

PRICING EMPLOYEE BENEFITS

When you purchase employee benefits, the insurance company calculates your premium one of three ways:

- 1) If you are a first time buyer they quote their “**Market Rates**”. These rates are their best guess, based upon your requested plan design and personal data of age, sex, marital status, occupation and salary of your employees.

When you receive your quote it will include the insurance companies “profit point” called “**Target Loss Ratio**” (TLR) expressed as a percentage. The TLR is a very important part of your premium renewal calculation for Extended Medical and Dental at every renewal. Your first renewal will be in 12 or 15 months from the effective date of your plan.

For groups of less than 10 employees the TLR is between 65% and 71%. Companies with 10 to 25 employees will have a TLR between 68% and 78%. It is important to know your TLR percentage when you buy your plan, and at every renewal.

Calculating the dollar amount of your **TLR** will provide an idea of the administration fees the insurance company is charging. You can do this by adding together the monthly premium for single and family rates for the Extended Health (EHB) for the period before the next renewal (12 or 15 months) and multiply that by the TLR percentage quoted. This dollar amount will give the figure your employees can spend before the insurance company starts to lose money and you will have a premium increase at renewal. You should do the same calculation for the dental plan.

- 2) The purpose of the **Annual Renewal** is to recalculate your premium for your plan. Life insurance and long term disability will be adjusted based on the average age of your employees. The Extended Health and Dental premiums will be adjusted based on “**Claims Experience**”.

This calculation is the total of all paid claims for Extended Health and Dental divided by the total premium paid for the same period of time as the claims period (usually 12 or 15 months). This calculation will be a percentage. Your “**Experience percentage**” or “**Loss Ratio**” shows the insurance company if they are making or losing money.

Other factors taken into consideration at renewal are: inflation, trend, change in reserves, premium taxes, etc. The inputting of all these factors into a formula determines if you will receive a premium increase or decrease. This type of pricing is called “**Experience Pricing**”.

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A simple formula you can use to calculate your renewal premium for Extended Health and Dental:

$$\frac{\text{Your Loss Ratio}}{\text{Insurance Company's Target Loss Ratio}} \times \text{Benefit Premium} \times \text{Inflation} = \text{New Premium}$$

For example:

$$\frac{120\%}{71\%} \times \$97/\text{mo} \times 1.15\% = 165\% \text{ increase or } \$160/\text{mo. (maximum premium)}$$

The premium for this benefit will be increased from \$ 97.00 per month to about \$160.00 for the next year. If you have high claims in the second year your plan has problems.

A factor having a significant impact on premium renewals in the last year has been layoffs. When you buy a plan or you have your annual renewal, the premiums for the Extended Medical and Dental insurance are partially calculated based on receiving a certain amount of premium for that policy year. Any reduction in this premium could cause a higher than normal increase in rates at the next renewal.

You should be aware of how claims experience can be used against you when you purchase an **Experience Priced Benefit Plan**.

- 3) The third pricing system is "**Pooled Benefit Plans**". Pooled Benefit plans are owned and administered by **Third Party Administrators (TPA's)**. They negotiate and buy their insurance products at wholesale prices, and then add on their administration costs or profit to obtain the gross premium.

The advantages of Pooled Priced Plans:

1. a **Benefit Pool** is created by business of all sizes and occupations combining premiums to buy benefits
2. many of the **problems** outlined above concerning Experience Priced Plans do not exist with Pooled Pricing
3. when a small business buys a Pooled Plan, they are offered benefits usually only available to much larger companies
4. current and future premiums are calculated on the Experience of the Pool

5. **“SAFETY IN NUMBERS”** - spreading of claims experience provides premium stability
6. **“Higher spendable premium”** by bringing a large number of businesses together, the TLR for the Pool is at a higher level , providing more spendable dollars for benefits
7. Benefit Pools are the safest pricing option for companies of 1 to 50 employees

Like many things in life **“you never get a second chance to make a first impression”**. It is no different when buying employee benefits.

If you buy an Experience Priced Plan and have high claims, the insurance company will increase premiums to a level which enables them to recover losses. If you want to shop around for a new plan other insurance companies will want to know your experience and premium history for as much as 3 years.

With businesses always looking for a better deal, insurance companies are now keeping records of such companies. It is now common practice for companies to decline to quote if you have not been with the same insurance company for 3 years.

As the insurance market gets smaller choices for small companies to buy benefits for their employees is limited. Pooled Benefit Plans are the best.

If you have questions please contact me.

For more information on Pooled Benefit Plans and other Insurance Products and market trends subscribe to my Newsletter W.I.N.