



h i l b   r o g a l   &   h o b b s <sup>sm</sup>

## Introduction to Experience Rated Pools

- Carol Forrester, Vice President / Senior Consultant
- Beth Phares, Vice President / Senior Consultant





## Corporate Overview

- Corporate Headquarters is located in Richmond, VA
- 8th largest insurance brokerage firm in the United States
- 10th largest insurance brokerage firm in the world
- Over 125 agencies nationwide
- Full Service Insurance Brokerage Firm
- Publicly held corporation





## PROS/CONS OF EXPERIENCE RATED POOLS





# Experience Rated Pools

## Type of Funding

### ➤ Fully Insured

- Carrier assumes risk
  - All administration, stop loss coverage, and claims risk included in the fully insured rate

### ➤ Self-Insured

- Pool assumes risk
  - Pool at risk for claims and administration
  - Pool generally purchases specific/aggregate stop loss (reinsurance) to protect against catastrophic claims
  - Claims can be paid by carrier, Third Party Administrators, or pool





## **PROS of Experience Rated Pools**

- Risk is shared between several entities/organizations
- Pooling of risk for small organizations
- Increased premium volume increases leveraging position with carriers
- Flexibility in funding/plan options
- Possibility of favorable plan performance and competitive rate increases/favorable trend
- Reduced administrative costs





## CONS of Experience Rated Pools

- Geographical limitations
  - Unique to Virginia
  - Anthem is only true statewide network
- Larger entities can stand alone as a risk with all advantages of a pool
- Benefit design restrictions – Cannot offer unlimited options
- Competition on a stand alone basis from other carriers
  - Could be offset by a requirement for participants
- Who is willing to subsidize?





## CONS of Experience Rated Pools

- Establishing trend lines for accurate pricing.
- Complexities of funding/underwriting/pricing.
- “Death Spiral” – Good risks leave pool, and as a result pool becomes an adverse risk, possibly unable to sustain appropriate rate structure or viability of pool.
- Legal requirements.
- Administrative Requirements
  - Decision Makers / Administration Board ?





## SAMPLE EXPERIENCE RATED GROUPS IN VIRGINIA AND USA







## School Care (New Hampshire)

- Self-funded pool with reinsurance protection (Cigna)
- Each district is charged “fully insured” rates for a twelve month period. All reinsurance charges, taxes, admin. fees, are built into rates.
- Schools with less than 50 employees are pooled and manually rated
- Schools over 50 employees are experience rated
- Renewal increases consistently 8-11% over 3 year period. Medical trends nationally are running 12-15%.
- Over 25 districts participate
- Board 2-year term





## Other Virginia Pools

### ➤ Pool Characteristics:

- Smaller groups are pooled with ranges of increases established yearly
- Larger groups are experience rated
- Aggregate caps are established for risk protection
- Menu of plan options provided

### ➤ Sample organizations/pools

- Virginia Bankers Association
- New River Valley Consortium
- Staunton, Augusta County, Waynesboro
- The Norfolk Consortium





## ANTHEM RESPONSE





## Anthem Response

- Anthem will not entertain fully-insured consortiums/associations due to track record of poor performance.
- “Local Choice” has a non-compete with Anthem.
  - Schools individually rated
  - Pooling of certain components – Example: Mental Health & Drug
  - Payment to pool for groups leaving the pool
  - Value-added benefits





# GETTING STARTED





## Getting Started

- 2-Year implementation period
- Commitment from schools/local governments
  - Selected carrier
  - Selected funding/pricing
- Legal Advisory Team
- Carrier Commitment – funding/pricing/plan strategy





## INDUSTRY DEFINITIONS





## Definitions

- **Insurance:** A system to protect persons, groups, or businesses against the risk of financial loss by transferring the risk to a large group who agree to share the financial losses in exchange for premium payments.
- **Experience Rating:** Determination of the premium rate for a group risk based on that own group's past claims experience.
- **Manual/Tabular Rating:** Determination of the premium rate for a group risk based on the demographic make-up of a population and industry.
- **Credibility Formula:** Formula which blends past and current claims experience with premium rates based on the group's demographic make-up.
- **MEWA:** Multiple Employer Welfare Arrangement were two or more employers or self-employed individuals participate in self-funded employee benefit program.







## Definitions

- **“Pooling of Risk”:** Pooling insures that the risk related to financing claims experience is borne by all members of the pool and not by each contributor individually.
- **Reinsurance:** The transferring of a portion of the liability to other insurers.
- **Specific Stop Loss:** Excess risk coverage that provides protection for the employer against a high claim on any one individual.
- **Aggregate Stop Loss:** Type of insurance that provides protection for the employer when the total claims during a specified period exceed a specified amount.





h i l b   r o g a l   &   h o b b s<sup>sm</sup>

---

P R O B L E M   S O L V E D.<sup>sm</sup>