

## Administrative Services Only (ASO)

### LOOKING FOR BETTER CONTROL OVER EMPLOYEE BENEFIT PLAN COSTS?

Depending on your company's size, demographics, and claims history, one way to gain control is by implementing an **ASO** program to cover predictable claims, with **Stop Loss** coverage to protect the group against catastrophic health care claims.



### ASO

An ASO plan, is one in which the employer assumes some financial risk in providing benefits to its employees. The employer chooses a plan design, and assumes the risk of paying these claims up to a certain level. In practical terms, instead of paying a pre-determined premium to an insurance company in a fully insured plan, employers pay for claims only when they are incurred.

Employers then purchase Stop Loss coverage to limit the impact high individual usage or severe medical conditions might have on their Health claim costs. Stop Loss insurance pays for eligible expenses over a specified chosen level, ensuring these large claims do not jeopardize the financial integrity of the plan. Stop Loss premiums are a fraction of the cost of traditional insured Health premiums.

### WHICH BENEFITS TO CONSIDER

Group benefits generally fall into two categories. The first includes benefits like Life Insurance, Accidental Death & Dismemberment, Dependent Life, and Long-Term Disability that generate infrequent but significant claims. These benefits cover **specific events** such as death or disability and traditional insurance is the best way to provide this coverage. The size and volatility of these benefits are not usually suitable for ASO plans.

The second category includes benefits like Health and Dental which typically generate claims more frequently, but in smaller amounts. These benefits reimburse expenses **incurred by employees** – not specific events. This predictable claiming pattern allows companies to consider these types of benefits for an ASO program since future costs can be determined by looking at past experience.

Dental benefits have a means of protection against “catastrophic” or unexpected high claim amounts through the use of an annual maximum. This maximum limits the amount any one person claims and the company's exposure.

In the same manner, weekly maximums and benefit periods for disability coverage control Short Term Disability claim costs.

Health benefits, however, are slightly different. These coverages DO have the potential for “catastrophic” claims, either through emergency medical costs incurred while traveling or significant long-term illnesses that could extensively use benefits like prescription drugs, private duty nursing, etc. As a result, for ASO plans, **Travel Health** coverage and **Stop Loss protection** are usually purchased to minimize the risk to an employer.

## FULLY INSURED PLANS VS. ASO

In a fully insured group plan, the employer pays a monthly premium for the upcoming plan year for employee benefit coverage. If the program pays less benefits than expected, the insurer realizes an underwriting gain that is not typically refunded to the employer. If the program pays more benefits than the insurer anticipated, the insurer assumes an underwriting loss and employers can anticipate significant premium increases in subsequent years.

In contrast to a fully insured plan, where funding is provided through the payment of non-refundable premiums, an ASO plan treats claims as expenses. The employer retains the funds in their own account and only pays IF and WHEN a claim occurs. If claims do not materialize there is the potential for savings for the employer that would otherwise have been reflected as an underwriting gain to an insurer.

The claims adjudication process is the same in a traditional fully insured program as an ASO plan. The difference is that with an ASO plan the employer holds the cash needed to fund the benefits.

### FULLY INSURED

Non-refundable  
Insured Premium

### ASO

Potential Cost Savings  
Stop Loss /Travel Health  
Administration Charges  
Paid Claims

## ADVANTAGES OF ASO PLANS

### COST CONTROL

By assuming some of the risk, an employer can enjoy the advantages and savings of favourable claims experience – not the insurance company. If claims are higher than expected, Stop Loss coverage protects the financial integrity of your plan from catastrophic Health claims. The impact of any shortfall in funding would still be significantly less than any rate changes required under an insured plan.

Cost savings can also be realized through lower administration costs, and the elimination of insurance company profit and risk charges.

### PLAN FLEXIBILITY

With an ASO plan, you have endless possibilities for plan design. Co-insurance, deductibles, covered benefits and exclusions can all be tailored to meet an employer's needs.

With Maximum Benefit administering your program, you also enjoy portability from one insurer to another. For example, there is no disruption in the plan's operation when switching your fully insured benefits (Life, AD&D, Dependent Life and Long Term Disability) to a new insurance company. Maximum Benefit can switch those benefits to another insurer without putting employees through a re-enrolment.

### IMPROVED CASH FLOW

Unlike traditional insured plans where employers pay a premium that funds claims IF and WHEN they occur, claims under an ASO plan are paid only WHEN they occur.

A portion of fully insured premiums are held by the insurance company as a required reserve for future claims. Under an ASO plan the employer maintains and controls these reserves, allowing these monies to work for the employer, not the insurer.

By retaining the funds in their own account, and paying out these monies only when claims are paid, employers can earn interest on THEIR money instead of an insurance company.

### EFFICIENT PLAN MANAGEMENT

Monthly Utilization Reports on your ASO benefits help identify trends specific to your group's coverage. This allows employers to better manage and control the costs of their employee benefit plan.

## STOP LOSS

Stop Loss insurance provides your company catastrophic claim protection against large medical expenses in an ASO plan. Each time an insured's annual claims exceed the limit your company chooses, the Stop Loss insurer pays the excess eligible amounts – protecting the plan's financial integrity.

The level of claims will, of course, vary by individual. In the example graph, insured #2 and #8 trigger Stop Loss insurance, and amounts in excess of the firm's Stop Loss limit will be paid by the Stop Loss insurer.

Firm size, recent claims experience, and health plan budgets, are all factors employers should consider when choosing Stop Loss limits for their health plan.



## MAKE AN INFORMED DECISION

Is there a downside to ASO plans? For a company with a solid understanding of how the plan works, many of the common myths about ASO plans are put to rest.

### “ASO PLANS PUT ALL THE RISK ON THE EMPLOYER.”

A properly implemented ASO plan allows the employer to control the amount of risk they assume through the use of Stop Loss coverage.

### “ASO PLANS DO NOT WORK FOR SMALLER ORGANIZATIONS.”

The economics of ASO plans for groups in excess of 25 employees does not change with the size of group. With an appropriate level of Stop Loss and Travel Health coverage, ASO plans work for any firm over 25 employees.

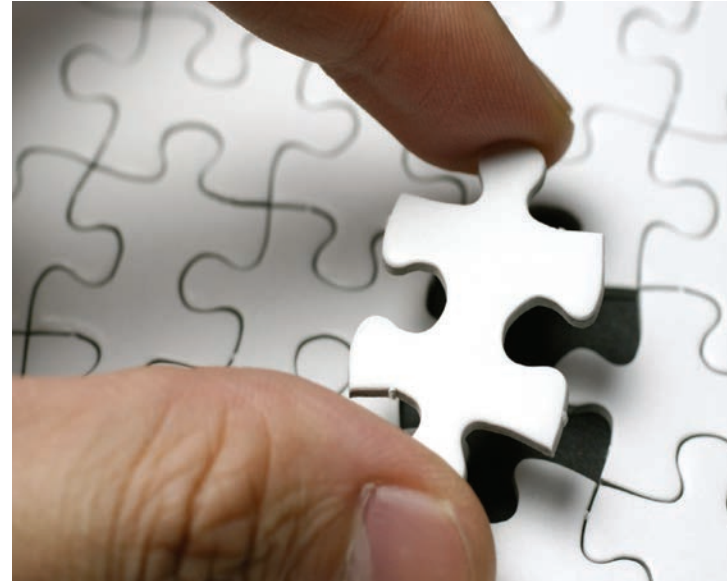
### “YOUR OWN POOR CURRENT CLAIMS EXPERIENCE MEANS THE PLAN WILL BE TOO COSTLY.”

Poor experience means higher costs whether the plan is insured or on an ASO basis. However, the same benefits will still cost less in an ASO plan as you are not paying for profit, risk charges, high trend factors and reserve charges in addition to the insurance coverage.

As is the case in many financial decisions, employers looking at ASO plans need to examine the concept with a long term view (normally on a three-year basis).

### “BUDGETING AN ASO PLAN IS DIFFICULT.”

Prior claims experience is an excellent indicator of your future financial commitments, and Stop Loss coverage will limit risk to a definable level for potential catastrophic claims. Maximum Benefit staff can help you establish funding levels (for budgeting purposes or cost sharing arrangements) based on the plan designs chosen.



## ASO PLANS – THE MISSING PIECE TO CONTROL YOUR PLAN COSTS.

ASO plans remove the necessity of negotiating with an insurer on Health, Dental and Short Term Disability benefits each year as the cost for the plan is claims plus expenses.

ASO plans with Maximum Benefit provide a stable, cost-effective way of providing benefits to employees. With insured Stop Loss and Travel Health insurance to minimize the risks, you can get – and keep – plan costs **under your control**.

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