THE ULTIMATE ON-SITE TRAINING PROGRAM FOR SALES PROFESSIONALS

We'll Come To Your Company And Teach Your Entire Sales Staff Virtually Everything There Is To Know About Experience Rating!

This Comprehensive On-Site Training Program Provides Sales Professionals With The Experience Rating Knowledge They Need To Be Able To:

- **Completely Understand How An Experience Rated Group's Premiums Are Determined**
- **Explain Premium Increases To Clients In A Highly Professional Manner**
- **Identify And Effectively Negotiate Lower Renewal Premiums With Underwriters In Those Situations Where A Group's Premiums Are Excessive**
- **Maximize Account Retention**

Proudly Presented By Scott M. Snow, FSA of S. M. Snow & Associates

Introduction

Experience rating is the most complex form of pricing which makes it the most difficult rating method for someone to fully understand. Although underwriters and actuaries almost always have an in-depth knowledge of experience rating, the vast majority of sales professionals do not. This comprehensive training program will provide the entire sales staff with the detailed experience rating knowledge they need to be able to:

- Completely understand how an experience rated group's premiums are determined
- Explain premium increases to clients in a highly professional manner
- Effectively negotiate reduced renewal premiums with underwriters in those cases where lower premiums are warranted

Having the above skills will enable sales professionals to MAXIMIZE THEIR ACCOUNT RETENTION with respect to their experience rated clients which will positively impact their company's profitability and enrollment growth.

Explaining Premium Increases To Clients In A Highly Professional Manner

One of the most important tasks that a sales professional has is to CLEARLY explain premium increases to clients and answer all of their questions in a highly professional manner. If an experience rated client doesn't understand the sales professional's explanation or is confused by it, it's highly likely that the client will feel that their premium increase is unjustified and there's a good chance that they'll seriously consider changing insurers. Without a comprehensive understanding of experience rating, a sales professional won't be able to explain premium increases to their experience rated clients in a clear and highly professional manner.

Effectively Negotiating Reduced Renewal Premiums With Underwriters In Those Cases Where Lower Premiums Are Warranted

Pricing is not an exact science and there's no such thing as "perfect" premium rates. Although most experience rated clients receive premium rates that are fairly reasonable, some clients receive premium rates that are much higher than they should be while others receive premium rates that are much lower than they should be. There are several reasons why a client's premium rates could be significantly off-target:

- The experience rating formula itself may not be as sound as it could be
- The client has a unique situation or positive characteristics that the experience rating formula doesn't consider
- The client will be changing an aspect of their health plan next year that the underwriter isn't aware of that will significantly impact the clients' future claims levels and/or enrollment

Sales professionals need IN-DEPTH knowledge regarding experience rating so they can formulate a logical fact-based argument that will enable them to SUCCESSFULLY negotiate reduced renewal premiums for a client that truly deserves some rate relief. Having merely a "fairly good understanding" of how experience rating works will get a sales professional absolutely nowhere when trying to negotiate lower premiums with an underwriter.

Your Instructor

Scott M. Snow FSA is the sole presenter throughout this program. He is a Fellow of the Society of Actuaries and the President of S. M. Snow & Associates. He has over forty years of experience working with HMOs, Blue Cross Blue Shield Plans, and Commercial Insurance Companies. Mr. Snow is an industry expert regarding group health insurance and he's lectured extensively on underwriting, pricing, and many other aspects of group health insurance during the past twenty five years. He is an extremely effective communicator and presents complicated subject matter in a clear, concise, and down-to-earth manner.

About Our Company

S. M. Snow & Associates has been providing the **most comprehensive and worthwhile** training programs available in the industry since 1995. We also conduct training seminars throughout the country on a regular basis. To date, we've conducted over 200 seminars, nearly 100 on-site training programs, and have trained over thirteen thousand insurance professionals.

Program Format

During this on-site training program, we'll comprehensively examine virtually every aspect of experience rating and do so in an understandable manner. Although this is a lecture style program, attendees can ask questions at any time during the program since we've made allowances within each module for Q&A and for group discussions.

Continuing Education Credits

The Department of Insurance will decide on the number of continuing education credits that they'll allow for this program.

Why This Program Is Vastly Superior To Any Other Continuing Education Opportunity

Sales professionals typically earn continuing education credits by attending conferences, seminars, workshops, webinars, and local meetings. Unfortunately, the vast majority of these events provide attendees with **little or no knowledge** that will enhance their career or enable them to improve their company's business results.

IN CONTRAST, this invaluable training program will provide attendees with the detailed knowledge they need to **maximize their account retention** with respect to their experience rated clients which will positively impact their career and their company's success.

The Benefits Of This Program Versus The Cost

If a health insurer loses **JUST ONE** of their SMALLEST experience rated accounts because a sales professional didn't have an adequate level of knowledge regarding experience rating, the profits that this account used to generate will disappear. The unrealized profit with respect to this **ONE LOST ACCOUNT FOR JUST ONE YEAR** will be substantially more than the entire cost of conducting this comprehensive on-site training program!

A highly trained and effective sales force is a health insurer's greatest asset!

Agenda

8:30 INTRODUCTORY REMARKS

- The Concept Of Experience Rating
- How Experience Rating Differs From The Way That "Fully Insured" Groups Are Priced
- Should An Insurer Be Examining A Group's Claims Experience By Plan Year, Or For Periods Of Time Other Than Plan Years?
  - The Pros & Cons Of Each Approach
- How Many Years Of Claims Experience Should Be Examined
- The Minimum Group Size That's Eligible For Experience Rating

8:50 THE "NUTS & BOLTS" OF A TYPICAL EXPERIENCE RATING FORMULA THAT LARGE INSURERS USE

- A Comprehensive Overview Of The Experience Rating Formula That We'll Be Examining
  - The Timing Considerations Involved
  - The Eight Step Process Used To Experience Rate A Group
- **STEP 1:** "Completing" The Claims That Were Incurred During Each Of The Three Most Recent "Plan Years"
  - How A Group's "Paid Claims", "Incurred Claims", And "Completed Claims" Differ From One Another
  - Understanding "Incurred But Not Reported (IBNR)" Claims Which Is Also Referred To As "The Run Out"
  - How Completion Factors Are Used To Develop "Completed Claims"
  - Completing The Claims That Were Incurred During The TWO Most Recent <u>FULL</u> PLAN YEARS
  - Completing The Claims That Were Incurred In The CURRENT PLAN YEAR
    - The Volatility That Exists When Completing Claims For A Partial Plan Year
    - Why The Completed Claims Will Be Substantially Off Target If The Group Has Had Large Claims Experience In The Current Plan Year That Was Atypical
      - How To Properly Address This Problem

  NOTE: If The Group Changed Their Covered Benefits During The Three Most Recent Plan Years, Or They Will Change Their Benefits Next Year, Adjustments Must Be Made To Completed Claims For One Or More Plan Years In Order To Price The Group On An "Apples To Apples" Basis
- **STEP 2:** Taking The "Completed Claims" (From STEP 1) And Performing "Individual Large Claims Pooling" To Develop "Adjusted Claims" For Each Of The Three Plan Years
  - How Pooling Works And Why It's Absolutely Essential
    - Why Pooling Acts Like "Renewal Premium Stability Insurance"
    - Comparing "Large Claims Pooling" To Specific Stop Loss Coverage
  - Determining Appropriate Pooling Levels For Each Group Size Bracket
  - How Pooling Charge Percentages Are Developed
  - We'll Review A Table Of Pooling Charge Percentages For The Various Pooling Levels
    - How "Leveraging" Impacts The Pooling Charge Percentages As Time Passes
  - **CASE STUDY:** We'll Calculate "Pooled Claims" (i.e., The Claims Amounts In Excess Of The Pooling Level) And The "Pooling Charge" For A Specific Group
  - Three Methods That Can Be Used To Determine A Specific Group's Pooling Charge
    - How Each Of These Methods Impacts A Group's Premiums Very Differently
    - Which Of These Methods Generates The Most Appropriate Pooling Charge For A Group

10:20 Break (20 Minutes)

- **STEP 3:** Trending The "Adjusted Claims" (From STEP 2) To The Renewal Period To Get A "Projected Claims Estimate Per Member Per Month (PMPM)" For Each Of The Three Plan Years.
  - What "Medical Trend" Is, What It Isn't, And Why It's Always Been Higher Than The General Rate Of Inflation
  - How To Convert A Compounded Trend Factor To An Annualized Trend Factor In Order To Check It For Reasonableness
- **STEP 4:** Taking A Weighted Average Of The Three "Projected Claims Estimates PMPM" (From STEP 3) To Get The Best Estimate Of What This Group's Claims Will Be During Their Next Plan Year
  - Three "Weighting Approaches" To Consider:
    - The More Recent The Plan Year Is, The Larger The Weight Should Be
      - A Complication: The Current Plan Year Is A Partial Plan Year
    - Weights Are Based On The Number Of Member Months In Each Period
    - Why Using A Combination Of Both Of The Above Approaches Is The Best Approach

  NOTE: For Groups That Are "Fully Credible", After Step 4 You'll Jump To Step 7. For All Other Groups, After Step 4 You'll Continue On With Step 5.
- **STEP 5:** Calculating The Group's "Expected Claims PMPM" Using The "Community Rating By Class" (CRC) Pricing Methodology. Later On, We'll Show You Why This Ancient Pricing Methodology Often Times Generates An Expected Claims Estimate That's Substantially Off-Target.
- **STEP 6:** Using A Credibility Factor To Meld "Projected Claims PMPM" (From STEP 4) And "Expected Claims PMPM" (From STEP 5) To Develop A "Preliminary Claims Estimate PMPM" For The Next Plan Year
  - The Definition Of "Full Credibility" And "Partial Credibility"
  - We'll Examine A Credibility Factor Table And How It's Used
- **STEP 7:** Situations Where An Adjustment To The "Preliminary Claims Estimate PMPM" (From STEP 4 Or STEP 6) For The Next Plan Year Is Warranted Which Will Also Impact The Group's Renewal Premiums
  - If The Group's Risk Profile Has Changed Significantly In Recent Years
  - If The Group Will Be Implementing Some Type Of Cost-Control Strategy On Their Next Anniversary That Will Significantly Impact The Group's Loss Ratio
  - If The "Preliminary Claims Estimate PMPM" Isn't Appropriate For The Group In Light Of Their Specific Characteristics And/Or Their Particular Situation. **NOTE:** Later On, We'll Examine Many Common Situations Where A Downward Adjustment To A Group's Premiums Is Warranted.
- **STEP 8:** Converting The Final "Claims Estimate PMPM" (From STEP 7) To Renewal Premium Rates
  - Taking The Mystery Out Of The Mysterious "Step Up Factor"

12:00 Lunch

1:00 AN IN-DEPTH CASE STUDY ILLUSTRATING OUR EXPERIENCE RATING FORMULA, STEP BY STEP

We'll go through a detailed case study to illustrate how the ABC Company's renewal premiums are developed. Then we'll discuss a highly effective (but practical) way to explain renewal rate increases or decreases to clients.

2:00 SITUATIONS WHERE A DOWNWARD ADJUSTMENT TO RENEWAL PREMIUM RATES IS APPROPRIATE FOR AN EXPERIENCE RATED GROUP

Experience rating is the most complex form of rating and there's no such thing as a perfect experience rating formula. In addition to relying on their experience rating formula, an insurer should also rely on COMMON SENSE when developing renewal rates for a large group. This is because no matter how good an insurer's experience rating

Agenda, continued

formula is, it can't possibly calculate highly appropriate premium rates for every group. In this module, we'll examine some experience rating techniques that many insurers use that could be improved upon. Often times, these techniques will result in excessive premium rates for some experience rated groups which need to be corrected.

- When A Group's Claims Are Completed, Insurers Use A "Standard" Completion Factor Which Is Appropriate For An Average Group. If A Group's Recent Large Claims Experience In Their Current Plan Year Is Significantly Better Than An Average Group's Large Claims Experience, The Group's Renewal Premiums Will Be Excessive And A Downward Adjustment Will Be Appropriate.
- The Vast Majority Of Insurers Pool Large Claims For Their Experience Rated Clients Which Results In More Stable Renewal Premiums For These Groups. In Order To Fund This Benefit, Each Group Is Assessed A Pooling Charge. The Techniques That Most Insurers Use To Calculate A Group's Pooling Charge Will Result In A Pooling Charge That's Excessive For Groups That Have A Large Claims Problem.
- There Are Also A Handful Of Additional Techniques Used Within An Experience Rating Formula That Can Result In A Group Receiving Excessive Premium Rates. We'll Examine Each Of These As Well.
- There Are Also Several Types Of Strategies That An Employer May Be Implementing At The Beginning Of Their Next Plan Year To Reduce Their Health Plan Costs Which Will Result In Lower Claims. An Employer Should Be Getting Credit For These Strategies In Their Renewal Premiums.

2:40 Break

3:00 SITUATIONS WHERE A DOWNWARD ADJUSTMENT TO RENEWAL PREMIUM RATES IS APPROPRIATE FOR AN EXPERIENCE RATED GROUP THAT ISN'T "FULLY CREDIBLE", AS WELL AS FOR A "LARGE GROUP" THAT'S FULLY INSURED

The Community Rating by Class (CRC) pricing methodology is used to price "large groups" that are fully insured, and it's also used to partially price experience rated groups that are only partially credible. For example, if an insurer is experience rating a group that has 125 employees, the group's credibility factor is probably only about 25%. Therefore, when this group's renewal premiums are being determined, the group's actual claims experience (with appropriate adjustments) will only receive a weight of 25%. The other 75% of the group's renewal premiums will be based on the insurer's estimate of what the "expected claims" will be for this group which is determined by the insurer's CRC pricing methodology. Unfortunately, the CRC pricing methodology that virtually all health insurers use was invented over 60 years ago and it generates "expected claims" estimates that are often times substantially off-target. Therefore, if this particular group's "expected claims" estimate is 16% higher than it should be (which isn't that uncommon), their renewal premiums will be 12% higher than they should be (i.e., 75% of 16%) since the group's "expected claims" gets a 75% weight. Here, we're assuming that the 25% piece (i.e., their actual claims experience with appropriate adjustments) was priced perfectly. If this particular group was a "fully insured" group instead of an experience rated group, their renewal premiums would be 16% higher than they should be since their actual claims experience wouldn't be considered at all. In this module, we'll examine a wide variety of situations that will result in an excessive estimate of "expected claims" which will result in renewal premiums that are excessive. We'll also discuss highly effective negotiation techniques that sales personnel can use that will dramatically improve their chances of obtaining reduced premium rates from underwriters in each of these situations.

- An Examination Of The Many Problems Associated With The CRC Pricing Methodology That Routinely Generate Off-Target Premiums For Experience Rated Groups That Are Only Partially Credible, And For "Large Groups" That Are Fully Insured
- A Group's Geographic Area Rating Factor Is Usually Assigned To A Group Based On Where The Employer Is Located. We'll Examine Several Very Common Situations Where A Group's Geographic Area Rating Factor Will Be Substantially Higher Than It Should Be.
- Most Insurers Assign A Group An Industry Rating Factor Based On The Employer's SIC Code. We'll Examine Many Situations Where The Group's Industry Rating Factor Will Be Substantially Higher Than It Should Be For A Particular Group In Light Of Their Specific Characteristics.
- The CRC Pricing Methodology Almost Always Ignores A Group's Participation Rate, The Group's Employee Turnover Rate, And Many Other Characteristics That Can Have A Substantial Impact On A Group's Claims Level. We'll Examine Many Situations Where A Group's Positive Characteristics Are Being Ignored When Their Premiums Are Determined. In These Cases, A Downward Premium Adjustment Is Warranted.

4:20 FINAL THOUGHTS / ADDITIONAL TIME FOR Q&A

4:30 Adjournment

Each Attendee Will Receive A Comprehensive Training Manual!

Contact Us For Additional Information!

If you have any questions regarding our on-site training programs, or you'd like us to provide you with a quote, please call us at (508) 393-1608 or email us at smsnow@smsnow.com.

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