ASK AN EXPERT

With Daphne Woolf

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WHAT STEPS SHOULD I TAKE TO EVALUATE A CARRIER RENEWAL PROPOSAL?

Group insurance premium rates are typically set for one policy year (a 12-month period). Usually at the nine-month mark, the insurance company presents the employer with a suggestion for a change in the premium rates to take effect at the beginning of the upcoming policy year.

A group insurance premium rate renewal looks at the claims incurred during the last policy year(s) and provides a proposal to either increase or decrease the rates for the upcoming policy year. Sometimes the carrier suggests the rates stay the same but this too is a renewal proposal and you need to make sure if a decrease or increase is warranted.

There are six basic key steps to evaluating a carrier renewal proposal:

1. Review the past. Pull out last year's renewal, related correspondence, negotiating history, past promises, last year's financial report and current underwriting agreement.

2. Ensure the facts are accurate in the renewal proposal. Look at the volumes of insurance for life and long-term disability and look at the single and family numbers of lives. Ensure all of the current rates showing are in fact the current rates you are paying. Ensure the expenses listed compare accurately to the current underwriting agreement.

3. Check the math. Make sure the addition and subtraction is correct and brackets correctly reflect deficits and not the reverse. Check that the interest credits are correct and reflect what was agreed to in the underwriting agreement.

4. Look for discrepancies. This is the tricky part. Test the numbers for reasonableness. For example, look at the volumes of insurance to ensure they make sense between life and long-term disability. Look at the reserves against the liabilities to make sure they look reasonable. Are the recoverable ratios (break-even percentages) the same as last year, are they competitive? Is interest charged on deficits but not credited on reserves? Are the trend factors (inflation rates) appropriate? Are the claim assumptions (predictions of the future) reasonable? (For example, are there any large amount claims that should be excluded from the renewal calculation because they are not predictive of the future?)

5. Recalculate. If you agree with the carrier's renewal rating methodology (projected claims plus expenses = renewal rate increase) recalculate the renewal plugging in your "correct" numbers (meaning the trend factors, break-even factors or revised reserves) you think make more sense.

6. Thank the carrier for the proposal and list areas you question. If you disagree, outline in your recalculation what you think the the increases should be and what is reasonable.

HOW DO I NEGOTIATE WITH A CARRIER IF I THINK ITS PROPOSAL IS TOO HIGH?

Paying the right premium rates is important. If you pay too much, you are adversely impacting your company's cash flow and potentially funding reserves for the insurance company rather than holding those same funds in-house where the money could be put to better use. If you pay too little, you are opening your company up to a deficit which generates hefty interest charges and may require your company to pay a substantial lump-sum payment or very large rate increases at the end of the policy year.

If you think a carrier's proposal is too high, you have several options:

•Be fair and be factual
The carriers put a lot of care and thought into renewal proposals. It is in their best interest to have you accept their proposal without argument. As you partner with the carrier, you will get a lot more co-operation if you are reasonable and factual when you present your argument.

•Contingency agreements
Consider paying the lower rate but agree to pay a deficit at year-end if the carrier was more correct than you in what was required as a rate increase at the beginning of the policy year. Alternatively, pay the carrier the renewal rate it requests but if the lower rates you proposed turn out to be more appropriate, secure an agreement for a direct refund as opposed to the surplus being used to fund a claims fluctuation reserve.

•Consider the underwriting
Sometimes introducing a Hold Harmless Agreement (in which reserves are released in exchange for you holding the liability) or moving to an experience-rated versus pooled arrangement can be applied to provide a reduced cost (though potentially opening you up to greater risk).

•Get some professional advice
Premium rate renewals are financially complex. Although the carriers are in most part fair and reasonable, it is helpful to have a professional familiar with what is competitive in the marketplace to review the renewal. This doesn't have to be expensive but, frankly, it is prudent.

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