

Health Insurance Premium Audits: A Cost-Cutting Solution

by Dixon Greer

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A health insurance premium audit is a complete, unbiased "re-underwriting" of a company's health care package, reviewing the underlying assumptions of risk made by the insurance carriers, and examining the underwriting formulas carriers use to set a company's premium rates. Audits find discrepancies such as math errors, incorrect or unreasonable assumptions and subjective rating practices. In today's high-cost health care world, health insurance premium audits can provide a financially risk-free method of ensuring the best possible benefits plans at the best possible prices.

The state of the union among employers and health insurance carriers and their benefits plans looks grim. Rising costs in the health care arena are on the brink of financially crippling some American businesses.

Double-digit increases in medical premium rates are commonplace. Some experts project that health care costs in 2006 may climb approximately four times as fast as the rate of inflation. While insurance companies are reaping the profits, businesses are spending more and more to provide benefits packages to their employees. Health care benefits have become one of the largest, fastest growing and most significant expenses for American companies.

In light of this ever-increasing annual expenditure, it makes sense that a company's benefit plans would enjoy a hefty amount of executive-level scrutiny. However, surprisingly, that is not often the case. If a company, in the name of fiscal responsibility and profitability, audits every other area of capital expenditure, why do its health and benefits plans, where some of the biggest dollars are spent, go largely unnoticed?

If a company *does* examine its benefits package and wants to achieve cost-sav-

ings, what tools are available to do so? A health insurance premium audit can offer just such a cost-cutting solution.

What Is a Health Insurance Audit and How Does It Work?

Health insurance premium auditing is an emerging third-party model that is being utilized by more and more employers looking for creative ways to evaluate benefit costs, and cut wasteful and unnecessary expenditures.

An audit is a complete, unbiased "re-underwriting" of a company's health care benefits package. It is a thorough review of the underlying assumptions of risk made by the insurance carriers, and an examination of the underwriting formulas carriers use to set a company's premium rates. The audit process is designed to scrutinize and deconstruct these assumptions and formulas. Audits find discrepancies such as math errors, incorrect or unreasonable assumptions, and subjective rating practices.

After these problems have been discovered, an auditor can determine what a company's premium rates should be, simply by examining the difference between what a client is currently being

charged and what it should be charged based on these discrepancies. After the auditor determines what the rates should be, the process of negotiating with a company's existing carriers to achieve unilateral price reductions can begin.

Secondarily, a good auditor will search for unusual benefit provisions, compliance problems and early termination penalties, as well as outstanding legal issues.

Why Conduct an Audit?

As a result of the skyrocketing costs associated with health and welfare plans, companies are passing the costs on to employees. Employee contributions are continually being adjusted and increased to account for benefits plan expenses. An insurance audit can help to fix this problem, while at the same time adding unexpected value.

An audit can lead to employee retention by reducing employees' financial contributions and by improving benefits packages. It also serves to attract the best and the brightest packages to a company by allowing the employer to create an affordable, but excellent benefits offering for prospective employees. However, there

are other, less obvious reasons to conduct a health insurance premium audit.

For Your Broker

An audit will educate the company on how knowledgeable your broker is and if he or she understands the process necessary to negotiate the most aggressive rates. Oftentimes, audits will reveal that brokers really don't have the desire or skill sets necessary to keep rates as low as possible in the current market environment.

For Your Human Resources Executive

Auditing allows a company and its executive staff to verify it is getting the best rate possible. In a competitive business environment, this is critical information.

Additionally, conducting an audit gives a human resource department the opportunity to become a profit center. The knowledge an audit provides can give a benefits staff ammunition to negotiate more effectively at future renewals, thus reducing costs and creating revenue. This can open up a wealth of opportunities not normally afforded to a human resource department.

Bonus programs can be created in which human resource and benefits directors receive incentives based on what they save the company. Human resource training and other programs can be implemented that once were unaffordable. Perhaps most importantly, savings created by an audit add real monetary value to human resource and benefits departments, and endow these departments with a confidence and respectability that they may not normally have.

As a Statement of Fiscal Responsibility

An insurance audit can be extremely useful for public companies. An audit will not only prove to shareholders that they can have confidence in the company's fiscal leadership, but it can provide documentation necessary for compliance with Sarbanes-Oxley and related legislation. Additionally and irrespective of the outcome, an insurance audit shows company diligence, responsibility and competence in the fiscal arena.

For the Cost Benefit

At least 90% of the time, savings are found in an insurance audit. The average

health insurance premium audit saves approximately \$200 per year, per employee. Total savings average between 5% and 30% of the existing premiums. **Keep in mind: Most insurance carriers are for-profit entities. They therefore have a massive incentive to keep insurance rates as high as possible.** Premium audits are one tool to help keep them honest. Effective audits can save companies tens of thousands, and in some cases, millions of dollars on the cost of health and welfare benefits.

For example, one of the first companies to administrate satellite communications in the United States underwent a significant insurance audit. The audit included several companies with seven different benefit plans covering 2,800 employees and retirees.

The company engaged the audit because it became frustrated with seemingly unreasonable rate increases and was unsure that its broker was diligently attempting to keep premium rates as low as possible. Ironically, the brokerage firm the company was using was one of the largest, most respected consultants in the world. At the completion of its audit, the company reported more than \$3 million in annual savings to its plan!

Consider the Flip Side

Consider for a moment the unnecessary expenditure and risk associated with neglecting to conduct a premium audit. Simply put, companies that do not audit their health and welfare benefits packages run the risk of paying more for their company insurance than they need to. Companies that pay artificially inflated premium rates are most often forced to raise employee contributions, reduce benefits, or worse, lay off employees. Simply conducting an audit can save a company from these kinds of ills, as well as expose some unexpected causal factors for inflated premium increases.

A case in point: A well-known company recently conducted a health insurance audit and learned some interesting information about the way their insurer was determining rates. The company initially engaged the audit because it was presented with an enormous rate increase at its life insurance renewal. After reviewing the risk assumptions, the auditor discovered a catastrophic and highly unusual accident had occurred. A

high-ranking executive had been killed on company property by an out-of-control ice cream truck. The risk of this happening again in the future was virtually nonexistent, but the carrier's assumption of risk had been unnecessarily inflated.

Once this was identified as the source of the cost increase, the auditor was able to negotiate with the carrier and the rates were lowered substantially. Had an audit not been initiated, this kind of unnecessary risk assumption would never have been uncovered, and the company would have had to deal with a detrimental, but completely unnecessary, cost increase.

Why a Third-Party Auditor?

In the current corporate environment, human resources departments are often overtaxed and understaffed. Human resource employees are tasked with the continual, daily cacophony of issues on everything from workers' compensation claims to payroll issues, to employee relations problems. As a result, the quiet, no-hassle, in-force benefits package gets little attention, simply due to its silence, and the urgency of other matters.

Moreover, human resource departments are typically not equipped to do what a premium-auditing firm does. Not only do they lack the time, but they also lack the experience, technology and tools to re-underwrite insurance risks. Since auditing firms spend 100% of their time in the business of finding ways to reduce an employer's insurance costs and negotiating with carriers, they are infinitely better suited to get an exemplary result.

Choosing an Insurance Auditor

Once the determination is made that an audit is in order, what should a business look for in an auditor? In choosing an auditing firm, a company should look for knowledge and experience, an auditor that knows the insurance and benefits industry inside and out, and one that has a solid track record of effectively reducing insurance costs for other companies. A solid auditor will provide references, and these references should be stellar. In other words, the auditor should be able to deliver.

A good rapport between a client and an auditor is also important, because the auditing firm should be able to serve as

an unwavering advocate for the company during the negotiation process. This requires a commitment to the company and a zeal to provide long-term cost reductions to its health and benefits packages. It also requires the auditor to have a good understanding of the company's needs, culture, priorities, employee population and audit goals. As part of the "re-underwriting" process, the auditor will check the marketplace for competing rates from other insurance carriers.

A good auditing firm will be expert in crafting risk profiles that are attractive to a carrier's underwriting department. These risk profiles allow underwriters in the marketplace to feel good about the risk they are taking. Underwriters are much more likely to offer aggressive rates when they feel they have a good understanding of the employer groups for whom they are going to provide insurance. A solid auditor that has a good relationship with the client will be able to provide good rates for such employer groups.

A good auditing firm should also have the ability to educate a company's human resource professionals, helping them to design custom benefits plans that fit the specific needs of the company and its employees. Moreover, they should be up to date and knowledgeable on the latest in human resources, benefit and risk publications and online services, policies, laws and regulations.

What Will an Audit Cost Me?

The beauty of a health insurance premium audit is that there is no financial

risk to the company. Auditors are paid on a contingency basis. Typically, an auditing firm will collect a percentage of the overall savings it was able to obtain for the client as its fee. If there were no savings to be found, there is no cost to the business. Moreover, the company has the peace of mind of knowing it has done its fiduciary duty in ensuring that it is getting the best rates allowable by the market for its benefits packages.

What Does an Audit Cost Me in Time?

At the beginning of the audit process, an auditor will request information from the plan sponsor relating primarily to the demographics of the employer group. This may require the sponsor to produce an employee census, as well as a letter of authorization to conduct the audit. Typically this process requires very little of the company's human resources staff, and the time spent on the audit process is therefore minimal. The insurers have

everything else an auditor needs to effectively do his or her job.

Conclusion

In today's business climate, a company's ability to understand its costs, and the tools at its disposal to cut those costs, can spell the difference between success and failure. With health care costs ranked as one of the top two or three expenditures for businesses, having a clear understanding of the ways that benefit premiums are formulated and can be reduced is critical, and as important as the benefits themselves. Simply assuming that underwriting formulas and risk-assumptions are unbiased and error-free is a risk most companies cannot afford. Health insurance premium audits provide a financially risk-free method of insuring the best possible benefits plans at the best possible prices.

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Dixon Greer is president of Liberty Benefit Insurance Services, a full-service insurance consulting firm based in San Jose, California. He brings over 20 years of experience to the position, specializing in premium reduction and actuarial analysis. Greer has been involved in more than 200 company audits, saving his clients in excess of \$50 million dollars. He is certified in a number of areas of insurance and its legal requirements. Greer holds a bachelor's degree from the University of California, Berkeley.