BUYOUTS BEAT

FIVE QUESTIONS WITH

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Mark Taber is managing partner at **Great Hill Partners**, where he leads the Boston growth-equity firm's healthcare team.

In recent activity, Great Hill in September invested in **Pareto Health**, which forms and manages employee benefit group captives, allowing self-insuring employers to band together to reduce healthcare costs. (In a self-insured plan the employer assumes all the risk; in fully-insured plan the risk falls on the insurance company.)

1 Great Hill has now invested in five companies that provide employer benefits services: Pareto, Quantum Health, RxBenefits, PlanSource and BSwift. Why do you like this space?

Employers are looking at employee benefits and healthcare costs the way they look at the rest of their business. They want to have control and visibility, and they're willing to experiment to get better outcomes.

For some employers, healthcare costs are going up 6 percent a year, when no other part of their business is going up 6 percent a year. This is a front-and-center, "board of directors" kind of topic. They're attacking this and looking for solutions.

It's not that payers aren't doing that, but given the size and scale of a traditional insurance company, it's difficult for them to be as nimble.

As a result of a confluence of those two things, we're finding great innovation around self-insured employers.

2 How do employer benefits vary at smaller and larger companies?

If you look at the largest employers in the country, almost all of them are self-insured. You get to a certain size and scale and it just makes more sense. You have the financial wherewithal to withstand variations year to year.

As you get smaller—if you're a 100-person employer—a big change with the health of someone can have a dramatic impact on your financials, and actually can harm the company's financial stability.

That's why you tend to see fully-insured [health plans] at smaller employers, which are paying that premium to make sure they have the liquidity to meet whatever needs and surprises come up. Most are paying an 8-to-18 percent premium per employee.

3 What is Pareto doing to disrupt the employer benefits market and address some of these issues?

What Pareto is doing … is bringing the benefits of self-insurance, which is lower cost, down into the 50-to-500 employer market. Today you see some self-insurance within that market, but not a lot.

Pareto, by bringing people into a captive, provides an alternative to fully-insured plans. Think of a captive as a big collective pool that for the most part is heterogeneous. You're spreading risk across industries and across geographies, and as you get bigger, you're like a larger self-insured employer. Your population is big enough that one person getting an illness doesn't put you into financial shock.

With Pareto, you're getting the benefits of scale that self-insurers see from an underwriting perspective, as well as cost-containment tools that are brought into the pool.

I want to emphasize that the stop-loss carriers underwriting the catastrophic risk is a really important piece of this. That's where getting to scale matters.

If Great Hill Partners, which has less than 100 employees, is the only client, it's difficult for a stop-loss carrier to underwrite insurance for us. But if we're part of a larger group, carriers can get to a statistically significant sample size and underwrite the combined group.

By aggregating a number of lives, [Pareto] can effectively bring stop-loss into that market where they previously could not underwrite stop-loss. Additionally, Pareto, once you're in their captive, doesn't laser people out. The larger group can absorb that cost. This is a huge value driver for small employers.

4 Are captives new to healthcare, and how do you think the market will look 10 years from now?

This is a relatively new product in the scheme of things. It wasn't invented yesterday; but it is not well known.

Captives have been around in the [Property & Casualty] market forever. But no one has really applied it in this way. It's not something health insurers have been selling for 15 years. So I think there's some category building and education that needs to occur. That's why we're excited.

[In 10 years] I think you're going to see a pretty good chunk of the 50-to-500 employee-life companies move from fully insured to captive. The same thing happened at larger employers. People started moving to self-insurance. It's just moving down market. It's very analogous.

5 How does Pareto fit into Great Hill's healthcare thesis and broader strategy?

Very simply, we're looking for two or three things: We're looking to lower costs. We're looking to improve clinical outcomes. And as an adjacent to that, improve the patient experience. Hopefully we're doing more than one of those.

The second thing [we look at]: How does this impact the three Ps? The payer, the patient and the provider.

What we avoid is something I'll call schemes. Something that the payer implemented but the provider hates. To me that's just a counter punch.

In short, we're a growth firm. We're not inventors. We're not entrepreneurs. We're seeing this great product with a great value proposition we think is going to be very sticky in a big market opportunity. I think we can bring a lot of tools and learning across companies—[from] things we've done well and mistakes we've made—to a company like Pareto. [Pareto] fits our MO very tightly.

Edited for clarity by Sarah Pringle