

UNDERSTANDING RETROSPECTIVE RATING

Employer groups with 150 or more employees are able to examine alternative funding methods when purchasing medical insurance coverage. This is generally a good idea for employers with favorable claims experience. Retrospectively rated groups remain fully insured (not self-insured).

Simply stated, retrospective rating is designed so that the insurance carrier will take the cost of administration and insurance, and assign the remaining premium dollars to be used for claims. Unused dollars may be paid back to the employer at the end of the experience period, or held to stabilize future rate increases. If claim costs exceed premiums, the employer is responsible only for the premiums paid. It is the best of both worlds in the sense that you participate in the upside (savings), without financial risk beyond premiums paid.

Retrospective Rating – Example	
Sample Premium	\$100
12% Administration	\$12
7% Re-Insurance or Pooling Charge	\$7
5% Brokerage and Consulting	\$5
2% Premium Tax	\$2
Total Administration	\$26
Claim Dollars Available	\$74

Retrospective rating is simple to understand and install. In the above example, the employer pays \$100 in premium each month regardless of claims. At the end of the contract, claims experience is examined to set the next year pricing. If the employer leaves the carrier, they owe nothing, and if reserves are present, the employer may receive a refund after some time has elapsed.

Since claims costs fluctuate widely from month to month, the carrier will build up a reserve usually equaling 7% of premium paid. The employer typically owns this reserve balance. As it builds, the employer may elect to have it refunded to them, or they may elect to have it accumulate to offset future premium increases. (ERISA requires that these dollars, insofar as they are employee contributions, must be used to fund aspects of the employee benefits, paying, for example, the administrative fees or employer contribution on the 401(k) plan).

POINTS TO REMEMBER

The actual level of reimbursement to doctors and hospitals that carriers have negotiated is an important feature to examine. These reimbursement rates largely determine the carrier's cost of doing business. Carriers with lower reimbursement levels should be looked at favorably, as this will impact claims costs.

This information should not be considered legal or accounting advice, and is not intended to replace the services from competent legal and/or accounting professionals. Berg Andonian, Inc. (1-888-858-5115).