Top 10 Pitfalls of Employee Benefits

Presented by: Jeffrey Stinchcombe

1. Paying retail instead of wholesale

**Old Practice**

- Most plans are on a **fully insured** basis
- Most employers ‘overpay’ for benefits. That’s why they call it a ‘premium’

**Best Practice**

- Fully insure some benefits
- Self-fund or ASO on Health and/or Dental
- Eliminating 5-30% of your costs forever

Risk Management – 101

**Definition:** *premium*

*pre·mi·um – noun [prē-mē-əm]*

a) sum over and above a regular price paid

b) a sum in advance of or in addition to the nominal value of something

c) a high value or a value in excess of that normally or usually expected (put a premium on accuracy)

Benefits are broken down into two categories:

1. **Pooled Benefits &**
   - Life Insurance
   - AD&D
   - Dependent Life
   - Long Term Disability
   - Out of Country Travel

2. **Experience Rated Benefits**
   - Extended HealthCare
   - Prescription Drugs
   - Dental
   - Vision Care
   - Short Term Disability
Pooled & Experience – What’s the Difference?

Pooled Benefits:
- Are a small part of your monthly Group Insurance Premium
- Are unpredictable in nature
- Are usually for Catastrophic Events like Disability and Death

Experience Rated Benefits:
- Are the majority of your monthly Group Insurance Premium
- Are somewhat predictable in nature
- Are for repetitive, day to day events (Dental Check-ups, Prescription Drug Renewals, and Eyeglasses)

Pooled & Experience – How Are Rates Calculated?

Pooled Benefits Renewals:
- Based on a combination of:
  - Insurers Total Claims Losses in the marketplace, AND
  - The Employee Demographics and Claims history of your specific group.

Experience Rated Renewals:
- Based on:
  - Your own Group’s experience (claims paid + a reserve)
  - Trend/inflation Factors
  - Your Group’s Target Loss Ratio AND
  - The “credibility” or weight given to your claims experience

Why pay retail when you can pay wholesale for your health and dental?

Risk Management – 101

Health Premiums

Claims

Best practice

This is retail...

The sum of these parts equals your monthly rate.

This is wholesale!

Under an ASO contract your “Experience Rated” Benefits are comprised of:

What’s been eliminated/reduced?

That’s It

Insurance Costs (Stop Loss)

Admin Charges & Commissions

Actual Paid Claims
**Expert tip!!**

- **Long Term Rate Guarantees** are now available for Life & LTD
- Seek 3 and even 4 year rate guarantees on Life & LTD
- We are receiving 5 year rate guarantees on ASO fees

**Buy insurance for ORANGE benefits**

<table>
<thead>
<tr>
<th>Pooled Benefits Include:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Life Insurance</td>
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<td>- Long Term Disability</td>
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<tr>
<td>- Out of Country Travel</td>
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**Self Fund Predictable GREEN benefits**

<table>
<thead>
<tr>
<th>Experience Rated</th>
</tr>
</thead>
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<td>Benefits Include:</td>
</tr>
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</tr>
</tbody>
</table>

**How Budgeted ASO works (BASO)**

**Appropriate Funding Models**

```
# of employees

0-50  51-100  101-250  251-500  501-999  1,000+
```
2
Out-of-date Risk Models

Best Practice #2 – Risk Management

Question
Am I protecting my firm with the best risk management tools available to me as the buyer?

How Good are your airbags?

Best Practice #2

2014: An unprecedented year for new drug launches

2014: An unprecedented year for new drug launches

Best Practice

Old Practice

• Buy Health ‘insurance’ and pay a ‘premium’ without understanding the financial risks over mid to long term.

Best Practice

• Understand these risks and discuss your internal risk tolerance. Buy smart insurance, called “Stop Loss” to ensure that your coverage is still unlimited – but your financial risk is capped.

2014: An unprecedented year for new drug launches

Source: IMS Health; Canadian Drug store and Hospital Purchases, 2015, December 2013.
The Employers’ Risk for EHC:

- There are two areas of risk of concern to an employer under the EHC benefit:
  - Individual Catastrophic Situation – an individual or group of individuals developing a severe medical condition with your employee group (MS, AIDS, Cancer, etc.)
  - Large Group Catastrophic Situation – a large number of your employees significantly increase their claims utilization over the prior years (e.g. Pandemic, SARS, mass-accident, etc.)

Expert tips!!

- Scrutinize your stop loss levels
- Understand your attachment point levels
- Change to ‘per cert’ stop loss instead of ‘per individual’
- Introduce Aggregate Stop Loss
- Reduce your risk by up to 10x

Let’s look at a real-live example...

- 168 employees in this group
- Canadian law firm
- $10,000 High Claims Pooling coverage per person
- Current max exposure = 168 ee’s + spouses + dependents X $10,000 = $3,740,000
- By moving to a $12,500 per certificate model with Aggregate Stop Loss they could reduce max exposure down to = $250,000
Self fund the experience rated (GREEN) benefits;
- Health
- Dental
- Vision
- Drugs
- STD

Buy Insurance for Pooled (ORANGE) Benefits
- Life
- LTD
- AD&D
- Travel
- Stop Loss

Buy proper Stop Loss Insurance to eliminate Risk

Actual Client Illustrations

Case Study #2 – Real Canadian Employers

Case Study #2 (FULLY INSURED)
- 166 employees in Canada
- Firm located in Toronto
- 4 year study on employee benefits funding model
- Client was fully insured on Health & Dental
- Client was overpaying on their fully insured benefits by $142,000 over a 4 year period

<table>
<thead>
<tr>
<th>Annual Cost of Insured</th>
<th>Self Funded</th>
<th>Total Annual Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>$595,000</td>
<td>$605,000</td>
<td>$57,000 or 9.9%</td>
</tr>
</tbody>
</table>

Actual Employee Savings:
Foscro Franchise Savings 2012
Total 4 year savings $142,000
Case Study #3

- About 150 employees on a Non Refund Contract
- Overpaying significantly for health & dental year after year
- Conducted Audit after course

Case Study #3 – Real Canadian Employers

Company #3

- In 2014 – client paid $385,878 in EHC premium.
- Their employees received $243,041 in claims
- The insurer applied a 17.9% Inflation factor called “trend”. Real trend in 2014 was -3%
- The insurer has applied a 14.1% Retention Factor (that is a buffer for claims that are in but not reported).
- It is not something that is required in today’s ‘pay direct’ market whereby you have pay direct cards for employees.

Case Study #3 – Real Canadian Employers

Company #3

- Client paid $222,540 in Dental premium
- Employees received $154,704 in claims
- The Insurer applied a 10.9% increase for 2015 Dental Fee Guide. Actual 2015 dental fee guide is 1.53% (see chart below)
- The insurer has applied a 14.1% Retention Factor (that is a buffer for claims that are in but not reported)

<table>
<thead>
<tr>
<th>Company</th>
<th>Premium Cost</th>
<th>Claim Cost</th>
<th>Retention Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care</td>
<td>$222,540</td>
<td>$154,704</td>
<td>14.1%</td>
</tr>
<tr>
<td>Dental</td>
<td>$178,054</td>
<td>$126,340</td>
<td>14.1%</td>
</tr>
</tbody>
</table>

Actual Retroactive Savings: $293,354
Quantum Risk Reduction

Outcome of Case Study #3:
- The firm now has much more transparency in the funding process
- By changing funding models, the firm was able to stop donations in the amount of $291,000 over a 3 year period
- Massive reduction in risk by purchasing proper Stop Loss coverage

Why not purchase your benefits like you do everything else?

Buying all your benefits from only one provider

Best Practice #3 – Plan Administration

Question
Am I utilizing the best administration partners to manage my plan for the long term?
Going to Market (Functional)

Employer (plan sponsor)

Consultant

Insurer 1
Insurer 2
Insurer 3
Insurer 4
Insurer 5
Insurer 6
Insurer 10

Best Practice #3

Work with a TPA to change the insurer accountability model

Old Practice

Most employers buy all their group insurance from one insurer
Means that the Employer is accountable to the insurer

Best Practice

Work with a TPA
Allows you to deal with many insurers, but one bill, one point of contact
Makes insurers accountable to you

Which Quote is the Best?

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Carrier 1</th>
<th>Carrier 2</th>
<th>Carrier 3</th>
<th>Carrier 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life</td>
<td>$150</td>
<td>$100</td>
<td>$250</td>
<td>$200</td>
</tr>
<tr>
<td>AD&amp;D</td>
<td>$50</td>
<td>$100</td>
<td>$150</td>
<td>$40</td>
</tr>
<tr>
<td>LTD</td>
<td>$200</td>
<td>$250</td>
<td>$300</td>
<td>$600</td>
</tr>
<tr>
<td>Health</td>
<td>$400</td>
<td>$500</td>
<td>$300</td>
<td>$500</td>
</tr>
<tr>
<td>Dental</td>
<td>$400</td>
<td>$450</td>
<td>$350</td>
<td>$450</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$1,200</td>
<td>$1,400</td>
<td>$1,350</td>
<td>$1,790</td>
</tr>
</tbody>
</table>

Third Party Administration (TPA)

TPA Configuration

Online Enrollment

Results:
- 1 Relationship with TPA
- 1 Point of Contact
- 1 Enrollment Form
- 1 Bill
- No re-enrollment required when changing suppliers
- 1 source of master data
4 providing a sickness plan instead of a real health plan

**Best Practice #4 – Wellness**

**Question**

Am I engaging my employees to help them live healthier more productive lives?

**Introduce Wellness**

**Old Practice**

- Most employers haven’t even begun to consider wellness
- Many work with with EAP’s (which are reactive)

**Best Practice**

- Introduce wellness to your staff (which is proactive)
- Control your long term costs by introducing a culture of wellness
- Change your plan from a sickness plan to a real health plan

**Risk Management – 101**

**The Smart Solution**

Wellness addresses THIS line

- Claims
- Premiums

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>$200,000</td>
<td>$180,000</td>
<td>$160,000</td>
</tr>
<tr>
<td>$140,000</td>
<td>$120,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>$80,000</td>
<td>$60,000</td>
<td>$40,000</td>
</tr>
<tr>
<td>$20,000</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

**Wellness Programs are evolving as we speak – but here a few things to look for in a good program**

1. **Wellness Coordinator**
   - You don’t have time. Is there a resource to work with?

2. **Wellness Surveys**
   - Do you know what your staff want? A survey will help.

3. **Health Risk Assessments**
   - Research shows just taking an assessment helps improve health

4. **Nutritional Counseling**
   - Better eating leads to better health through education

5. **Online Courses**
   - A great way to reach employees and their dependents

6. **Executive Medicals**
   - It pays to be proactive with your top execs on yearly medical screening

7. **At Work Programs**
   - Have you had any lunch or at work screenings?

8. **Wellness Fairs**
   - Generate a buzz and engage staff in wellness
Evaluate Corporate Health Against National Averages

Many Employers look at overall health of employees drug consumption vs. Canadian average

Best Practice #5 – Value Added Services & Products

Question
Am I getting more value for less money out of my employee benefits plan purchase?

Best Practice #5

Accepting plans you’ve inherited

- Do you complain of costs increases year over year?
- Do you cut coverage in order to remain cost neutral?
- Apply best practices for funding AND THEN;
- Ask for more from your providers
- There are lots of value-added benefits available to you as the buyer at no cost

Trip Cancellation: Included

- $5 million per insured for each stay abroad
- Over age employees get full access to travel benefits
- Trip Cancellation up to $5,000 included FREE with every trip
- Maximum trip duration mirrors OHIP rules (183 days)

Get the insurers to pay for your EAP and other value added programs

Old Practice

- Some employers pay on a PEPM basis for EAP’s
- Many employers aren’t aware of FREE value added programs available just for the asking

Best Practice

- Embed the EAP in your LTD – paid for by the insurer
- Implement many FREE value added programs available from insurers
- Ask “what value added products do you include for free?”
EAP – Employer Assistance Program (Management Referred): Included

3 free services designed to help your managers deal with every-day situations:

- **EAP** – Employer Assistance Program (Management Referred): Included
  - Lower your corporate drug costs by introducing your employees to Sobeys’ Pharmacy by Mail
  - Helps your chronically ill employees get access to routine, consistent prescription drugs:
    - Lower their costs
    - Lower the dispensing fee
    - Lower your ingredient costs
    - Receive regular prescriptions at home by mail

**TOP 10 Employee Benefit Pitfalls**

6 Underserved by your provider

**Best Practice #6 – Service Levels**

**Question**

Am I getting the frequency and quality of service I deserve to best manage my benefits plan?

**Best Practice**

- Demand a Service Level Guarantee
- Regular meetings/updates from your broker
- Proactive recommendations – not reactive
- Concierge service with dedicated service representatives who know your environment

**Old Practice**

- Most employers don’t have a service level guarantee in place
- Service needs to be measured from both your insurer and your intermediary

**Annual Renewal Meeting**

- Reporting delivered at Renewal
Best Practice #6

**8 MONTH REVIEW Meeting**

- Pre-renewal Meeting
- Detailed Reporting Monthly
- Renewal Meeting

Best Practice #7 - Benchmarking

**Question**

*Have I compared our plan to our competition to evaluate from a recruit, reward, retain point of view?*

Optimization should include:

- Line by line analysis of how your plan compares to competition (and national average)
- Recommendations on how to change your plan to address your strategic goals
- An action plan to implement the changes

Best Practice #7

**Benchmarking & Optimizing your plan design**

_____

- **Old Practice**
  - Adopt the plan design that you inherited
  - Keep all benefits the same as they’ve always been
  - Don’t look for new ideas

- **Best Practice**
  - Consider plan design changes that optimize the employee’s experience and controls cost for the employer
  - Change plan to meet multi generational needs
  - Introduce innovation in your plan design
  - Compare your plan to the national average and to your competition
  - Add Classes for different employee levels

Your coverage: same as it ever was
8 disability mis-management

Best Practice #8 – Disability Management

Question
Am I employing today’s best practices for absence management – both Short and Long Term Disabilities?

Integrate STD/LTD and optimize disability management

Old Practice
• Most employers self manage and self fund their STD
• Most employers don’t manage their employee absenteeism

Best Practice
• Integrate your STD/LTD
• Introduce ‘3rd day intervention’ by claims manager
• Introduce structured return to work programs
• Actively manage LTD’s

Best Practices for STD/LTD include:
• Integration of both STD & LTD coverage with same provider
• Look at all funding models
• 3rd day intervention by 3rd party
• Ensures:
  – No conflict of interest
  – Professional management
  – Privacy in process

Align your LTD and STD Provider;

Common Practices;
No Short Term Disability Policy

Challenges to this practice;
• No management of first 117 Days
• No return to work plan
• Presents challenges to your LTD provider
Best Practice #8
Integrate STD/LTD and optimize disability management

Common Practices;
Short Term Disability managed by you

Challenges to this practice;
- Potential Conflict of Interest
- Privacy Concerns
- No internal expertise in managing disability

Best Practice;
Short Term Disability managed by your LTD provider

Solutions to this practice;
- No Conflict of Interest
- No Privacy Concerns
- Utilizing expertise in managing disability

Best Practice #8
Integrate STD/LTD and optimize disability management

Common Practices;
Managed by 3rd Party (not LTD provider)

Challenges to this practice;
- No continuity in management practices
- Creates "he said, she said" environment
- Poor communication

Best Practice #8
Integrate STD/LTD and optimize disability management

Consider All Funding Models for STD:
1. Fully Insured
2. ASO
3. Retention Accounting
4. Advice to Pay

All Source Maximum
- It is also important to consider the plan’s "All Source Maximum"
- The purpose of the all source maximum is to prevent situations in which an employee’s total income in disability (from all sources), exceeds his/her pre-disability earnings
- Effectively eliminating the financial incentive for the employee returning to work

Graded or “Tiered” Disability Schedule
Best Practice #8

100% wasted premium

Best Practice #9

Question
Am I truly receiving the level of reporting that I need to **actively manage** and understand our employee benefits plan?

Best Practice #9 – Reporting for good governance

**Demand deep reporting**

**Old Practice**
- Most insurers/brokers report the bare minimum
- Many employers have a difficult time receiving meaningful reporting on a timely basis
- Often blamed on ‘privacy legislation’

**Best Practice**
- Demand deep reporting including claims by certificate, list of conditions & other important info
- How can you manage without good information?

**Reporting**

Deep reporting should include:
- Detail by line of benefit, by certificate – NOT just a total
- Meaningful breakdowns
- Reporting by profit centre, division and class
- Information delivered to you in a way that makes sense for your business
- Identification of trends including year over year increases by certificate
Lack of employee engagement

Best Practice #10 – Employee Engagement

Question
Am I engaging my employees to help them actively participate in the management of our plan?

Best Practice #10
Survey your employees & Communicate regularly

Old Practice
- Hand your employee a booklet at enrollment
- Deal with questions as they arise

Best Practice
- Regular communication with employees
- Wellness promotion monthly
- Survey your employees to understand their needs and then create an action plan

Case Study #4
Company #4 (Small but Growing Firm)
- About 44 employees on a Fully Insured Contract
- We received very basic renewal from existing consultant and insurer
- Did a Best Practices Audit on 3 items:
  - Funding
  - Risk
  - Disability

Best Practice #10
• Good employers optimize the benefits program to stay current with the times
• They then buy the best benefits they can afford, not leaving any wasted premium on the table
• They then communicate that value to employees consistently
**Example Fully Insured Renewal**

### Funding

**FUNDING MODELS:**
- Employer was overspending by about $52,000 per year at current size
- That works out to wasting approx. $1,200 per employee per year

### Risk Analysis

**RISK MANAGEMENT:**
- Risk model was outdated. Employer was taking too much risk at too much cost
- By employing Best Practices in Risk management, reduced theoretical risk profile by 91% percent

### Disability

**DISABILITY:**
- Employees were paying too much LTD premium. They could never claim what they had paid in the $60k to $150k pay range
- Introduced a tiered LTD wording to optimize premiums vs. benefits and eliminate wasted premium for employees

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**Company #4 Conclusion**

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How do YOU score?

Best Practices Scorecard

What can YOU do?

- Complete your best practices Score Card and take it to your broker/consultant & or insurer
- Talk about where you could improve – and where you’re doing well
- Ask your intermediary and insurer how they can help you employ the Best Practices

Questions?

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Thank you for participating!

Please remember to complete your evaluations.

Enjoy the rest of your conference!