

the
benefits trust



Should I Choose a *Pay-as-You-Go*
or *Budgeted Plan*?

THE BENEFITS TRUST BUILD CUSTOM BENEFITS PLANS, HELPING SUCCESSFUL EMPLOYERS GET A BETTER BENEFITS PLAN THAN THEY COULD GET ANYWHERE ELSE.

CONTACT US TO GET STARTED!



ABOUT THE PLAN

As you search for the best benefits plan to meet your business's needs, you may decide an alternative to the typical conventional plan is right for you – like an **Administrative Services Only (ASO) plan**.

An ASO plan is an arrangement where **your business funds your own benefits plan** and an external **third party administrator (TPA) conducts the administrative functions** such as evaluating and processing claims.

You pay for actual claims made, insurance premiums, and administrative fees – nothing more. In contrast, a more traditional plan would also include insurer reserves, significantly higher inflation factors, and higher administration fees for smaller businesses.

ASO plans allow you to provide group benefits to employees while maintaining a greater degree of transparency and flexibility than conventional plans offer. Also, a **full service TPA that is not tied to a single insurer**, but instead has numerous healthy insurer relationships, will be able to **mix and match insurance products to get the best price** for each benefit.

Once you have decided an ASO plan will best serve your business, you may wonder whether budgeted ASO or pay-as-you-go ASO would be more beneficial. **Here are the key things to consider when comparing the two:**



Pay-as-You-Go Administrative Services Only Plan

If you choose a pay-as-you-go ASO plan, you will **pay for claims as they arise**. This means the amount you pay each month is **completely dependent on the claims habits of your employees** and their family members.

The major drawback of pay-as-you-go is the **unpredictability of your costs month-to-month**. Companies tend to experience peaks and valleys (particularly seasonal businesses). In our experience, when business is slow you may experience a cash crunch – and your employees also have more time to make appointments. As a result, under a pay-as-you-go arrangement, **your expenses may be highest when things are tightest**.

It's also more difficult to set up cost sharing with employees on a pay-as-you-go plan, because you don't know in advance what costs will be.



Budgeted Administrative Services Only Plan

We recommend the budgeted ASO plan. It has the advantages of an ASO plan – flexibility, reduced costs, only paying for what you use – but it is not as unpredictable as pay-as-you go.

With a budgeted ASO plan, your **costs are equalized month-to-month** over the course of the year. Typically, budgets are unique to your company, built based on your previous claims history. In some months you may have a surplus, or a deficit in other months. Surpluses or deficits are reconciled once a year as part of the renewal process. A benefits company that offers budgeted ASO should provide **monthly surplus and deficit reports** so you don't have any surprises.

It's also easier to set up cost sharing with employees when you know the monthly cost of benefits for the upcoming year in advance.

Some employers are concerned that if they have a surplus left at the end of their benefit year, they will lose it in a budgeted ASO plan. This is not the case. **Just as you are responsible for any deficit at the end of the year, you will get any surplus back if claims are less than anticipated.**

For organizations that want an ASO plan, a budgeted ASO plan offers the most stability and predictability.