EMPLOYEE BENEFITS

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ARTICLE

Are you getting a fair shake? Decoding your medical insurance renewal.

10 tips to level the playing field for your next renewal

Have you “really” read your renewal exhibits? If you have, you know these are an exercise in financial engineering designed to bully or intimidate the buyer into submission (or, in this case, acceptance of the renewal).

Arcane naming conventions, unknowable methodology, and ever-changing underwriting assumptions make understanding your renewal nearly futile for even the most seasoned benefits professional.

It has become so bad, what was once titled a “Renewal Justification” has been changed to “Renewal Illustration” for regulatory purposes. The implication here is obvious. Don’t trust your renewal...

Cost of Insurance

Medical inflation for 2022 was a robust 10.5%

Benefit Value

Cost increases are usually offset by a) benefit decreases, or b) cost-shifting to the employee, or c) both

Renewal rates have had a predictable impact on open enrollment messages: 1) your benefits are going down, and 2) your costs are going up.

The renewal process

The annual renewal dance is characterized by an initial renewal salvo, followed by broker pushback, resulting in a rate compromise between the parties involved. Unfortunately, carriers anticipate this process and have built margin into almost every element of the renewal calculation. As such, the “compromise” still has excessive carrier profit in the price tag.

Even worse, medical underwriters now champion the “no bid” renewal rates. Meaning, the carrier will offer an astounding “below market” deal if the buyer agrees not to test the market. Sounds like a Ginsu Knife commercial: “but wait, there is more…” When your medical renewal process makes buying a used car seem savory and ethical, you have a problem.

Medical carriers enjoyed record profits in 2020	There are only 5 medical carriers in the U.S.	Publicly traded health insurer stock has tripled
COVID-19 under-utilization was a boon to the carrier community.	With common market guidelines and underwriting practices, the medical insurance market is a government sanctioned oligopoly.	This alarming escalation does not include stock splits or company spin-off’s which raise the value even higher.

Definition of a claim

For groups greater than 100 participants, there are two pieces to your renewal. You need to understand both. The first element is your experience workup. This is an evaluation of your actual claims during the renewal period. The exhibit should be a simple depiction of cost, but you need to understand the definition of a “claim.” Is it “paid” or “incurred”? Are there charges in lieu of a claim (capitation or carrier shared savings fees)?

Application of an “incurral factor” on mature claims can inflate the claim base 25%.

Blending with manual

Next, the underwriter will blend your actual claims with the carrier normalized book of business results (or manual rate). Again, what should be a simple complementary exercise, is made problematic by the amount of credibility assigned you're your experience. This is an area of carrier margin creation where manual weighting is typically used to skew renewal increases in the carriers' favor.

While credibility is not assigned on a linear basis, you can still apply a "reasonableness test" to the weight given to your own experience in the blending process. Also, look back at previous renewals: a) blending percentage, and b) manual rate PEPM. You want to see methodology consistency period over period.

12 months of claims with 400 employees = 100% statistically credible experience

Experience Grouping: Experience Group 1			
Next Contract Period: 1/1/2022-12/31/2022	**Current Year Experience**		
Claim Basis:	**Incurred**		
Year Experience Period:	4/1/2020		3/31/2021
Paid Through:	5/31/2021		5
Subscriber / Member Months:	1,586		3.309
Experience Period Average Members:	276		
	Med + Cap PMP	Rx PMPM	Total PMPM
Current subscribers: 134			
Current members: 289			
Incurred claims	$118.65	$25.99	$144.64
Deductible suppression factor	0.9972		0.9978
Incurred claims x deductible suppression factor	$118.32	$25.99	$144.32
Pooled clams	$0.00	$0.00	$0.00
Pooling charge			
a. Polling point	$125,000	$125,000	$125,000
b. Pooling factor (non-capitated med x Rx claims only)	12.77 %	12.77 %	
c. Pooling charge	$14.83	$3.32	$18.25
Incurred claims w/ pooling (3 - 4 + 5c)	$133.15	$29.31	$162.47
Adjustment for change in network	1.0254	1.0254	1.0254
Adjustment for change in plan	0.9029	0.9029	0.9029
Adjustment for change in demographics	1.0697	1.0244	1.0613
Underwriting adjustment	1.0091	1.0925	1.0241
Adjusted incurred claims (6 x 7 x 8 x 7 x 10)	$133.09	$31.48	$164.57
Trend			
a. Annual trend factor	9.90 %	9.90 %	9.90 %
b. # of months of trend	21.0	21.0	21.0
c. Projection factor	1.1796	1.1796	1.1796
Exp. Based projected claims (11 x 12c)	$157.00	$37.13	$194.13

"incurred" – not paid

Pooling level

Pooling charge

Did the network change? Isn't this in "trend"?

Not a manual rate. Demographic risk in claims Huh? Is this a joke?

Trend in 2022 was projected at an astonishing 10.5% by the carrier underwriting community

Carrier administrative charges

There is also the issue of carrier administration expense. Are your expenses calculated as a percentage or premium? Or are your expenses based on a fixed per employee per month charge (PEPM)? It costs carriers ~ $30 PEPM to administrate your plan. However, if you are charged 10% of premium for administrative expense, the cost could be more like $100 PEPM depending on premium level.

Carriers also collect significant rebates from PBMs on your Rx costs. The value of these rebates can be $20-$40 PEPM. Was this revenue used to offset or buy down your administrative expenses? Doubtful.

Rx rebates virtually offset actual carrier administrative expense.
The net cost of carrier overhead is equal to the
value of pool charge + profit

Renewal calculation methodology

Your renewal is actually two renewals for groups with less than 400 employees on the plan. The carrier will provide an experience-based renewal as well as an age/gender plan design adjusted manual work-up. The two are blended in proportion to the credibility assigned to the buyers own experience (with the compliment going to the manual).

There are a lot of moving parts in the calculation. To avoid confusion or misdirection, we recommend you understand your own piece of the equation: the experience-based renewal calculation. In short, the renewal formula can be articulated as:

Trended loss ratio / (1 – retention) = rate action
Example: 75% trended LR / .75 = 0% renewal

	Standard Results		
	Med +Cap	Rx	Total
Experience Blended Projected Claims	$153.98	$38.49	$192.47
Experience Creditability	52.8%	52.8%	52.8%
Manual (CRC) Projected Claims	$214.84	$35.35	$250.19
Blended Projected Claims	$182.80	$27.00	$219.81
Large Claim Adjustments			$0.00
Retention Charges			
a. Administrative Component		14.01%	$35.70
b. Broker Commissions Component		0.00%	$0.00
c. Premium Tax Component		2.10%	$5.50
d. Health Insurance Assessment		0.00%	$0.00
e. Total Retention Charges (20a + 20b + 20c + 20d)		16.11%	$42.21
Projected Premium			$262.02
Multi Product Discount			$0.00
Rate Adjustment			($46.70)
Proposed Premium			$215.21
Producer Service Fee Component		5%	$11.33
Total Amount Due			$226.65
Estimated Current Premium			$208.23
Required Rate Change (excludes 22,23)			33.7%
Proposed Rate Change (26/27-1)			9.9%

52% credibility applied to calculation

Manual 73% higher than actual claims

Confirmation of no large claims

Looks a lot like the trend estimate from the previous slide

Blending your experience with manuals is important to understand

10 tips to level the playing field at your next renewal

First, don't assume your carrier underwriter "has your back." Medical carriers operate for one purpose: to maximize underwriting gain. What used to be a straightforward renewal justification has become a charade.

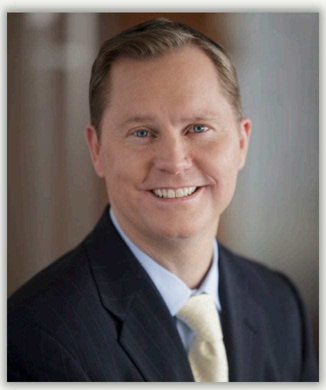
The only assumption you can make about your renewal, is that the "illustration" (if you even get one), bears little resemblance to the truth — and may only be directionally accurate.

Given this, and the tripling of costs since the '90s, most employers with greater than 100 participants may be better off self-funding (or at least performing an honest feasibility study forecasted with confidence bands over a 5-year period).

Understanding the renewal underwriting process will help you level the playing field when you do battle with the underwriter at your next renewal. The 10 tips below represent important steps you need to take to decode your medical renewal and produce an optimized outcome.

01	Review your last two renewals. Compare the two and look for inconsistencies.	06	Make sure you know what the carrier “manual” PEPM rate is and assess reasonableness.
02	Conduct a “deep dive” of your carrier claims report. Understand claims by disease state w/prognosis.	07	Challenge trend assumptions at every point. Use your company as a benchmark.
03	Know how credibility is assigned (400 life years is fully credible). Test carrier blending.	08	Review pooling levels and charges. The cost of pooling should be ~20% of premium.
04	Understand the definition of a claim in your exhibits (incurred vs. paid).	09	Be aware of your own age/sex factor. This plays a huge role in assessing future risk.
05	Make sure you know what the carrier “manual” PEPM rate is and assess reasonableness.	10	Don’t assume your broker is an underwriter. Most are not qualified to deconstruct a renewal.

Evaluate your program. Determine if your broker partner is up to the challenge. It may be time to upgrade your advisory team.



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- Mike has invested 30+ years in the insurance sector.
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