



# **GROUP HEALTH INSURANCE**

Survival Guide

# GROUP HEALTH 101

Most employers need to offer group health insurance benefits to attract and retain quality employees.

So let's take a look at the basics:

- Top 4 Reasons For Having a Group Health Insurance Plan
- What Does Group Health Insurance Cover?
- The Quoting Process
- Implementing a New Plan
- Types of Plans and Pricing
- How Annual Renewals are Calculated
- What to Expect from Your Advisor
- Beware of Big Savings

## Top 4 Reasons for having a group health insurance plan

- 1 Access** – Individual plans are often quite limited compared to a group plan and can include more benefits.
- 2 Guaranteed Insurability** – Eligible employees are guaranteed coverage without any medical questions or disclosures required.
- 3 Tax Efficiency** – Employer premiums towards extended health and dental benefits is not a taxable benefit to employees.
- 4 Retention** – Possibly the single best reason to have an employee health insurance plan. Good people are hard to find and even harder to keep.



## What Does Group Health Insurance Cover?

Competitive benefits packages can include some or all of the below:

- **Life Insurance:** A tax-free lump sum to the beneficiaries of the policy holder upon his or her death. Many of your employees do not own separate insurance and this benefit is all a family might receive.
- **Accidental Death & Dismemberment** provides funds to help the beneficiaries of the policy holder if the death is accidental (often combined with and pays out in addition to life insurance). Also provides funds to the insured if he or she is dismembered, such as the loss of limbs or vision.
- **Dependent Life Insurance:** A lump sum provided to your employee if they lose a spouse or child. This sum helps to ease the financial burden of final expenses.
- **Long-term Disability:** Income replacement when an employee becomes sick or injured and can no longer work. For example, it could take several years to recover from an accident or head trauma – and in some cases, a full recovery is not possible. Long-term disability payments replace a portion of the employee's income when their disability prevents them from returning to work.
- **Critical Illness Insurance:** A lump sum paid to the employee if they are diagnosed with a covered critical illness. The sum can be used in any way your employee sees fit – ultimately, it provides cash for the family when its needed most. About 80 per cent of critical illness claims are for cancer, stroke and heart attacks.
- **Dental:** Dental care in Canada is expensive. The only government coverage for dental care is for emergency treatment stemming from an accident – and even then, the focus is not cosmetic, so the individual is left to manage the additional expenses. Therefore, dental benefits are hugely sought after by employees.
- **Extended Health and Travel:** This covers prescription drugs, medical supplies, paramedical practitioners (chiropractors, physiotherapists, psychologists, naturopaths, massage therapy), out of province travel insurance, medical supplies and more.
- **Employee Assistance Program:** Not all ailments are physical. When it comes to mental health issues, addiction recovery, work stress, and emotional wellbeing, therapy is a great option. The Employee Assistance Program is a benefit that gives employees discreet short-term access to counselling. If additional therapy is needed after the sessions, the councillor can help to arrange longer-term care.
- **Flex Dollars:** Chances are that one employee will require sports massage while another needs dental benefits more. Flex dollars allow your employees to allocate funds to the benefits they need the most. It removes the one-size-fits-all benefit plan and really gives your employees the customization they need.
- **Weekly Indemnity & Short Term Disability:** WI, or STD, benefits provide a weekly short-term payout to help replace income when the employee cannot work due to a short-term disability. This benefit is more commonly added for higher earning employees as Canadians already pay for short term disability through their EI deductions.

## The Quoting Process

### Pricing New Group Health Insurance Plans

Initial pricing is based on the demographics (census data) of your employees with a layer of “WAG” (wild ass guess). Yes, the truth is that small groups are not actuarially credible.

There are just not enough lives to make an accurate mathematical estimate of the group’s utilization, so the underwriter makes an educated “best guess”.

- **Insured Benefits** (life, AD&D, dependent life, long term disability, weekly indemnity, critical illness) are priced based on demographic and occupation category.
- **Experience Rated Benefits** (dental & extended health) are simply a “best guess” for the first year until a pattern can be established through annual renewals.

### Information Required To Quote a New Plan

- **Census Data**

[Request a Quote](#)

### Choosing a Plan Design

We provide bronze, silver and gold plan designs in a spreadsheet for easy comparison to start the conversation and give you a sense of the pricing.

From here we can modify, add, remove coverage and build a plan specifically suited for your group.



## Pricing for Existing Group Health Insurance Plans

Pricing an existing (Inforce) group is based on the group's utilization experience and the demographics (census data) of the employees.

Not many underwriters will offer an existing group new rates without knowing what they are buying.

They do not want to pick up a group paying \$25,000 in premium and collecting \$50,000 in claims payments.

- **Insured Benefits** (life, AD&D, dependent life, long term disability, weekly indemnity, critical illness) are priced based on demographic and occupation category.
- **Experience Rated Benefits** (dental & extended health) are a little tougher for existing groups. The underwriter needs to look at the type of claims and expense factors and make an educated estimate of future experience (this explanation over-simplifies the process. Contact us for a more information).

## Information Required To Quote an Existing Plan

● **Census Data**

● **Current Benefits Booklet**

● **Annual Renewal Report**

● **Most Recent Monthly Billing**

[Request a Quote](#)

## Choosing a Plan Design

We provide an apples-to-apples quote along with an alternate or two in a spreadsheet for easy comparison. This will give you a sense of the pricing and a place to start the conversation.

From here we can modify, add, remove coverage and build a plan specifically suited for your group.



## Implementing a Plan

Putting a group health plan in place is not difficult.

1. Each employee completes an enrolment form listing their dependents and beneficiaries.
2. There are a couple signatures from the company to set up the plan.
3. With paperwork complete – it's 2-3 weeks to setup, drug cards and pdf booklets.
4. New plans always start on the 1st of the month.
5. Plan members are then covered and can submit claims online.



## Types of Plans & Pricing

### Fully Pooled

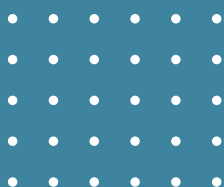
The annual renewal is calculated together with the other groups in the 'pool' and each group gets the same premium change percentage regardless of demographic or utilization.

The pricing becomes disproportionate over time between groups with heavy utilization and the light users are heavily penalized.

Significant demographic changes are not reflected accurately in the pricing for Life, Long Term Disability and Critical Illness.

This method sounds good in theory but does not work well over the long term.

Plan utilization and experience are not available to the sponsor.



## Hybrid Pooled (our preferred method) ★

The annual renewal is calculated together with the other groups in the 'pool' using your groups own demographics and together with the other groups in the 'pool' for extended health and dental utilization.

A hybrid pool will have a formula for 'smoothing' the rate changes for groups with high and low utilization levels. This method ensures the groups consistently overspending or underspending will be more accurately priced.

Plan utilization and experience are not available to the sponsor.

## Single Group (Stand Alone or Experience Rated)

Some groups do not want to be pooled with other companies for pricing and not all advisors that sell benefits understand the different pricing models.

The annual renewal is calculated specifically from your own group's demographics and utilization. For groups under 50 lives – the administrative load and pricing factors are roughly 10% more than a full pool or hybrid pool.

Plan utilization and experience are included with the annual renewal.

\*Our clients may choose to leverage the buying power and administrative loads of our Hybrid Pool on a stand along basis.

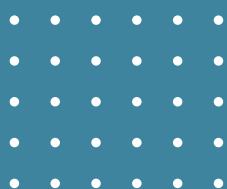
## Administrative Services Only (ASO)

A group can hire the insurance carrier to provide administration only – administer and adjudicate claims for extended health, dental and sometimes weekly indemnity.

This arrangement lowers the administrative loads (TLR, Inflation, IBNR) which is good but the company is responsible to pay all claims and 'self insures' the program.

An ASO plan is a great fit for companies that don't want to pay a risk charge on their benefits premiums but require the smooth processing of the plan and claims management.

Choosing an ASO design means you become the insurance company and may not be suitable for groups with less than 50 insured lives.



## Health Spending Account

A health spending account, or HSA, is a popular option for small or solo-run businesses, but companies can also use an HSA as a benefit plan or to top-up benefits coverage.

HSA's are trust accounts regulated by Canada Revenue Agency.

An HSA, can be a good option for companies that want to avoid the traditional insurance route, but it does come with a couple of drawbacks.

- Medical expenses beyond the pre-determined contribution amount are the responsibility of the employee.
- Funding can be required sporadically as claims occur if there is not a surplus in the trust account.

An alternative for companies looking to control group health insurance costs. The downside is that these are just a tax efficient extension of salary – with no real element of insurance.



## How Annual Renewals are Calculated

Group health insurance plans are renewed annually. It is common for the plan's premiums to change each year. Reflecting claims, employee demographics inflation and statutory reserves.

### These factors are used for calculating the renewal rates

**Target Loss Ratio (TLR):** The expected ratio of claims for each dollar spent on dental and extended health premiums. Also referred to as the break even level.

The TLR is the primary factor in knowing the administrative load on your plan.

**Trend Factors (Inflation):** The cost of extended health, prescription drugs and dental procedures go up every year. The insurance company will factor higher future costs into the annual renewal. Some companies use inflation as a profit center, but an experienced benefits specialist will negotiate a reasonable amount.

**Reserve (IBNR):** Eventually you will change carriers. When this happens the insurance company will continue to have claims for a short period but will not have premiums to offset the claims. For this reason, the insurance carrier uses part of your annual premiums to fund this reserve account.

**Experience Weighting:** At renewal, the underwriter will give a weighting or credibility to the past year's utilization experience. The rationale is to smooth the utilization experience.

For example: a group that has been with a carrier for three years might have 50 per cent weighting from the current years experience and 25 per cent for each of the previous two years. (the underwriter's goal is to price the renewal on the average known experience).

**Pooling Charges** – This is insurance for your insurance and protects your plan from large healthcare claims. When claims for a plan member go over a specific pooling level – \$7500, \$10,000, \$15,000 – the stop loss begins. These additional claims are not part of the annual renewal calculation.

## What to Expect From Your Advisor

A group health insurance advisor should be a trusted resource and an extension of your HR team.

Each plan sponsor is different and requires differing levels of service and support.

Your benefits professional should

- Specialize in group health insurance & employee benefits.
- Explain the various pricing models and why your chosen method works for your company.
- Provide back-up plan administration and support.
- Be available to help your employees with questions and claims.
- Advocate for you.

Benefits are a big part of the total compensation for your human capital.

Is it time to re-invent the wheel? Probably not, however working with a team that will deliver more overall value at the same or lower premium... is a good thing.

Speak with one of our advisors today and see why so many organizations have chosen Shelter Bay as their benefits team. **1.888.498.5288**

We're happy to be a resource for you with no pressure or expectations.

## Beware of Big Savings

You are likely being contacted regularly by agents offering big savings that are quite tempting.

In most cases the savings are an illusion funded by a war chest of marketing dollars from the insurance carrier to win new business.

This strategy is referred to as **'buying the business'**.

If the plan design, pricing model or administrative load is not significantly improved its unlikely that you will achieve any sustained improvements.

Changing carriers will mean you will be required to fund a new IBNR with the new carrier. The reserve is roughly 1 month's premium – so at the first renewal, you end up with 11 months of premium dollars to pay for 12 months of utilization experience.

Often, this leads to significant first and second-year renewal increases as the insurance carrier 'recovers' their losses and corrects the rates.



**Request a Quote**

**1.888.498.5288**