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Past Issues

Who is Addressing the Elephant in the Room?

By: Dan Millar

For decades now, employers have offered Employee Benefit programs to their employees and premiums have been reasonably simple to manage. “Shopping around” to find an insurer offering lower rates has been the favoured solution of many brokers and advisors for years.

This process, while generating euphoric savings initially is short lived. Employers anxiously await their first year’s renewal only to be disappointed with the rate adjustments. This is the time when the insurer attempts to recover their losses in the “investment” they made in order to win the business. Rates usually go up significantly and have employers asking themselves why they made the change in the first place:

- How much time was spent by their administrative staff organizing the transition and having to learn new insurer online admin systems?
- Why put their employees through the whole process of completing new enrollment forms, having to review new employee booklets, new claiming processes? and
- What about those little nasty things that always seem to surface that haven’t been “matched” to the previous contract?

In fact, the rates have to go up even if the claims experience was the same as the previous year. Never mind what happens if the claims experience goes higher than the year previous! Programs that are fully insured have an administration fee to manage the health and dental programs. This is referred to as a “Target Loss Ratio” a company who has a target loss ratio of 75% essentially has a 25% administration fee. The admin fee encompasses expenses for Premium Tax (2% in Ontario) Margin, Risk, general administration fees and Commissions.

Reserves are another financial factor when considering changing insurance carriers. All insurance companies who offer “insured” contracts are required to establish first year reserves in which they only have to account for at “first renewal” and subsequent renewals.

If your company employs in excess of 1,000 employees, there is no need to worry about your admin fee. It is likely very competitive. You might even be using an insurer for administrative services only, or self insuring. Insurers charge smaller companies significantly higher administration fees to administer their program and they don’t differ by much more than one or two percent between insurers based on groups of similar size.

So, if insurers only differ by one or two percent in administration fees, why is it they are able to offer savings to companies in the area of 10% or greater? The answer is “Investment” or some refer to it as “buying business.” It really is very disruptive to the whole industry and confuses and disappoints decision makers.

The only true way to save significant health and dental premium dollars is to get an insurance company to treat you like a BIG COMPANY with in-excess of 1,000 employees and get them to reduce the administration fee to that of a 1,000 employee company! This would allow you to change carriers so that you are saving significantly on your administration fees today, tomorrow and forever! (Without having to hire hundreds of employees!)

The landscape of the employee benefits world is becoming much more complex for insurers who are taking on new risks in acquiring new accounts.

Insurers are starting to ask questions like: “Does your group include any high dollar drug claimants?” “Are there any employees who are claiming in excess of your current pooling threshold?”

We thought that insurers were in the business to take on RISK? The truth of the matter is that insurers are businesses as well and nobody likes to lose money!

Whether you are on an "insured" contract with your insurer or on an ASO (self insured) contract, you would have some protection built into your program which is referred to as "Pooling" or "Stop Loss" coverage. This is an insurance that insurers charge a rate for either separately or is buried into their Health rates.

Not too many years ago, the occurrence of ANYONE ever claiming in excess of $5,000 in health benefits in Canada was very rare. So many insurers set their stop loss threshold at $5,000 and the premiums they charged were collected. They very rarely ever had to pay claims out of the pools they created. Stop Loss Business was very good and very profitable for the Insurers.

The insurers are no longer making money on pooling charges but are rather scrambling to mitigate THEIR RISK and make up significant losses by increasing pooling charges and increasing stop loss thresholds. Most if not all insurers have moved their minimum limit to $10,000. Some larger groups have seen thresholds shifted to $15,000 and as high as $20,000! And there is no end is sight!

Yes, the Benefits landscape has changed! In fact, the actual sustainability of Health benefits is at Risk and is a problem that faces every employer in this Country.

Currently, statistics state that 1% of the Canadian population is responsible for 35% of the total drug spend in this Country. It is expected with the introduction of new medications that drug costs for employers will increase by as much as 75% in the next few years.

I beg to ask the question? Who is addressing this ELEPHANT in the room? We now understand that Insurers will be ok as they will continue to shift risk and increase premiums to a point where they will continue to be profitable on their pools, but at who's expense?

Bottom Line

The Elephant in the room is the massive introduction of all these new medications that have arrived.

Company's need someone to sit down with them and address the current state of affairs with their current benefit arrangements and assist them in setting up long term strategies for their Group Life and Health programs. They need someone who is knowledgeable and can help address the Elephant that is knocking on the door!

About the Author

Daniel Millar, Principal, Benefit Partners

Daniel has over 30 years of experience in the benefits/Insurance industry. He is a Consultant and Principal of the firm Benefit Partners which is a division of People Corporation. Dan has extensive skills and experience in the areas of benefit plan design underwriting and ongoing benefit plan management.

In addition, he is an expert in collective purchasing of employee benefits and is responsible for the design/underwriting of some of the firm's largest employer and association type benefit platforms.

Dan can be reached by email at: dan.millar@benefitpartners.com

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