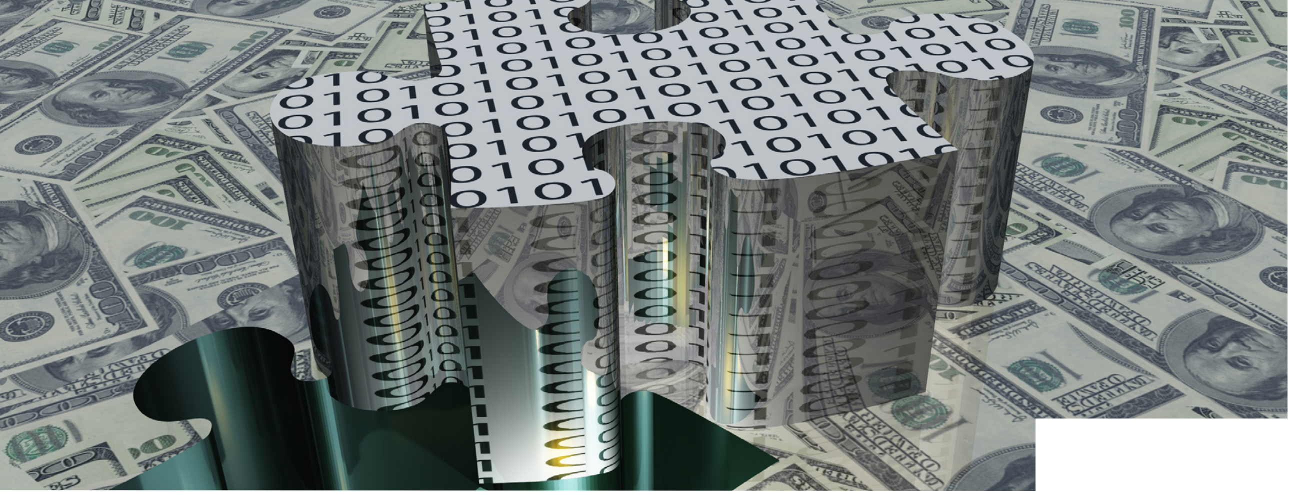

Employee Benefits Insight

6% of Separation: *Proper Underwriting & Claims Forensics Can Reduce Insurance Costs by Six to Ten Percent*

Many MISBO schools feel overmatched when trying to untangle the complicated calculus insurers utilize to present renewals. Underwriting techniques such as excessive reserving for ongoing claims, inflated trend and margin, uncompetitive administrative charges and hidden profit in prescription drugs and shared savings programs all inflate a renewal projection well above what should be considered reasonable and acceptable.

Somewhere along the way, insurers have become more like banks seeking to limit their exposure to risks than risk management firms. They achieve this through a range of less-than-transparent practices and a complicated algorithm of forecasting that often leaves employers paying premium for risk that never really gets transferred. Employers complain of opaque underwriting practices by insurers when they receive their renewals. Complaints range from:

> *'My loss ratio was significantly better than last year, yet I'm still being hit with a 10% increase.'*
>
> *'My renewal started at 19% and ended up at 8%. How can there be that much movement in the rate and is my insurer overstating the initial request to create a perception of more movement off the original request?'*
>
> *'I have this aggressive bid from an insurer but I'm worried about getting hit with a high increase after year one.'*
>
> *'We are being told every year we have a few large claims that are causing us to have to pay higher increases. Aside from these few claims, we are a healthy population.'*

The majority of brokers use marketing to alternative carriers as the primary means to negotiate pricing. Meanwhile, HR teams loathe the disruption caused by moving employees and dependents to a new plan. USI Insurance Services provide clients a better alternative.

It Takes an Underwriter to Know an Underwriter

The underwriting and financial analysts at USI have spent decades evaluating insurer underwriting methodologies on behalf of employers and calling into question methods that inflate profits and avoid risk transfer.

USI's underwriting and analytics process includes:

- Underwriting clients' risks based upon claims and pricing history
- Evaluating multiple years of claims to determine the most advantageous basis to finance claims and assessing the effect of blending in carrier manual rates
- Calculating the full insurer profit earned in prior plan years and using this information to set optimized pricing
- Evaluating reserves that may be based on overly conservative or incorrect assumptions about ongoing claims

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- Verifying insurer trend factors and months of trend which can inflate projections well above the true risk of a plan
- Reviewing pooling charges and individual elements of insurer expense components to be certain each factor can stand on its own
- Identifying revenue sources to the carrier from third party transactions (PBM and others)
- Evaluating historical profit of the insurer for the client's program

With an underwriting and analytics team comprised of underwriters and former insurance carrier personnel, USI has access to all the tricks of the trade.

USI underwriters understand the components of carrier profit.

You Don't Have To Market Every Year to Get Great Results

USI underwriters establish a baseline for pricing that is comparable to any commercial insurer taking a fresh look at the account.

The USI team understands the various financing and plan design models that generate profit for the insurer, and use this knowledge to obtain improved pricing from the incumbent. The incumbent carrier recognizes that USI knows the market and would prefer to negotiate directly, rather than involve another carrier in the mix that might underwrite at a loss in the first year to get the account.

In a recent example, USI was asked to evaluate a high single-digit increase requested by an incumbent insurer. The incumbent broker had improved the renewal to mid-single digits and was encouraging the client to renew. USI underwriters conducted a three-year look back of existing claims and determined that the client would have paid considerably less under a self-insured arrangement. USI underwriters knew the profit the insurer made would continue if the plan remained insured. The clinical team evaluated 24-months of large claim experience and uncovered three ongoing $100,000-plus claims that were now in remission but remained over reserved. An analysis of the retention revealed excessive pooling charges for the client's $100,000 pooling point and inflated pricing for clinical programs that were never actually used.

A review of $1.6 million in pharmacy claims revealed half of the client's pharmacy rebates were being used to reduce administrative fees, while the other half, or almost 2% of total premium, was being pocketed by the insurer.

The end result of USI's negotiation was a 4% decrease in insured premiums, and savings of more than $720,000 against an $8 million spend from the prior broker's final negotiation. The following year, the client transitioned to a self-insured plan as they felt more confident in managing their underlying claims experience. This change resulted in another $480,000 in fixed costs savings over the fully insured arrangement.

Please contact Lee Arledge at lee.arledge@usi.com with USI Insurance Services to setup a meeting to discuss the potential savings from a comprehensive underwriting review.

To analyze our client's business issues and challenges, our benefits team leverages USI ONE™, a fundamentally different approach to risk management. USI ONE integrates proprietary business analytics with a network of local and national technical experts in a team based consultative planning process to evaluate the client's risk profile and identify targeted solutions. Clients then receive tailored recommendations for improving their employee benefit plans. To learn more about USI ONE and the USI ONE Advantage®, contact Lee Arledge today.