness programs, same-sex partner benefits, gender-affirming care, and reproductive health among global employers is being dealt with through captives.
- **DEI and ESG benefits** may not be as readily embraced by some in the U.S., but are seeing increased importance in employee benefits captives elsewhere in the world, for benefits like parental leave support and sustainable transportation.
- **Creative captive approaches** see companies using their captive dollars to fund wellness initiatives like yoga classes and other benefits that enhance retention and reduce sick days.
- **High-cost drugs** with multimillion-dollar price tags are forcing many self-insured plans to take a closer look at how they handle orphan drugs programmatically and from a risk standpoint. And while the popular GLP medications can be costly, they appear to have positive effects beyond weight loss and diabetes, such as reducing cardiovascular and musculoskeletal claims.
- **Analyzing data through AI** allows companies to better understand their employees, compare claims across industries, and create targeted solutions for problems.

Creating a multinational benefits captive is a complex, long-term endeavor—but with the right partner, companies gain access to the expertise, infrastructure, and data insights needed to succeed.

Don't Try This Alone

Experienced benefits managers recognize that the development of a captive-funded multinational employee benefits program is an enormously complex undertaking that can demand effort measured in years, not months. Even a company that's only at the investigatory stage will benefit from the help of a captive partner with extensive global experience.

Establishing such a captive across multiple nations involves constant engagement with underwriters, actuaries, fronting carriers, local regulators, policy administrators, and others. In nations like Germany and the Netherlands, the process also involves relationships with local legislators, bankers, and other influentials. Additionally, data needs to be managed with care. Rather than creating these controls and resources on its own, a company gains access to everything it will need when it chooses the right consultant.