Are You Moving Your Benefit Plan Too Frequently?

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Full Circle Financial, 393 University Avenue, Suite 1810. Toronto, Ontario M5G 1E6
http://fullcirclefinancial.ca; e-mail: kgiffin@fullcirclefinancial.ca

Business owner's are faced daily with the pressure to manage costs. Many of the costs we encounter involve fairly easy to track supply and material usage, premises and labour costs. These costs are transparent.

In the realm of Group Benefits, costs (premiums) are less transparent. The methodology behind Group Benefit premium pricing is more complex. It involves both a measure/calculation of what you actually spend and a projection of future expenditures.

What you actually spend on a monthly basis is reported in exacting detail by the insurance company – this is your **claims experience.** However, what you might spend is also factored in. This insurance industry calculation is called **"the Reserve"** which **must** be funded through your premium.

Regulatory requirements mandate all insurance companies must fund this **"reserve**". A reserve is an extra margin of safety, designed to protect the insurance company and industry from failing to be able to pay a claim due from a contractual obligation.

Generally speaking this reserve is **6 to 12%** of your claims. Every year this reserve is increased to account for incremental increases in the claims you've made. You may be shocked to know that this reserve is the insurance company's money to keep. **This is what you unknowingly leave behind every time you move your Group Benefit Plan.**

How does moving a plan too frequently affect Benefit pricing?

Everytime you "go to market" and get competition quotes, the reserve is **not** included. So in the initial benefit presentation, this unaccounted for **reserve,** does not appear. However, this risk premium cannot be ignored. The "reserve" must be funded.

Since the new carrier does not have direct verifiable experience with your company's claims, they can ignore this risk premium in the first year and give you a very competitive initial rate for your benefits plan.They're "buying your business".

The following year the piper must be paid, and this "**reserve**" is added back to the claims made by you and your employees. As was the case before with your old insurance provider, this new insurance company keeps your reserve on their books.

While there may be very good reasons to change Group Benefit providers and each situation must be reviewed on a case-by-case basis, in my experience, this can be a roller coaster process for employers. In many cases, initially deeply-discounted premiums are followed by a surprise first-year renewal increase, followed by last minute rate adjustment. These negotiations generally still leave you with a double digit rate increase. When Group Benefit pricing is viewed over a number of years it results in virtually no pricing advantage for the employer.

Furthermore the downside of moving Group Benefit Plans invariably leads to a spike in benefit claims that occur due to employees being reminded of the breadth of elective items they can claim. This vicious cycle of leaving the "reserve" behind and frequent "benefits discussions with employees, sets you up for benefit cost failure. To add insult to injury, employers are often left in the dark as the Advisor either blames the insurance company and their greed and incompetence, or, they blame your employees for their excessive or abusive benefit utilization.

Change the narrative, by changing the perspective!

At Full Circle Financial we believe that a better approach is to address Group Benefits not as a benefit or compensation, but rather as insurance.

We view it as a comprehensive insur-ance policy that offers a vast array of protections against the breadth of health and financial hardship that may befall employees or their family members. We work with employees to foster protection of this policy and the sustainability of its pricing, by encouraging responsble benefits usage. We work with you to understand pricing and seek ways to mitigate against high increases through claims management.

I'll leave you with an example. Six years ago I sat with an employer who's experience was the roller coaster of deep discounts followed by steep increases and "the insurance company is bad" narrative. Through consultations and a change in strategy with the employer, we reviewed and thoughtfully reduced some of the benefits offered eliminated some employee costs, re-allocated some continued costs to other parts of the plan and as a result, changed the narrative over these costs and the benefits to the employees.

Over the ensuing 3 years the experienced rated benefit cost declined in excess of 30%. Concurrently, we integrated a new company acquired in this period and leveled the benefit plan so as that all employees had the same coverage. Even after some employees illnesses and a death payout, six years later this employer still pays a double digit percenatge percentage less on a unit cost basis/employee than he did six years ago.

At Full Circle Financial, we approach Group Benefits Consulting in a uniquely strategic and dynamic way that has yielded terrific results for our Employer clients and their employees.

We would be delighted to consult on your Group Benefits Program and help manage your insurance instead of having it managing you.

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Full Circle Financial
393-University Avenue Toronto, ON M5G1E6

Phone:416.341.7901

Fax: 416.369.3014

E-Mail:
kgiffin@fullcirclefinancial.ca

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Visit us at:

http://www.fullcirclefinancial.ca