

BENEFITS BRIEF

Benefits Plan Administration Costs, Loads and Reserves

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**Professional Guidance
In Benefits Management**

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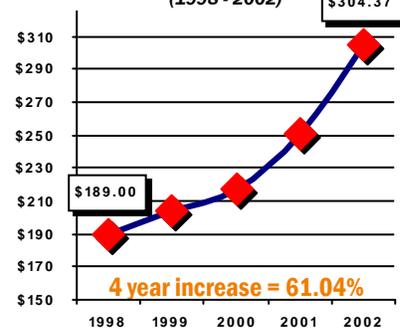
Benefits plan costs are increasing due to two cost drivers: benefits consumption, and administrative costs, loads and reserves.

Consumption is increasing due to five major environmental trends.

Benefit administration costs, loads and reserves are increasing due to two major trends in the insurance industry — consolidation and the shift from 'mutual' structures to share structures.

Our C.L.E.A.R. Benefits System addresses these concerns.

Average Annual Prescription Cost
(1998 - 2002)



THE PROBLEM

Employee Benefits costs are skyrocketing due to *seven major trends*. The first five can be managed to a limited degree via cost containment initiatives and should be the focus of ongoing plan design and optimization efforts. They are:

1. *Substitution trend* – More costly drugs are being substituted for less expensive ones
2. *Demographic trend* – Our aging population consumes more health services
3. *Demand trend* – Savvy, demanding medical consumer utilize more services
4. *Marketing trend* – Aggressive “marketing” of services by health care providers and pharmaceutical firms
5. *Offloading trend* – Government downloading of services to the private sector

The remaining two trends have led to increased *plan administration expenses, loads & reserves*:

6. *Consolidation trend* – Insurance company mergers have reduced industry competition
7. *De-Mutualization trend* – Insurers are changing from a mutual structure to a share structure.

These two trends have dramatically changed the insurance landscape over the last ten years. Consumers are facing a small pool of large insurers who are single-mindedly committed to increasing revenues and profits for their shareholders — a classic seller’s market.

TRADITIONAL BENEFITS PRICING

Since insurance premiums are set in advance for the coming twelve months, the insurer has no idea what its *cost of goods* will be (the actual claims incurred by the plan over any twelve month period). They estimate claims based on prior experience with the client or with firms having similar profiles (industry, size, employee demographics). The plan then runs its course until its performance is reviewed at year-end and re-priced.

The insurer allocates a portion of every premium dollar they receive to pay claims. The rest of the premium is allocated for ‘administration expenses’. Administration expenses represent anywhere **between 10% - 35% of total premiums**, depending on the size of the account. The larger the account, the lower the administration expenses (not in absolute terms, but as a percentage of premium). An insurer’s administration expenses include charges for:

- Taxes
- Billing administration
- Claims administration
- Agent / broker compensation
- Marketing and sales incentives

- General administration and overhead allocation
- Benefits inflation and trend margins
- Policy Reserves
- Catastrophic claims insurance
- Risk Charges
- Profit

Our *CLEAR Benefits System*TM (*Cut Loads, Expenses And Reserves*) reduces or eliminates most of these expenses and introduces transparency to benefits pricing.

ADMINISTRATIVE EXPENSE CHARGES

Taxes

Insurers must collect and remit PST (8%), premium taxes (2%), and GST on certain services. These plan expenses are unavoidable and cannot be reduced.

Billing administration expense

This is one of the insurer's major functions and includes enrolling all eligible employees and dependants in the plan, issuing monthly bills, processing changes in enrollment, processing premium payments, etc. Traditionally, this has been done via mail, however, on-line systems, including ones where the client's plan administrator inputs all changes directly via a Web portal, are becoming the norm.

Insurers build loads (amounts in excess of direct costs) into their charges for these services. Our *CLEAR Benefits System*TM reduces these loads.

Claims administration expense

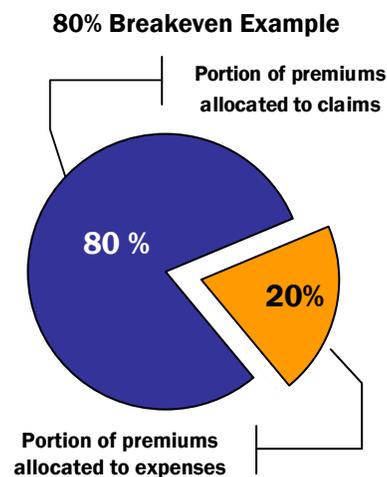
This is a crucial function that is required in any benefits plan. It not only involves the processing and payment of claims, but more importantly, the adjudication of claims to ensure that they are in fact eligible under the policy contract, based on what you want covered.

Insurers build loads into their charges for these services. Our *CLEAR Benefits System*TM reduces these loads.

Agent compensation expense

Agents' commissions are part of the plan's administration expenses. These are set between the insurer and the agent and are buried in with the other administration expenses. Generally, these charges are not disclosed unless the client specifically asks to see them.

Our *CLEAR Benefits System*TM identifies our compensation and separates it from the other administration expenses. We offer various levels of service, based on the client's specific needs.



Marketing

Insurers incur significant costs for sales and marketing. They employ marketing reps, sales managers, underwriters and actuaries, and they spend a great deal on marketing materials and promotion to clients, prospects and agents. A portion of your plan's administrative expenses are allocated to marketing charges, including sales incentives.

Our **CLEAR Benefits System**TM eliminates marketing expenditures.

General administration and overhead

Insurers build in an expense for general administration and overhead. This charge is an allocation of overhead and equipment costs attributable to the insurer's benefits division.

Our **CLEAR Benefits System**TM eliminates general admin and overhead allocation expenses.

Benefits inflation and trend forecasts

Insurers estimate changes in benefits prices and consumption levels and build a buffer for this in their pricing. Historically, they have consistently over-estimated these increases. Our **CLEAR Benefits System**TM eliminates inflation and trend buffers.

Policy reserves

There is a lag between the time a claim is incurred and when it is submitted to the insurer and paid. Insurers set up reserves to account for this lag if you leave the plan. These reserves can be substantial and tie up your capital, without interest, for a long period of time. Our **CLEAR Benefits System**TM eliminates policy reserves.

Catastrophic claims insurance

Carriers 'insure' the benefits plan against catastrophic claims (e.g. drug claims in excess of \$10,000, large out-of-country claims). A portion of every premium is allocated to a risk pool so that if your group is hit with such a claim, it will not become part of your claims experience and negatively impact future rates. Insurers build loads into these charges.

Our **CLEAR Benefits System** reduces these loads.

Risk charges

The insurer builds in a margin in every account to offset potential losses resulting from plan termination, client bankruptcy and non-payment of premiums. Our **CLEAR Benefits System**TM eliminates insurer's risk charges.

Profits

Insurers build their profit margin into the administrative expenses. Our **CLEAR Benefits System**TM eliminates insurer's profit allocations.

Our **CLEAR Benefits System**TM permanently reduces administration expenses, generating savings year after year, by eliminating or reducing charges normally built into administration costs. You simply cover the cost of your claims plus a low administration fee. Fair, square and far more affordable — *Now that's simplicity.*

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