

The Health Insurance Plan Audit

DeHEY McANDREW

101 South Main Avenue
Scranton, Pennsylvania 18504

Tel. 570-346-9960
Fax. 570-346-3411

What is a Health Insurance Plan Audit?

A Health Insurance Plan Audit is a complete, unbiased “re-underwriting” of an organization’s health care package, re-



viewing the underlying assumptions of risk made by the insurance carriers, and examining the underwriting formulas carriers use to set insurance premium rates. Audits find discrepancies such as math errors, incorrect or unreasonable assumptions and subjective rating practices. In today’s high-cost health care world, health insurance premium audits can pro-

vide a financially risk-free method of ensuring the best possible benefits plans at the best possible prices.

The conflict among employers and health insurance carriers and their benefits plans looks grim. Rising costs in the health care arena are on the brink of financially crippling some employers. Double-digit increases in medical premium rates are commonplace. Some experts project that health care costs in 2009 may climb approximately four times as fast as the rate of inflation. While insurance

companies are reaping the profits, businesses are spending more and more to provide benefits packages to their employees. Health care benefits have become one of the largest, fastest growing and most significant expenses for employers.

In light of this ever-increasing annual expenditure, it makes sense that an organization’s benefit plans would enjoy a hefty amount of scrutiny. However, surprisingly, that is often not the case. If an organization, in the name of fiscal responsibility,

(Continued to Page 2)

For Your Representative or Broker on this Issue

An audit will educate your organization on how knowledgeable your broker is and if he or she understands the process necessary to negotiate the most aggressive

rates. Oftentimes, audits will reveal that brokers really don’t have the desire or skill sets necessary to keep rates low. Brokers, who often work on a commission basis,

may not have the right incentive to conduct such an audit. DeHEY McANDREW is unbiased and not affiliated with any insurance or financial brokerage.

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Inside this issue:

What is a Plan Health Plan Audit?	1
Where is My Broker in this Issue?	1
How an Audit Works?	2
Why an Audit?	2
Where’s HR Executive come in?	2
What is the Cost of this Audit?	3
Sarbanes-Oxley and Responsibility	4

- Is your new premiums’ “Retention” rate subjective or objective?
- Does your carrier uses a “Trend Factor” that include ex- employees’ Medical experience?

The Health Plan Insurance Plan Audit (from Page 1)

audits every other area of capital expenditure, why do its health and benefits plans, where some of the biggest dollars are spent, go largely unnoticed? If an employer does examine its benefits package and wants to achieve cost-savings, what tools are available to do so? A health insurance premium audit can offer just such a cost-cutting solution.

How Does An Audit Work?

Health Insurance Plan auditing is an emerging third-party model that is being utilized by more and more employers looking for creative ways to evaluate benefit costs, and cut wasteful and unnecessary expenditures. An audit is a complete, unbiased "re-underwriting" of your health care benefits package. It is a thorough review of the underlying assumptions of risk made by the insurance carriers, and an examination of the underwriting formulas carriers use to determine premium

rates. The audit process is designed to scrutinize and deconstruct these assumptions and formulas. Audits find discrepancies such as math errors, incorrect or unreasonable assumptions, and subjective rating practices. After these problems have been discovered, an auditor can determine what the premium rates should be, simply by examining the difference between what a client is currently being proposed and what it should be charged based on these discrepancies. After the auditor determines what the rates should be, the process of negotiating with the existing carriers to achieve unilateral price reductions can begin. Secondly, a good auditor will search for unusual benefit provisions, enrollment problems, compliance issues as well as outstanding legal issues.

Why Conduct an Audit?

As a result of the skyrocketing costs associated with health and

welfare plans, organizations are passing the costs on to employees. Employee contributions are continually being increased to pay for the plan expenses. An audit can help to fix this problem, while at the same time adding unexpected value. An audit can lead to employee retention by reducing their health insurance contributions. [Your business tag line at here.](#) However, there are other, less obvious reasons to conduct a health insurance premium audit.

Consider the Flip Side

Consider for a moment the unnecessary risk associated with not conducting a premium audit. [To catch the reader's attention, place an interesting sentence or quote from the story here.](#) Organizations are

(continued to Page 3)

For Your Human Resources Executive on this Issue

Auditing allows an employer and its executive staff to verify it is getting the best possible rates. In a competitive environment, this is critical information. The knowledge an audit provides can give a benefits staff ammunition to nego-



tiate more effectively at future renewals, thus reducing costs. This can open up a wealth of opportunities not normally afforded to a human resource department. Bonus programs can be created in which human resource and benefits directors receive incentives based on what they save the organization. Human resource train-

ing and other programs can be implemented that once were unaffordable. Perhaps most importantly, savings created by an audit add real value to the human resource and endow a confidence that they



Caption describing picture or graphic.

The Health Insurance Plan Audit: Cut Costs...Control Future Costs...Save Money

most often forced to raise employee contributions, reduce benefits, or worse, lay off employees. Simply conducting an audit can save a employer from these kinds of ills, as well as expose some unexpected causal factors for inflated premium increases.

A case in point: A well-known local employer recently conducted a health insurance premium audit and learned some interesting information about the way their insurer was determining rates. The organization initially engaged the audit because it was presented with an enormous rate increase at its insurance renewal. After reviewing the risk assumptions, the auditor discovered a catastrophic and highly unusual illness had occurred. The risk of this happening again in the future was virtually nonexistent, but the carrier's assumption of risk had been unnecessarily inflated.

Once this was identified as the source of the cost increase, the

auditor was able to negotiate with the carrier and the rates were lowered substantially. Had an audit not been initiated, this kind of unnecessary risk assumption would never have been uncovered, and the employer would have had to deal with a detrimental, but completely unnecessary, cost increase.

Why a Third-Party Auditor?

In the current environment, human resources departments are often overtaxed and understaffed. Human resource employees are tasked with the continual, daily cacophony of issues on everything from workers' compensation claims to payroll issues, to employee relations problems. As a result, the quiet, no-hassle, in-force benefits package gets little attention, simply due to its silence, and the urgency of other matters.

Moreover, human resource departments are typically not equipped to do what a Professional firm does. Not only do they

lack the time, but they also lack the experience, technology and tools to re-underwrite insurance risks. Third-party firms are in the business of finding ways to reduce an employer's insurance costs and negotiating with carriers, they are infinitely better suited to get an exemplary result.

Choosing an Insurance Auditor

Once the determination is made that an audit is in order, what should you look for in an auditor? In choosing an auditing firm, you should look for knowledge and experience, an auditor that knows the insurance and benefits industry inside and out, and one that has a solid track record of effectively reducing costs for other employers. In other words, the auditor should be able to deliver.

A good rapport between a client and an auditor is also impor

(continued to Page 4)

For the Cost Benefit of Your Audit

At least 90% of the time, savings are found in an insurance audit.

The average health insurance premium audit saves approximately \$200 per year, per employee.

Total savings average between 5% and 30% of the existing premiums. Keep in mind: Most insurance carriers are "for-profit entities".

They therefore have a massive incentive to keep insurance rates

as high as possible. Premium audits are a tool to help keep them honest.

Effective audits can save tens of thousands, and in some cases, hundreds of thousands of dollars on the cost of health benefits.

Choosing a Auditor (from Page 3)

tant, because the auditing firm should be able to serve as an unwavering advocate for the company during the negotiation process. This requires a commitment to the organization and a zeal to provide long-term cost reductions to its health and benefits packages. It also requires the auditor to have a good understanding of your needs, culture, priorities, employee population and audit goals. As part of the “re-underwriting” process, the auditor will check the marketplace for competing rates from other insurance carriers.

A good auditing firm will be expert in crafting risk profiles that are attractive to a carrier’s underwriting department. These risk profiles allow underwriters in the marketplace to feel good about the risk they are taking. Underwriters are much more likely to offer aggressive rates when they feel they have a good understanding of the employer groups for whom they are going to provide insurance. A solid auditor that has a good relationship with the client will be able to provide a successful audit.

A good auditing firm should

also have the ability to educate human resource professionals, helping them to design custom benefits plans that fit the specific needs of the organization and its employees. Moreover, they should be up to date and knowledgeable on the latest in human resources, benefit and risk publications and online services, policies, laws and regulations. DeHEY McANDREW has been savings its clients’ benefit dollars for over 20 years.

What Will an Audit Cost Me?

The beauty of a health insurance premium audit is that there is no financial risk to the employer. DeHEY McANDREW is paid on a contingency basis. Typically, an auditing firm will collect a percentage of the overall savings it was able to obtain for the client as its fee. If there were no savings to be found, there is no cost to the employer. Moreover, your organization has the peace of mind of knowing it has done its fiduciary duty in ensuring that it is getting the best rates allowable for its benefits packages.

What Does an Audit Cost Me in Time?

At the beginning of the audit process, DeHEY McANDREW will request information from the

plan sponsor relating primarily to the demographics of the group. This may require the sponsor to produce an employee census, as well as a list of authorized employees. Typically, the time spent on the audit process is therefore minimal. The insurers have everything else on audit to do. [Your business tag line here.](#)

Conclusion

In today’s economic climate, the ability to understand costs, and the tools at its disposal to cut those costs, can spell the difference between success and failure. With health care costs ranked as one of the top expenditures for employers, having a clear understanding of the ways that benefit premiums are formulated and can be reduced is critical, and as important as the benefits themselves. Simply assuming that underwriting formulas and risk-assumptions are unbiased and error-free is a risk you cannot afford. Health insurance premium audits provide a financially risk-free method of insuring the best possible benefits plans at the best possible prices.

As a Statement of Fiscal Responsibility

An insurance audit can be extremely useful for employers. An audit will not only prove to Boards that they can have confidence in the organization’s fiscal

leadership, but it can provide documentation necessary for compliance with Sarbanes-Oxley and related legislation. Addition-

ally and irrespective of the outcome, an insurance audit shows your diligence and competence in the fiscal arena.