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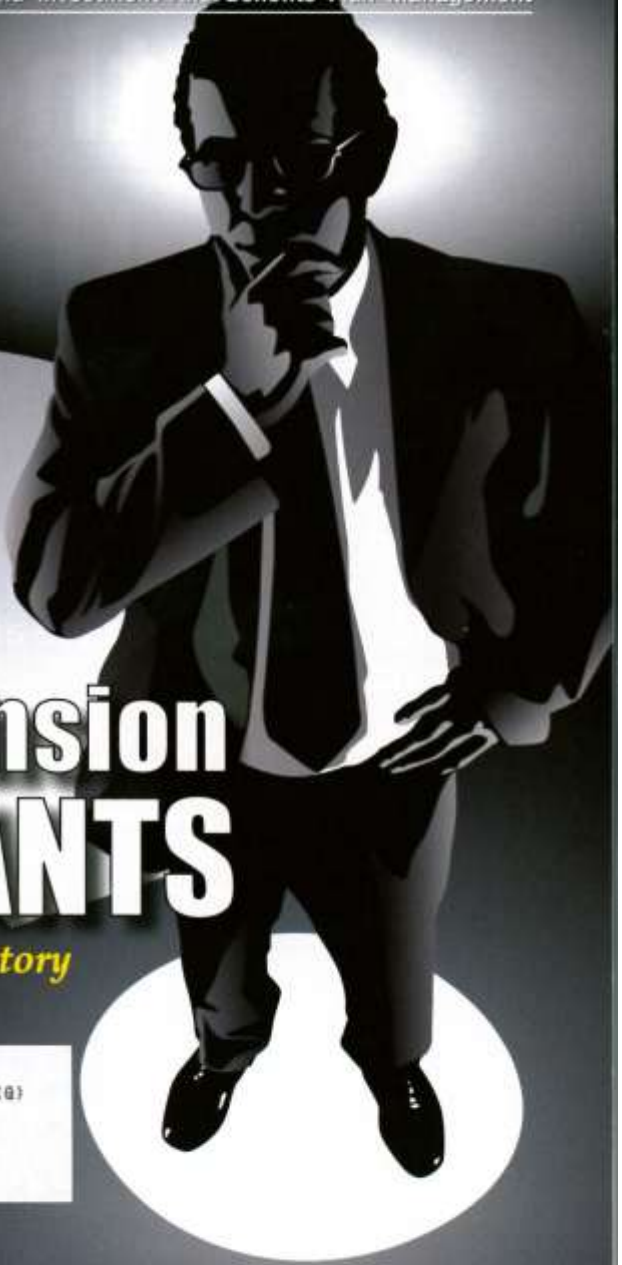

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By: Yafa Sakkejha

Group benefit brokers are starting to use new names for benefit plans which are a modification on the traditional fully-insured or self-insured (Administrative Services Only or ASO) plan structures. As a plan sponsor, it can be confusing to decode the cryptic language used. Here is a guide on how to shop for benefit plans in this new marketplace.

Benefit plan funding methods are all modifications of either fully-insured or self-insured plans. All structures fall under one of two buckets. Tim Witchell, president of employee benefits of HUB International, says "First, you have employers who grit their teeth and accept that they're obliged to pay higher costs to maintain the same fully-insured program. Second, you have employers seeking ways to mitigate those cost increases by gravitating towards defined contribution arrangements (ASO). All of these new structures are on the spectrum of fully-insured or self-insured and the employer decides what their appetite is on that spectrum."

When choosing to self-insure, it is critical that the size of the group is no less than 100 employees. Otherwise, the risk of deficits does not justify the cost savings since the smaller the company, the more volatile the spending behaviour. "A pure ASO plan on a group smaller than 50 employees could legitimately bankrupt a company," says Keisha Annius, a benefits consultant for the Beneplan Co-operative.

Self-insurance can either be done through insurance companies or third-party administrators (TPAs). These TPAs are not brokers, but rather claims management companies that pay claims, administer billings, and forward payments to the carrier(s) in question.

Internal Controls

Their fees are lower than insurance companies. However, they don't have as many internal controls to protect plans. For example, due to the Privacy Act, a claims processor is not allowed to disclose the details of the claims to the employer. They are not allowed to know information on specific employee expenditures for fear they might dismiss an employee who is costing a lot on the plan. Therefore, the following very unusual business practice exists. A company is hired to spend an employer's money (on health claims), but they are legally not allowed to tell their client exactly how they spent their money. Some companies get nervous with this and choose to pay more to be with an insurance company since they have more internal controls and processes.

Aside from being offered fully-insured or self-insured plans, plan sponsors are bombarded with a number of different ways to market benefit structures.

Lee Vardy, a benefits consultant with Dan Lawrie Insurance Brokers Ltd, says that choice is a good thing for the market. "Many employers have begun to realize that there are alternatives to traditional, fully-insured benefit plans. Creative solutions such as ASO, co-operative programs, and healthcare spending accounts have grown in popularity due to their financial transparency and sustainable premium savings."

One example is a benefit co-operative which is member-owned structure registered with Revenue Canada and run by a public charter document. Employers, as member-owners, pool their risk and group buying power together to reduce fees and risk. This approach is a hybrid in that there is a refund if health, dental, or life insurance premiums were higher than claims, yet deficits are forgiven if claims were higher than premiums. Another way of looking at this structure is that every member-owner has a fully-insured plan, but the entire co-operative is a self-insured entity. Claims are outsourced to an insurance company. Rates, premiums, and refunds are audited by a third party.

Some plans are a pure hybrid of fully-insured and self-insured. They self-insure the first few thousand dollars of claims, (eg, $3,000) and then insure the rest above that amount. The cost for stop-loss insurance becomes very expensive. Another way of looking at this structure is that it's a fully-insured plan with a very large deductible of $3,000 to the employer.

Self-insured offshoots are another possibility. They include retention accounting. This structure is pure self-insurance, except for the fact that deficits and surpluses are smoothed over the year and added to monthly premiums, instead of being distributed or charged in a one-time lump sum amount.

Some employers prefer pure health spending accounts where they give employees a lump sum (eg, $2,000) for the year for drug, paramedical, and dental costs. The rest of the plan, including hospital, out-of-country coverage, life insurance, and so on, is purchased as separate full insurance. Health spending accounts must always be funded by employer dollars for tax efficiency reasons. This is because asking an employee to pay a contribution towards a health spending account is asking them to use their after-tax dollars for something where an employer can use pre-tax dollars. Further, the employee has to pay fees which are built into the cost – so you might have an employee contributing $100 of after-tax dollars to get $90 in benefits (after fees). However, if the employer pays for all of it, the employer can write it off as an expense and the employee is able to obtain $100 in benefits.

If an employer wants an employee to contribute towards the plan, it is always preferable to ask them to pay for the long-term disability, life insurance, and/or core insurance. It is far more valuable from a tax perspective.

Chart 1

Making Sense Of Plan Language

ISSUE	FULLY-INSURED	SELF-INSURED (ASO)
RISK	LOW	HIGH
	There is full coverage and employers are not responsible to pay plan deficits.	Employers are responsible to pay plan deficits.
COST	EXPENSIVE	LOW
	The average Target Loss Ratio is 75%, meaning the mark-up is 33% on the cost of claims.	Fees to pay claims can run between 7% to 18% of the cost of claims.
PREMIUM INCREASES	FREQUENT	DEPENDS
	Insurance companies usually give a low quote to 'buy the business' in the first year, and then significantly increase rates in following years.	Employers with lower than expected claims should receive lower renewal rates and vice versa.
REFUNDS	NONE	YES
	If premiums far exceed claims, the money is kept by the insurance company.	If premiums far exceed claims, the money is refunded back to the employer.
HIDDEN FEES	FREQUENT	SOMETIMES
	Incurred But Not Reported Reserves (IBNRs), Commissions, Margins, Inflation, Trend, and usually hidden. Fees are notoriously padded.	Hidden fees can include stop-loss, risk charges, commissions, and charges to print booklets or reports.

Pay-as-you-go

The pay-as-you-go funding method simply invoices the employer for the amount of claims incurred every month, instead of providing one steady monthly premium, and doing a year-end reconciliation. This could lull an employer into a rut as rates would never increase. Thus, if the administrative cost of the plan is increased, an employer would not receive a clear flag indicating so.

"The biggest misconception is that insurance companies subsidize your coverage and that health and dental benefits are pure insurance. They are not insurance. Health and dental coverage do not meet the criteria of insurance, which by definition is coverage for unforeseen and catastrophic events. It is just a cash flow arrangement for health and dental," says Annius. BPM

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