Benefits CANADA

The drawbacks of benefits market discounts

Bob Carter | September 24, 2014

Current pricing practices in the group insurance markets are creating something of a feeding frenzy among carriers looking to maintain existing accounts or win new ones. For some time, market-discounting practices have become the norm where insured rates look more attractive than they might have been in the past.

Two questions come to mind.

First, how long can the practice last, and are these accepted rates in your best interest as a plan sponsor?

The answers are somewhat vague: who knows and maybe.

Second, how are these discounts made possible?

There are a couple of principle sources for these marketing discounts. The profitability of life and disability policies may be subsidizing health and dental insured rates at or even below claims. Also, carriers may be blessed by having additional cash resources on their books that may be channelled into providing market discounts to acquire new business, which may be recaptured on renewal should the groups exhibit poor claims experience or spread across other group clients.

The group business is pretty simple. Carriers collect premiums and pay for claims, leaving enough back from the collected premium to pay expenses (adjudication, administration, risk, commissions, premium tax, etc.) and an acceptable profit. The long-term viability of your plan is predicated on the way your carrier manages the cost of claims. Today's claims are tomorrow's premiums.

Short-term price fluctuations will make it possible for any carrier to buy business, but at some point, the piper will have to be paid and years of unprofitability will have to be made good with rate increases to return the carrier's profit and loss statement from red ink to black.

Why is this happening?

An opinion: most of the carriers in the Canadian market are either publicly traded or have major shareholder groups. Bay Street considers top line revenue, revenue growth and utilization of cash resources as key indicators of financial strength, understanding that company profitability may be a key metric somewhat in flux from year to year. A certain amount of deal flow is vital to keep carrier cash flow circulating and in use, which may manifest itself in the market as market discounts or allowances.

Plan sponsors need to recognize that no two carriers pay clams the same way. It's incumbent on them and their advisors to make sure their chosen carrier is among the best in controlling costs. Accepted cost control methods of cutting benefits, raising co-insurance levels or raising rates are poor substitutes for sound plan management and won't serve anyone well when premiums return to a state of normalcy. Carriers can maintain discounted premiums only so long before they need to raise rates. When that happens, sponsors will either have to pay up or shop around to move the plan again.

The high cost of moving the plan in real terms and lost productivity must be factored into the equation. The amount of disruption to members and internal administration staff alike must also be considered.

Plan sponsors must learn to choose between the stability of working a sustainable plan provided by carriers that pay attention to claims management and the lure of upfront marketing discounts and the continual upheaval of shopping and hopping. The end result is that plan sponsors may begin to feel disillusioned, lured in with great rates only to find that the next guy gets an even better deal at their expense when they see their first post-guarantee-period renewal. At some point, quick-turn groups may find it difficult to find carriers willing to quote.

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