Capital Planning Case Study

CAPITAL ESTATE PLANNING CORPORATION

Case Study: Group Benefit Renewal Strategy
that saved an Edmonton business over $27,000 on their Group Benefits

Capital Estate Planning

780-463-6128 1-800-661-8755 rharcourt@capitalplanning.ca www.capitalplanning.ca

How an Edmonton business saved over $27,000 on their Employee Benefits – without reducing coverage!

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Background

Our Edmonton business client has been in business for over 30 years. They have about 20 full-time staff and several part time staff, with many long-time staff members.

When Capital Planning first got involved, the company had an existing benefit plan that had been set up by a former customer. It contained Extended Health Benefits and Short-Term and Long-Term Disability, but they had opted out of Dental coverage. This customer had since left the insurance industry, so the management of their plan moved over to the insurance carrier.

Capital Planning was brought in to advise on their Group Benefit strategy at last year's renewal deadline. As advisors we were immediately able to provide some cost savings, but at the time the company made the decision to stay with that same carrier.

However, at the next renewal, their carrier again tried a significant rate increase. One that our team of advisors didn't feel was warranted by the information provided and we advised the client that we should do a ***Market Study*** of their Group Benefit options.

The Process

The Discovery Process

When Capital Planning first sat down with the client to make certain that the current plan design and enrolment was what they wanted for their team. This included getting a census of current staff and their eligibility for the plan. Through this we discovered some gaps in the plan, for example:

- Staff who had been long-term staff but on reduced hours who didn't qualify under the original plan
- Staff who had decided to opt out of benefits without documentation, putting the employer in a position of potential liability

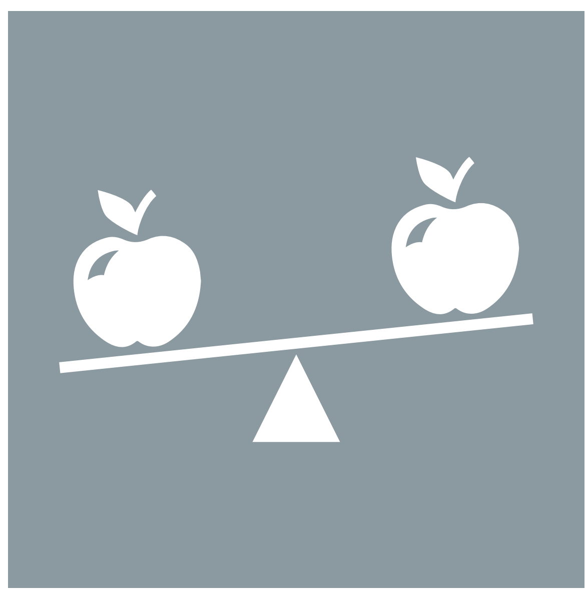
A Detailed Plan Specification Package

Capital prepared a detailed Plan Specification Package to be sent out to insurance carriers in the market with detailed instructions on their quotes, including rates on:

- Short-Term Disability
- Long-Term Disability
- Group Life Insurance
- Extended Health Care
- Quote Guarantees
- Expense Breakeven
- Requote / Guarantee Variance

These were set out to have exactly the same parameters in order to compare "apples to apples" on each company's quotes.

From there, Capital Planning's analysts went to work to analyze the comparative quotes and put together a complete Market Study package for our client.



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Cost Analysis

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Cost Analysis of Carriers

Quoted costs varied widely among the different carriers quoting on the plan, with a couple of quotes coming out as very uncompetitive on a pure cost basis.

Note: the quote on the far left is the renewal quote from their original carrier before we agreed to go to market.

		Carrier 1 Renewal		**Carrier 1** Revised		**Carrier 2**		**Carrier 3**		**Carrier 4**		**Carrier 5**	
Benefit	*(Standardized) Volume*	*Unit Rate ($)*	*Monthly Premium ($)*	*Unit Rate ($)*	*Monthly Premium ($)*	*Unit Rate ($)*	*Monthly Premium ($)*	*Unit Rate ($)*	*Monthly Premium ($)*	*Unit Rate ($)*	*Monthly Premium ($)*	*Unit Rate ($)*	*Monthly Premium ($)*
Group Life	1,000,000	0.27	270.00	0.24	240.00	0.25	247.00	0.294	294.00	0.252	252.00	0.19	190.00
AD&D	1,000,000	0.065	65.00	0.05	50.00	0.04	40.00	0.052	52.00	0.05	52.00	0.05	50.00
Dependent Life	13	4.53	58.89	4.22	54.86	5.00	65.00	5.25	68.25	3.871	50.32	3.50	45.50
STD	15,498.00	0.41	635.42	0.38	588.92	0.512	793.50	0.429	664.86	0.485	751.65	0.45	697.41
LTD	74,888.00	2.682	2,008.50	2.268	1,698.46	2.988	2,237.65	1.928	1,443.84	1.986	1,487.28	2.02	1,512.74
EHC Single	7	169.59	1,187.13	147.61	1,033.27	141.49	990.43	125.07	875.49	113.37	793.59	117.43	822.01
EHC Family	13	362.62	4,714.06	315.30	4,098.90	302.66	3,934.58	267.52	3,477.76	242.52	3,152.76	256.36	3,332.68
Total Monthly Premium			**$8,923.99**		**$7,764.41**		**$8,308.16**		**$6,876.20**		**$6,539.60**		**$6,650.34**

Note:

On a pure cost basis, carriers 4 and 5 were the lowest quoted cost, and within $110 of each other.

Comparatives

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The comparison of current rates and future renewals

One of the rare pieces of Capital Planning's analysis is to not only look at current renewal quotes, but to also try to look into the future – try to forecast how future renewals may look. The reason: in our experience, some carriers have a reputation for offering a very low initial quote in order to bring a client on board, followed by either a) a higher amount at sign up, or b) making the cost savings from the initial quote back at subsequent renewals.

For that, we focus on several factors:

- Quote Guarantees tell us how long the quoted rates will stay in place (even through renewals)
- The Quoted vs. Book Rates can indicate how likely the client is to see a large increase at renewal
- The Expense Breakeven helps to indicate future renewals
- The Requote Variance can indicate the likelihood of the carrier changing rates at plan inception

	Carrier 1		Carrier 2		Carrier 3		Carrier 4		Carrier 5	
	EHC	*All other benefits*	*EHC*	*All other benefits*	*EHC*	*All other benefits*	*EHC*	*All other benefits*	*EHC*	*All other benefits*
Quote Guarantees (months)	12	12	*Did not send full quote - uncompetitive		16	28	16	28-40	15	27
STD (NEMs/OMs)	$1,500	$1,500	$1,000	$1,000	$2,000	$2,000	$1,500	$1,500	$1,000	$1,000
LTD (NEMs/OMs)	$4,000	$10,000	$4,000	$6,000	$4,000	$4,000	$4,000	$6,000	$4,900	$8,000
	Quoted	*Book Rates*	*Quoted*	*Book Rates*	*Quoted*	*Book Rates*	*Quoted*	*Book Rates*	*Quoted*	*Book Rates*
Life ($)	0.24	0.26	Not indicated		Not indicated		0.252	0.276	0.20	0.20
STD ($)	0.38	0.39					0.485	0.511	0.45	0.45
LTD ($)	2.268	2.629					1.986	2.064	2.15	2.15
Expense Breakevens	78%		Not indicated		75%		77.1%		75%	
Re-quote/Guarantee Variance	(As is)		Not indicated		15%		Reserves the right to revisit rates.		(As is)	

Discrepancies

Discrepancies

Based on the Comparatives, we found a few discrepancies:

- Rate guarantees were fairly similar across the board but with slight differences
- Two of the carriers decided not to disclose their quoted vs. book rates, which caused some concern
- Only one of the carriers actually had quoted and book rates that matched up – a strong indication to us that the first renewal is unlikely to change except to due plan experience and inflation factors
- Only two of the companies would guarantee that their quote would be the same at plan inception.

Results

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After analysis and discussion,

Capital Planning recommended Carrier 5 to the client for several reasons, including:

- The second-lowest quoted rates
- Higher potential Long Term Disability coverage
- Variance guarantees on their quote
- Matching quoted and book rates
- Experience and feedback from other clients on the carrier's customer service levels

In addition, we were able to negotiate to bring the qualified employees who did not have coverage into the plan without medical evidence, and also cover some long-term employees with reduced hours under the plan.

The NET Result

A 25% savings in their Group Benefit Cost – a savings of over $27,000 this year with projected savings of over $54,000 over the next two years!

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Terms & Definitions

NEMs: Non-Evidence Maximums. The maximum Group Life and Disability coverage each plan member is guaranteed regardless of their health.

OMs: Overall Maximums. The maximum Group Life and Disability coverage each plan member can qualify for based on medical underwriting.

EHC: Extended Health Care. Health care that includes for example: prescription drugs, physiotherapy, massage therapy, chiropractic care, psychology, orthotics, etc. This coverage does not cover dental.

Market Study: A request for proposals from insurance companies which is then complied and analyzed by Capital Planning and presented to the client with recommendations.

Quote Guarantees: Is how long the Insurer will commit proposed rates will remain unchanged.

Expense Breakeven: The percentage of each premium dollar the Insurer will apply to offset claims, *ie. 80% would mean the Insurer will keep 20% for expenses*.

Requote/Guarantee Variance: Is the allowable difference (usually a percentage) between the data submitted at the time of request for proposal and the time of plan inception. It is the change that the Insurer will allow before there is a need for a requote.
ie. Carrier 3 have quoted a 15% variance in number of lives on the proposal. Therefore, at 12 lives, they are reserving the right to re-calculate rates if there are more two or more lives' difference at the time of plan inception.

Contact

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The Capital Planning Renewal Strategy

For more information on how the ***Capital Planning Renewal Strategy*** could help your business, please contact:

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