

# **BENEFITS SOLUTION**

## **Audit and Negotiation Process Sample Quarterly Update**

**Frank Goitanich, MBA, CMA, GBA**



**Professional Guidance  
In Benefits Management**

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# Q-1 Update

This review is part of our **Audit and Negotiation Process** and focuses on preliminary claims analysis.

Our **3<sup>rd</sup> Quarter Review** will forecast renewal premiums based on more comprehensive and statistically relevant claims experience.

## Highlights

- ◆ Health and dental claims slightly above breakeven
- ◆ Plan participation rate up to 91% of eligible staff
- ◆ Smooth transition to XYZ Life (claims and admin systems running smoothly)
- ◆ Meeting with XYZ Life representatives to review forms, enrollment and web
- ◆ Posaction introduced to ABC Corporation
- ◆ 38% of workforce opts for critical illness coverage

## Benemax Activities this Quarter

- ◆ Worked on data integrity and enrollment process
- ◆ Edited and approved employee booklet
- ◆ Provided claims and admin support during transition
- ◆ Drafted employee summaries for classes 1 & 2
- ◆ Held two benefits plan communication staff meetings
- ◆ Discussed preliminary metrics and executive benefits
- ◆ Successfully implemented voluntary C.I. program
- ◆ Conducted claims review and analysis

## Claims Results

Initial claims experience shows an incurred loss ratio for health and dental tracking slightly above target.

### 1st Quarter (December 1, 2003 - February 29, 2004)

	HEALTH	DENTAL
Premiums	7,779	8,995
Incurred Claims	6,258	7,651
Incurred Ratio	80%	85%

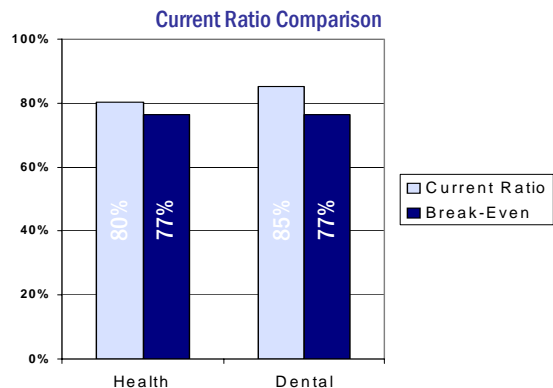
  

BENEFIT	BILLED PREMIUMS	INCURRED CLAIMS	LOSS RATIO
<b>HEALTH CARE</b>			
Upper Management	\$2,430	\$1,868	77%
Management	\$2,565	\$2,045	80%
Other Employees	\$2,784	\$2,345	84%
<b>Total</b>	<b>\$7,779</b>	<b>\$6,258</b>	<b>80%</b>
<b>DENTAL</b>			
Upper Management	\$2,581	\$2,264	88%
Management	\$2,759	\$3,024	110%
Other Employees	\$3,655	\$2,362	65%
<b>Total</b>	<b>\$8,995</b>	<b>\$7,651</b>	<b>85%</b>
<b>TOTALS by DIVISION</b>			
Upper Management	\$5,011	\$4,132	82%
Management	\$5,324	\$5,069	95%
Other Employees	\$6,439	\$4,707	73%
<b>Total - Combined</b>	<b>\$16,774</b>	<b>\$13,909</b>	<b>83%</b>

**Incurred Claims** for health benefits (including reserves) are running slightly above the **target breakeven of 77%**. All classes of employees are claiming within a reasonable range.

**Drug claims** are currently running at 55% of total health claims — this is well below the industry average of 74%.

**Dental claims** are currently running 10% above the target break-even level of 77%. Claims for the *management class* are significantly above breakeven at 110%.



## Claims Analysis

Some preliminary trends relating to claims by class and nature of drug claims are beginning to emerge.

### Reserves, Target Breakeven and Incurred Claims

Reserves are established in year one with a new carrier to cover any claims lag that may be created when you terminate your plan or change carriers. The reserve is used to cover claims that are incurred before, but paid after the termination date. With **XYZ Life**, reserves are calculated as a percentage of annual premiums (6.5% for *health* and 6% for *dental*). After the first year, reserves are adjusted up or down, depending on changes in your annual premium.

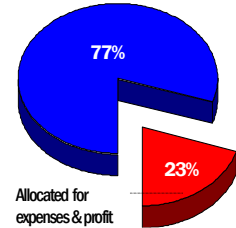
*Incurred claims* are equal to *paid claims* plus or minus any adjustment in *reserves*. Renewals are calculated based on incurred claims, *not* paid claims. Paid claims were 56% for health and 59% for dental.

Your target breakeven for both health and dental is 77%.

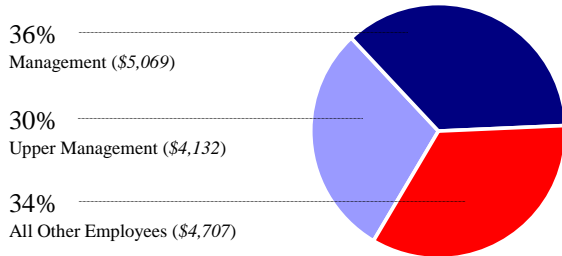
For every dollar of premium, **XYZ Life** estimates that you will claim 77¢; 23¢ are allocated for expenses and profit.

Incurred claims significantly higher than 77% will have a negative impact on renewals.

Target Breakeven is 77%



### Claims by Class



Management was the highest claiming class with 36% of all claims paid versus only 32% of total premiums paid.

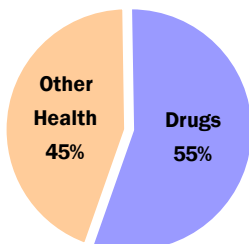
As a class, it is running at a 95% *Incurred Loss Ratio* for all benefits, compared to 82% for upper management and 73% for all other employees.

### Drug Claims

AMOUNT PAID BY DISEASE - Jan 1, 2004 to Mar 31, 2004					
	# of Scripts	% Rx by Disease	Paid Amount	% Paid by Disease	Avg Eligible
1. Antibiotics/Anti-infectives	14	17.90%	\$611	20.30%	\$58.22
2. Asthma	12	15.40%	\$468	15.60%	\$48.77
3. Blood pressure	10	12.80%	\$355	11.80%	\$45.36
4. Cholesterol disorders	3	3.80%	\$278	9.20%	\$115.69
5. Diabetes	2	2.60%	\$233	7.70%	\$145.38
6. Anti Inflammatory/Analgesics	6	7.70%	\$227	7.50%	\$53.32
7. Birth control	5	6.40%	\$184	6.10%	\$46.10
8. Ulcers	1	1.30%	\$126	4.20%	\$157.19
9. Mental disorders	3	3.80%	\$110	3.70%	\$45.92
10. Thyroid & Glandular	4	5.10%	\$68	2.30%	\$21.34

Your drug utilization results reflect a fairly normal claims pattern. Top disease categories (antibiotics, asthma) are consistent with a younger group of employees with young children. By comparison, the #1 category for BCE is depression. Highlighted drugs categories are likely maintenance medications.

Your current results do not point to any catastrophic claims or the use of new, very expensive drugs.



Generally, drugs account for 70% to 80% of all health claims. This varies, depending on the nature of coverage, i.e. are vision and hospital included, as well as demographic issues.

Your drug claims are low relative to industry standards. While this is probably due to the short sample period and will likely adjust over time, it may reflect abnormally high claims in paramed and other benefits. We will monitor this over the course of the year.

## Benchmarking

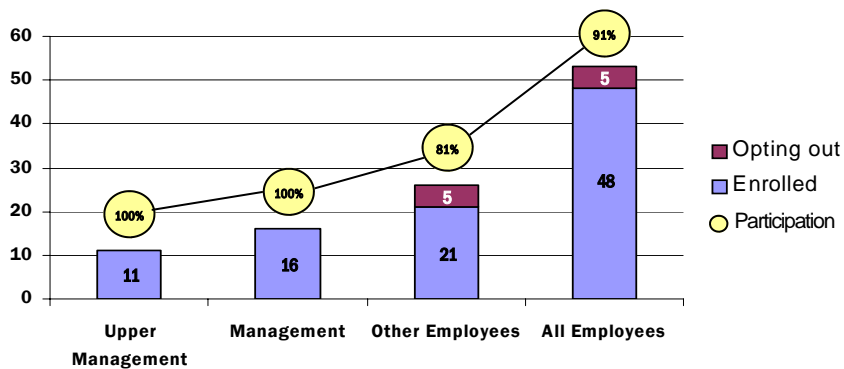
The *monthly eligible cost* is derived by multiplying the *total cost of an average drug* submitted by the *monthly utilization* (# of prescriptions submitted per cardholder per month).

Your monthly average drug claim per cardholder is 45% lower than the BCE average. These results may be due to a lower average age, less claims for expensive maintenance medications, lower utilization (# of prescriptions/cardholder/month) or general good health.

	AVERAGE AGE	AVERAGE DIN	AVERAGE FEE	TOTAL	MONTHLY UTILIZATION	MONTHLY ELIGIBLE
All BCE	41	52.97	8.66	61.63	0.98	60.21
ABC Corp	35	39.54	10.17	49.71	0.67	33.41
Difference	-15%	-25%	17%	-19%	-31%	-45%

## Communication

Participation level up to 91%. Held two communication meetings, including Critical Illness Insurance offer.



We conducted two meetings with staff to explain the plan changes and promote the value of the benefits program.

Participation levels in the plan have improved to the point where **91%** of all eligible employees are now enrolled.

Voluntary *Critical Illness Insurance* was introduced and **18 employees** (38% of workforce) opted for the coverage. Eleven dependents are also insured by virtue of the plan.

## Next Quarter's Tasks

- ◆ Review overall claims experience
- ◆ Prepare employee summary for Class 3
- ◆ Conduct administration review
- ◆ Conduct executive benefits review
- ◆ Develop plan assessment criteria including plan metrics

Benemax Financial Group Inc.  
9050 Yonge St., Ste. 201  
Richmond Hill, ON L4C 9S6  
T 905.707.0129  
888.333.8907  
F 905.707.0130

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