

Renewing Your Group Benefits Plan

BY DEKE PANKO

Every year, group benefits plans renew. Typically there are two outcomes: premiums are going up or there is a rate reduction. The question that needs to be asked in either circumstance is “why?”

Too often the reaction to a good renewal (lower premiums) is to accept it as presented and for a bad renewal (increased premiums) is to get quotes from other insurance providers. In either case, it may not be the best course of action. Understanding what goes into the renewal process is critical to ensuring the best value for the premium dollars invested into the plan. There are three parties that are involved in the renewal process: the insurance provider, your advisor and the client. Each plays a role in determining the renewal rates.

The Insurance Provider

When the insurance provider sets a renewal premium rate, it is trying to do two things:

1. Cover its claims costs, plus expenses. Claims costs are based on the client's individual experience, manual (or “book”) rates, or a combination of the two. Expenses include taxes, advisor commissions, overhead, plan administration, and profit.
2. Keep premium rates as stable as possible. Insurance companies use a variety of methods to average out costs to ensure that

premium rates are relatively stable year over year.

The two main methods used to provide better cost certainty are pooling certain types of claims and, for other types, applying a “credibility rating” to the client's actual claims experience. Benefits such as Life Insurance, Accidental Death and Dismemberment and Long-Term Disability have a low incidence of claims but a potentially high payout. Claims for these benefits are pooled with other policy holders and not charged directly to any

one client. Therefore, claims for one client's group plan do not directly affect the rates. Premiums are set based on the performance of the insurance company's block of business and adjusted for each client's change in demographics.

Health and Dental premiums, and increasingly, those of Short-Term Disability, are set based on the client's own claims experience. The degree to which the claims experience affects the premium, however, depends on the credibility factor used in the rate calculation. The credibility factor is dependent on the number of insured employees on the plan (the greater the number of employees on the plan, the greater the credibility factor will be) and the number of years of claims history that is available. Insurers consider the current year as more credible, meaning it is a better representation of what will happen in the coming year, and thus weight it higher than previous years in setting the renewal premium.

Another factor that impacts renewal rates is trend. Insurance providers include in the renewal rates an estimate of what they believe will affect the cost of health care in the coming year. Among these include the higher cost of existing products and services, newer and more expensive drugs, increasing use of existing products and services, public plan services being shifted to private plans, and changes in taxes, in interest rates, and in legislation that impacts health care. Trend is an assumption made by the insurance provider on the future costs of care and is typically well above consumer inflation.

The Advisor

It is the role of your advisor to be the advocate to the insurance provider and ensure the renewal premiums are fair and justified. The advisor has access to the client's claims data and as an expert, should be able to determine whether the rates are justified or exaggerated. Furthermore, the advisor should be able to communicate to the client the exact calculations used to arrive at the renewal rates.

Too often, renewal rates that are lower than previous years are delivered with little explanation as to why, with the advisor relying on the lower rates alone to satisfy the client. If the advisor cannot provide validation of the rates, it is possible that they did not review the renewal in detail and may have missed an opportunity to negotiate an even lower rating. When renewal premiums are increasing, the advisor should be educating the client on the cause or issue that justifies the

group benefits plan complements the goals and evolution of the business itself.

Renewing group benefits can be a difficult and confusing process, but it does not have to be that way. The renewal should continue to strike a balance between good value (as opposed to just price), and a comprehensive set of benefits that focuses on cost-containment and program sustainability over the long term. As the liaison between the client

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rate increase, what options they have within the current plan, and whether it is advisable to look at alternate solutions. The advisor should be able to offer cost-containment ideas that do not diminish the ability of plan members to make a claim. An advisor who is not educating their clients on these available, financially-sustainable plan alternatives and enhancements is either unaware of the options or is unable to offer the features.

The Client

Ultimately, the role of the client is to decide whether to accept the renewal or look at the alternatives presented. At the time of renewal, this decision should be a foregone conclusion. Regular meetings between the advisor and client should occur throughout the year to review the claims experience and ensure the plan is on track. This will help to eliminate any surprises at the time of renewal. Consequences of a change in group demographics, turnover, and claims experience should have been explained during these meetings, particularly in a pre-renewal meeting, so that the renewal is just the next logical step in ensuring the

and the insurance provider, the benefits advisor should be able to offer financially sustainable benefit alternatives, analyse the client's claims and demographic data, negotiate proper rates, and communicate this information in a transparent and honest way. When this trust and transparency exists, the client is assured that they are receiving the best value from their investment.



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