



Winter 2004

Does your health insurer really need that large rate increase?

Does this scenario sound familiar? A health plan sponsor obtains the health care renewals from its health insurers and HMOs for the upcoming year. Most of the renewals come in with the disappointing but not unexpected result of yet another round of double-digit (or near double digit) rate increases. Each renewal includes a detailed explanation – often presented in person and complete with supporting calculations – of why the rate increase is necessary. Although unpleasant, it's certainly not out of line with what others are seeing.

Perhaps the plan sponsor has time and resources to go through the long and tedious process of going out to bid, but usually not. So the plan sponsor appears to be left with two choices – finding some way to swallow the cost increase (again) or passing the cost increase on to the employees through benefit cuts and/or additional employee contributions.

But there is another option. A careful review of carriers' renewal proposals may reveal calculation errors and inappropriate charges. In some cases these can be so significant that rates should instead be declining over 2003 rates rather than rising – or, at a minimum, rising at a more moderate rate.

Based on what CHEIRON'S consultants have been uncovering, it would be a very costly mistake for health plan sponsors not to have their renewal proposals from carriers put under the microscope. Rate renewals are a highly technical area that insurers and HMOs often leave to junior underwriters with no actuarial expertise. Mistakes are easily made, and the cost of such errors can be huge – easily adding up to millions of dollars. Furthermore, in some cases they try to add hidden charges or use overly conservative assumptions.

Think such errors are rare? CHEIRON'S consultants have yet to go through this process where there were no such problems. For example, CHEIRON'S recent analysis for a large public sector CHEIRON client revealed significant mistakes on three out of four of the renewal proposals.

Some common errors detected include the following:

- ▶ Improper treatment of large claims. Most plans have some level of pooling, where claims over a given threshold (such as \$200,000) are disregarded for purposes of projecting experience. Insurers and HMOs often – through trending and other factors – actually charge plan sponsors more than the pooling level. In one case the plan ended up being charged more than \$300,000 for claims supposedly capped at \$200,000.
- ▶ Applying the same adjustment twice, but in different ways where it's difficult to detect. In one case, the insurer applied two adjustments for transitioning from incurred to paid claims – one with claims and one with population that overcharged the client by about \$1 million.
- ▶ Simple spreadsheet errors. In one case, instead of increasing a component of the rate by 6%, the HMO multiplied by 10.6 (or a 960% increase).

When the carriers are questioned on these kinds of issues, they usually make the adjustments without a lot of discussion. Health costs are high enough without having to pay more due to calculation or methodology errors. In addition, insurers are often willing to reconsider some key assumptions – such as future health care trend rates – when questioned about other issues.

With so many dollars at stake, plan sponsors should consider bringing in a consultant:

- ▶ If they do not understand everything in the renewal.
- ▶ If things in this year's renewal are not consistent with the prior year.
- ▶ If the insurer's main defense is "that's what we do for our block of business". Renewals should reflect a plan's unique circumstances.
- ▶ If the sponsor is not willing or able to verify every calculation. Even little items can add up to many dollars.

CHEIRON and some other reputable consultants, are often willing to base their first year's fees on a percentage of the health plan cost savings they generate for clients. Securing such an arrangement minimizes your financial exposure. But be sure the consultant's fee formula is based on true savings, not benefit cuts.

Cheiron is a full-service actuarial consulting firm assisting corporations, public employers and Taft-Hartley plans manage their benefit plans proactively to achieve strategic objectives and safeguard the interests of plan participants and beneficiaries.