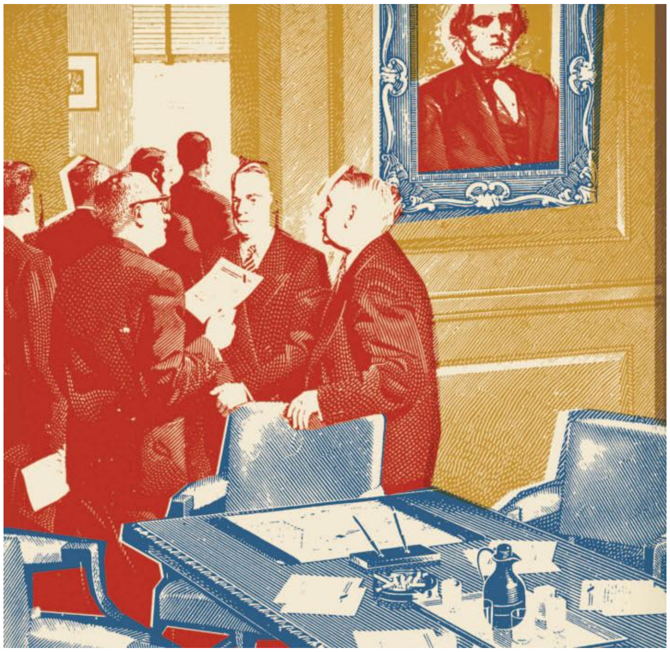

A version of this article appeared in the May 2013 issue of Benefits Canada Magazine

Primed for ASO

Before selecting a group benefits provider, plan sponsors need to know the basics—and the cold hard facts. Set the course by following this guide.

Due to the administrative and computing resources required, the advantages of Administrative Services Only (ASO) plans have historically been accessible to only large employers. Smaller employers have had fewer options in group benefits plan design and funding. Employers are looking to ASO plans as an alternative to conventional group benefits plans, both to control costs and to gain plan design flexibility.

Why are ASO Plans Growing in Popularity?

Technology has brought down administrative costs, enabling Third Party Administrators (TPAs) to offer the advantages of ASO plans to smaller employers, including lower administration fees and flexibility in plan design. Cost transparency provided by monthly reporting, and predictable billing with a budgeted ASO plan, have also contributed to the increasing popularity of this option.

The conventional plans offered by many large insurers are easy to compare against each other, and provide every employee with standard coverage. In contrast, a customized ASO plan can offer employers greater control over their benefits plan design, and consequently over the dollars that are paid out. With more funding options available, employers are considering their risk tolerance, and the level of customization they need to meet their benefits objectives.

When employers compare conventional group insurance coverage with ASO plans, there are many different factors to consider. The starting point for any employer is to understand the components and costs of their benefits plan.

Benefits Plan Basics

A group benefits plan is a promise made by an employer to their employees. This promise can include many different kinds of coverage, such as life insurance, dental care, or an employee assistance program. While the specific coverage included in a plan can vary significantly, fundamentally there are three components to every benefits plan:

1 ***Insurance for catastrophic coverage***
Pooled insurance protects against catastrophic, sudden and unexpected events that result in very high claims costs. These include claims for life insurance, accidental death and dismemberment, long-term disability, out of country medical emergencies, significant drug claims, and critical illness.

The cost for pooled insurance, or premium rate, is set based on the amount of coverage required, the nature of the employer's business, and the demographics of the group (age, gender, occupations). The payment of a life insurance claim, for example $100,000, will not cost the employer that amount outright. To fund this payment, thousands of employers' premiums are pooled by the insurer, spreading the risk and cost across the pool.

2 ***Reimbursement of day-to-day claims***
Medical, dental, drug, paramedical services, short term disability, and similar claims operate on a "money-in, money-out" basis rather than requiring pooled insurance.

The cost for routine medical and dental coverage is tied directly to actual claims paid out to employees. While payments can be set based on a forecast of anticipated claims, or on past paid claims, regardless of how a group benefits plan is funded, the cost of the health and dental component is strictly transaction based. The payment of a routine dental claim, for example $150, will cost the plan $150 plus administration fees and taxes. Benefits providers will generally set "rates" for health care and dental care that are paid monthly by the employer, to fund claims payments throughout the year.

3 ***Administration***
Professional management of a benefits plan is integral to keeping the promise made to employees. Administration includes claims adjudication, maintenance of employee records, billing, and employee communication.

It is important for legislative requirements to be met, including privacy guidelines, eligibility provisions for specific expenses, and accurate tax remittances. The benefits plan provider also analyzes the plan's performance, reports on claims costs, pays appropriate commissions to advisors, and sets funding levels annually.

What is an ASO Plan?

An Administrative Services Only or ASO plan is merely an alternative way for employers to fund their employee group benefits. Using this funding method, an employer is directly responsible for the cost of routine health and dental claims. Essentially the employer pays one large monthly cheque to their benefits provider, and the benefits provider pays lots of small cheques out to employees for their claims.

Day-to-day claims can be suitably funded on an ASO basis. Claims with the potential for very high costs (for example, life insurance, A.D.&D, long term disability, and catastrophic drug claims) remain insured in a traditional fully insured pool. ASO plans clearly separate routine transactions from claims that require risk insurance.

ASO plans are offered by large insurers and by Third Party Administrators (TPAs). A TPA is an organization that manages employee group benefit plans on behalf of an employer. They have the expertise to administer the entire claims process – a task historically handled by conventional group insurance carriers. Conventional insurers often focus on larger employers who have in-house human resources and benefits administration capabilities, and the insurers' services are designed accordingly. Small and mid-sized employers often work with TPAs who focus on providing services for this size of employee group, with a business and service model designed around smaller employers' needs.

Equal Billing

One of the concerns an employer may have about ASO funding is the unpredictable nature of month-to-month claims experience. It can be challenging for smaller employers in particular, to fund $1,000 in claims one month, and $7,500 in claims the next month. To address this concern, some benefits providers offer budgeted ASO plans.

With a budgeted ASO plan, the employer pays a predictable fixed amount every month based on their own group's previous claims history. A budgeted ASO plan works similarly to an equal billing plan for your home natural gas utility.

The budgeting process each year is straightforward. Monthly surplus and deficit reports ensure that companies are not subjected to renewal surprises at year-end. Should actual claims exceed the budgeted amount, the employer is responsible for the deficit. If claims are less than anticipated, the surplus belongs to the employer. With full and transparent monthly reporting, the employer is always aware of their surplus or deficit position.

Comparing Budgeted ASO Plans to Conventional Group Benefits Plans

Conventional benefits plans and budgeted ASO plans have much in common. Conventional group benefits plans, no matter what size, have monthly premiums set based on catastrophic risk insurance costs, anticipated routine claims, insurer reserves, and administration expenses. Budgeted ASO plans also set their funding levels based on these same factors, except that insurer reserves are not required. The budgeting analysis and mathematical models work the same way for small and mid-sized groups of 10 to 100, as they do for large groups of thousands.

Insurers and TPAs also generally offer the same range of administrative services and conveniences, including pay-direct drug cards, electronic dental claims submissions, and direct deposit of claims payments into employee bank accounts. Both types of plans typically renew annually, with new rates set for the upcoming year.

ASO plans do differ from conventional insured plans in some important ways, and the following chart highlights a number of these key differences:

	Conventional	Budgeted ASO
What's included in your monthly premiums/ funding	1. Catastrophic risk insurance cost. 2. Anticipated claims. 3. Insurer reverse. 4. Insurer administration expenses.	1. Catastrophic risk insurance costs. 2. Actual paid claims. 3. TPA administration expenses.
If actual claims are less than estimates	Insurer keeps surplus.	Employer keeps surplus.
If actual claims exceed estimates	Insurer absorbs funding shortfall in the short term. Premiums and reserves are increased at renewal.	Employer pays for funding shortfall at renewal. Contributions are increased at renewal.
Catastrophic, sudden and unexpected risk Insurance	Insured by the one group benefits insurance company as part of a package.	Can be insured by a variety of insurers including specialty carriers. Can be coordinated through a TPA.
Typical Admin Fee for Small Business	25% - 35%	15% - 20%

Pricing Factors

The key pricing factors to consider when comparing benefits plan providers are the competitiveness of the administration fees for the services provided; and who has ownership of any surpluses or deficits (the employer or the insurer).

With an ASO plan, the employer keeps any surplus in lower claims years, while being protected from the risk of catastrophic claims costs through pooled stop loss insurance.

With traditional insurance plans, the annual renewal is based on an evaluation of anticipated claims. With an ASO plan, the annual funding level is based on the group's actual paid claims, rather than anticipated claims.

Unlike a budgeted ASO plan, the monthly premiums for traditional insured plans also include insurer reserves, and often significantly higher inflation factors, which add to the renewal cost of an employer's plan. Insurers tend to apply high administration fees to smaller businesses, which may include higher overheads and profit requirements per case, when compared to TPAs offering budgeted ASO plans.

Risk Tolerance

There is a perception that an ASO plan can be "risky". Employers sometimes express concern over the direct relationship to claim costs and the possible impact of a catastrophic claim on the viability of their benefits plan. However, plan design maximums and limits, eligible and ineligible expenses, are managed by professional TPAs and insurers in the same way, according to the terms of the governing policies and contracts.

Both conventional benefits plans and ASO plans use insurance to protect against risk. Stop Loss insurance, or large amount pooling, is specifically designed to limit potential exposure to catastrophic health care claims (typically in excess of $5,000 or $10,000 per insured person per year).

While the availability of ASO plans for smaller employers is a more recent trend, the majority of large Canadian employers, like Air Canada for example, have had ASO plans for decades. Those employers who prefer the direct cost relationship and transparency of an ASO plan understand that at the end of the day, they are responsible for the cost of their employees' claims. This is true for either an ASO plan, or a conventional insured plan, over the long term.

As an employer, you may want an ASO plan for your company if:

- You want more frequent reporting on claims costs and transparency in the financial status of your benefits plan than would be available from a conventional insurer.
- It is important to you to have any plan surplus returned to your company at the end of the benefit year.
- You would like lower benefits plan administration fees year over year for your small business.
- You are looking for a customized, creative plan design for your business, such as hybrid plan designs, strategic executive benefits, and flexible benefits for a small business.
- Your company takes a long term view of benefits plan costs and budgeting.

You may want a conventional insured plan if:

- Your company can take advantage of a marketing discount offered by a conventional insurer in the short term.
- You prefer to deal with one of the established insurers in the industry rather than an independent third party administrator.
- You are a not-for-profit company with specific funding requirements that cannot have a budget deficit in the short term.
- You are a large enough employer (over 200 employees) to attract competitive administration fees with a conventional insurer.

Flexibility

Some employers may choose ASO plans administered by TPAs because of the additional flexibility in plan design available to them.

Smaller employers looking for custom benefits plan designs with traditional insurers may not be able to find alternatives like modular plans with core elements plus options, health care spending accounts, and benefit levels graded by seniority. Executive benefits can also be strategically customized with an ASO plan, to allow for tax advantages under CRA guidelines.

Working with a TPA offering ASO plans can give employers access to specialty insurers who offer attractively priced insurance products. Dealing with multiple insurers is administratively complex and time-consuming, but a TPA can manage multiple insurance contracts along with a budgeted ASO plan for an employer. The result is cost effective purchasing and efficient benefit plan management.

Case Study

ASO: The Actual Experience

Situation

A well established company with 20 employees managing all aspects of the meat supply chain, Eastern Meat Solutions completed an ownership transition from the founder to a new business owner in 2006. The new owner needed to spark a culture shift in all aspects of the business, from growth targets to compensation philosophy. One of the priorities was to understand the components of the company's benefits plan costs, and gain control over those costs, while introducing more employee empowerment. "We didn't have a clear picture of what we were paying for" comments the President of Eastern Meat Solutions, Robert Vanden Broek. "Were we getting good value for our money? We didn't have enough information on our benefits plan costs and where they were coming from." The company also wanted to include more flexibility and choice in their plan, but a market review returned very few meaningful options for an employer of this size.

Solution

Eastern Meat Solutions' financial advisor proposed a budgeted ASO plan to provide a clear picture of monthly claim costs. Adding a health care spending account component to the ASO plan rounded out the plan coverage and provided the desired flexibility. This customized plan design was not an option with the conventional insurer that managed the plan at the time, so the benefits plan was moved to a professional TPA.

The monthly financial statements provided for the budgeted ASO plan were of particular interest to the business owner. With all business costs monitored closely, Eastern Meat Solutions' internal budgets were now more accurate.

Results

The budgeted ASO benefits plan has remained in effect at Eastern Meat Solutions from 2006 to the present. Vanden Broek points out that "our company has doubled in size in the past seven years, and the flexibility and control we have with our benefits plan means we can stay competitive with our compensation." Management has a clear understanding of their ASO benefits plan costs with monthly financial reports and annual renewals based on the group's own claims experience. With a customized design including more employee choice, the Eastern Meat Solutions benefits plan supports and reinforces the company's compensation philosophy.

About
The Benefits Trust

Founded in 1994, The Benefits Trust is a full service Third Party Administrator providing ASO Plans, Healthcare Spending Accounts, and Custom Group Benefits Solutions to hundreds of small and mid-sized businesses in Canada. We help successful business owners build a better benefits plan than they can get anywhere else.

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