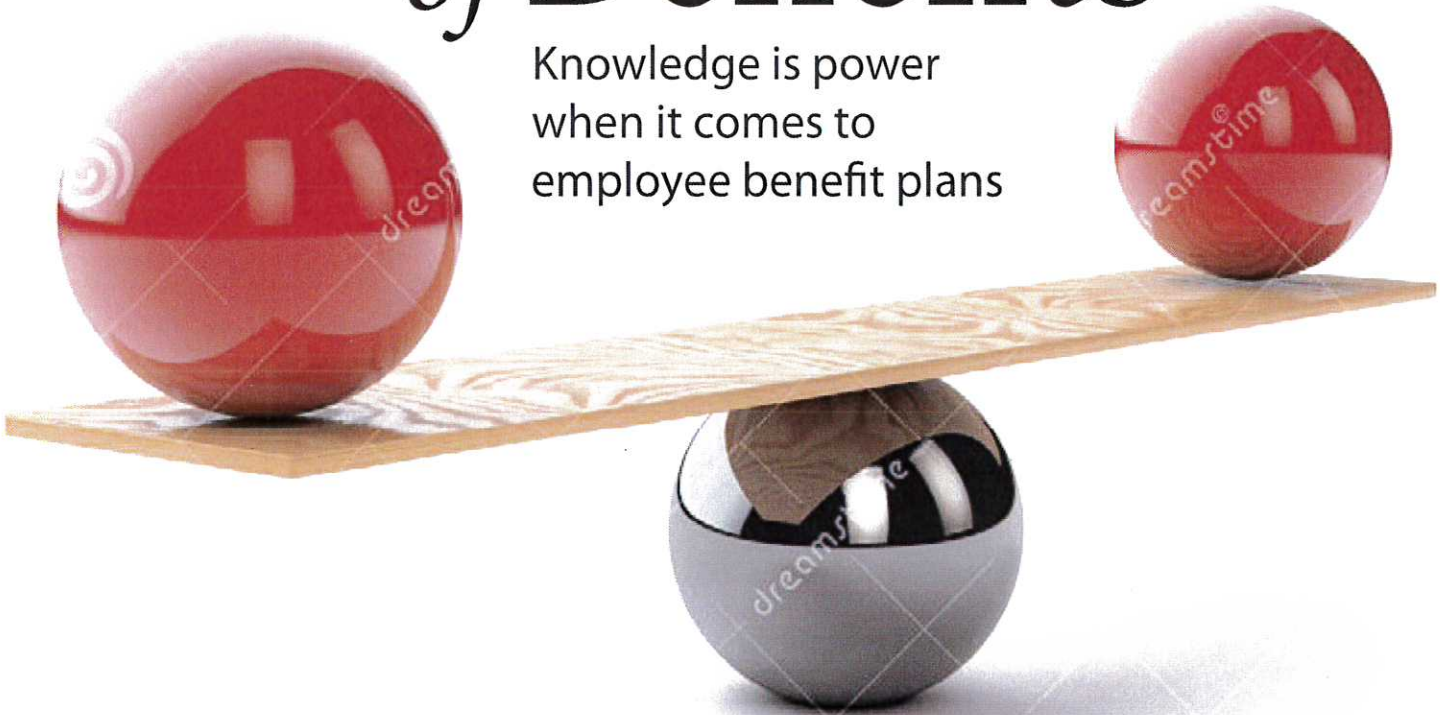


# Price Equation *of* Benefits

Knowledge is power  
when it comes to  
employee benefit plans

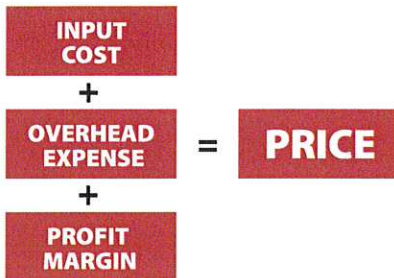


BY DARWIN FORBES

In relation to employee benefit plans, the distinction between price and value is many times under-analyzed or even ignored. Over the years, business owners and senior managers of business have been led toward looking at their employee benefit renewal and annual financial summary as a pricing matter rather than as an evaluation of value and benefit design.

Price is defined as an amount due as consideration. Value on the other hand is defined as the usefulness, merit or worth. Tracking price or the amount paid is important, but the usefulness or the value is critical. Insurers place a price on a program but it is up to the advisor and plan sponsor to understand how this price is calculated. Too often consumers are led to believe they do not have control over their insurer price increases, therefore the perceived value of their plan is minimized or at least reduced.

What is commonly ignored in these value discussions is the “equation of benefits”:



In the language of group benefits, the price is the premium.



There are two sides to a benefit plan: claims and administrative expense. Most advisors believe they may only reduce overall premium by reducing the administrative charges or by offloading cost to the employee. Increased premium sharing, larger co-insurance or deductibles all push more cost to the employee.

The reality is, 80% of all plan cost is claims! Claims drive the necessary premium to finance the plan and are not affected by which insurer is hired to pay those claims.

Your plan should include features to reduce claims but not at the expense of your employees. Including features such as Mid-Term Disability, releasing financial reserves, expedited access to diagnosis and treatment, generic drug pricing, tiered drug formularies and contracted limits on drug markup charges are simple ways to reduce overall plan cost without passing cost to your staff.

In addition to these available features, reducing plan cost may be achieved through lowering administrative cost or insurer profit margin. Commonly, benefit plan renewal discussions look only at the premium paid

## THE ROLE OF YOUR ADVISOR IS TO ADD VALUE AND ASSIST IN BUILDING A COST SUSTAINABLE PLAN AS WELL AS TO NEGOTIATE WITH THE INSURANCE CARRIER OR PLAN PROVIDER TO KEEP THE OVERHEAD COST AND PROFIT MARGIN (ADMINISTRATIVE EXPENSE) AT THE LOWEST LEVEL THAT MATCHES THE DESIRED SERVICES.

versus the claims incurred by the group. In evaluating employee benefit plan pricing, to measure only premium against claims is to ignore the origin of claims, overhead cost and profit margin.

The role of your advisor is to add value and assist in building a cost sustainable plan as well as to negotiate with the insurance carrier or plan provider to keep the overhead cost and profit margin (administrative expense) at the lowest level that matches the desired services. Consideration should be paid to the following:

- Does your plan allow for reduced cost of claims without reducing the ability to make a claim?
- Do they ease administration and efficiently resolve issues?
- How accurately are claims reimbursed?
- What personal service is being provided (not just offered) by the carrier/advisor?
- Is the carrier a willing partner or an adversary in price/premium discussions?

Many brokers only act by passing information between the employer group and the insurance carrier, rather than working to add value. Rather than a conduit for information, advisors should be investigating new benefit options, providing interpretation, discussing the causes and resulting outcomes of what the data

indicates and making recommendations that best suit your particular business. This allows the business owner to make decisions after a complete analysis, not based on emotion or a reflex reaction to a price.

The price equation of benefits shows us we must look to find success in working on all three parts of the equation not simply at the cost of administration. You can control the underlying price of the plan through proper planning and the use of the most recent advancements in benefit plan options. Your employees should not experience reduced opportunities to make necessary claims but rather they should make those claims with opportunities to do so at a lower cost.

This enhances the value of your benefit plan and at the same time brings equity to the financial results and price of that plan.



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