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The Insurance Insider

The Drawbacks of Benefits Market Discounts

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"...The profitability of life and disability policies may be subsidizing health and dental rates at or even below claims."

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 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

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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.

Bob Carter

Workers Underestimate the Likelihood of a Disability

Workplace disability is more common than Canadian workers believe, according to a survey.

An RBC Insurance survey finds that 45% of workers believe that disability occurs infrequently; however, disability is more common than Canadians realize.

In fact, one out of seven Canadians is currently disabled, and one in three working Canadians will experience a period of disability lasting longer than 90 days during their working lives.

When it comes to defining what a disability is, the majority of Canadians consider physical accidents (72%) and workplace-related accidents (64%) to be a disability.

Only 45% of Canadians surveyed consider depression to be a disability, and less than one-third believe that anxiety (30%) and diabetes (21%) are a disability.

"There is a mistaken perception that disabilities tend to be catastrophic in nature—caused by one-time, traumatic events," explains Mark Hardy, senior manager, life and living benefits, with RBC Insurance. Most Canadians don't recognize that common chronic conditions such as mental illness cause the majority of disabilities. In fact, less than 10% of disabilities are caused by accidents."

"...Only 45% of Canadians surveyed consider depression to be a disability

CANADIANS HAVE GOOD MENTAL HEALTH

Statistics Canada says the majority of Canadians have good mental health.

Based on results of the 2012 *Canadian Community Health Survey – Mental Health,* 76.9% of Canadians age 15 or older were categorized as having flourishing mental health. That is, they generally felt good about and functioned well in daily life. A further 1.5% were classified as languishing (low positive emotions, low positive functioning), while 21.6% were in moderate mental health (neither flourishing nor languishing).

When these mental health classifications were combined with information on the presence or absence of a mental illness, an estimated 72.5% of Canadians (19.8 million) were considered to have complete mental health. That is, they were flourishing, and they did not meet the criteria for any of the six major mental disorders: depression, bipolar disorder, generalized anxiety disorder and alcohol, cannabis or other drug abuse or dependence.

Men and women were equally likely to have complete mental health: 72% and 73%, respectively. However, a number of other factors were associated with the likelihood of having complete mental health: age, marital status, income, education, employment status, spirituality and physical health.

The percentage of people with complete mental health tended to be higher at older ages, rising from 65% at ages 15 to 24 to almost 80% at age 65 or older.

Having a partner was also associated with complete mental health. While 77% of people with a partner were in complete mental health, the figure was 72% among those who were widowed, separated or divorced, and 64% among those who were single.

Lower income and levels of education were associated with a lower likelihood of complete mental health. About two-thirds of people who lived in households in the lowest income quintile were in complete mental health, compared with more than three-quarters of those in the highest household income quintile. As well, while 69% of people who had not completed post-secondary education were in complete mental health, the percentage was 74% among those who had completed post-secondary studies.

People who reported that religious or spiritual beliefs were important in their daily lives were significantly more likely to be in complete mental health than were those not classified as having strong spirituality: 76% versus 66%, respectively.

Those with pain that prevented most activities were less likely to be in complete mental health than were people with no pain: 55% versus 75%.

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"...Men and women were equally likely to have complete mental health: 72% and 73%, respectively. ..."

Many Canadian Employers don't offer Retiree Health Benefits

Non-pension retiree benefits such as healthcare and dental coverage can be an important factor in helping employers attract and retain talent. However, almost half of Canadian employers don't offer any non-pension retiree benefits.

An Aon Hewitt survey of 225 Canadian employers finds that 44% of the respondents do not offer any retiree benefits at all, while another 10% have closed their existing programs to future retirees.

Of those employers not offering retiree benefits, the most often-stated reason (76%) was "high costs compared to perceived benefit to employees," while 66% blame rising healthcare costs specifically. However, about 20% of respondents would consider offering retiree health benefits such as drug, hospital and dental benefits if the costs are fully or partially paid by retirees.

"With about half of employers not offering retiree health benefits, the challenge is finding ways to make these programs affordable for more people," says Greg Durant, senior vice-president and chief actuary, health and benefits practice, at Aon Hewitt. "But these results also clearly show that many employers that don't currently offer retiree benefits would consider doing so if retirees shared the cost burden."

Among the 56% of companies surveyed that do offer retiree benefits, 85% offer retiree medical coverage, and 82% offer hospitalization. The costs of those programs are shared by employer and employee in about half of the companies surveyed.

Asked for the likelihood of modifying their current plans, 38% say they're likely to increase retiree contributions, and 31% say they're likely to reduce or eliminate eligibility for future retirees. Only 8% say they're likely to improve benefits for current or future retirees.

Meanwhile, a large number of respondents offering retiree benefits are unaware or have not considered a number of planning options that can help make the programs more affordable. More than 85% have not considered or are unaware of alternative financing vehicles, while many (81%) have not considered a "lump sum" buyout settlement to current retirees or moving to a DC retiree medical plan (73%).

"With more than a third of companies looking at reducing or eliminating future retiree benefit eligibility, there is clearly a desire to keep escalating costs in check," Durant explains. "But it's also clear that few employers are aware of or fully considering alternative planning options that can help to make retiree health benefits more cost-efficient."

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Christy Insurance Agencies Ltd.

#110—1681 Welch Street
North Vancouver, BC
V7P 1B7

T: 604-987-2474
F: 604-987-9534

We're on the Web!
www.christyinsurance.com

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