Understanding Your Renewal

Your renewal worksheet is divided into five sections:

- Claim Fund Information
- Large Claim Information
- Experience Information
- Renewal Adjustment
- Underwriter Comments

Each section is described in detail below. Your agent or Allied underwriter will be happy to assist you in understanding this information. As a self-funded health plan, this information is yours, not the insurance company's and is intended to help you effectively administer your employee health plan.

Claim Fund Information
This section recaps claim payments and funding by showing sources of funds to pay claims (employer contributions, stop-loss insurance payments and stop-loss accommodation loans) and out flows including benefits paid and stop-loss accommodation loan repayments.

- **Level funding**: You pay your fixed costs and fund your claim fund monthly with 1/12 of your maximum annual cost. You are never subject to a cash call if claims go past your current maximum contribution. The monthly payments cover[1] your costs for the plan.

(Note: Accommodation loans are interest free and a component of the stop-loss policy designed specifically for Allied Funding Advantage clients.) Once all contributions for the plan year have been received, any remaining loan balance is covered by the aggregate stop-loss insurance and the employer's exposure is limited to the contributions already made.

Large Claim Information
This section shows you what has been paid on large claims and, additionally, any pending large claim exposures. A large claim is any claim that has, or could, result in paid benefits of more than $10,000 or, on smaller groups, any claim that the underwriter believes is material to the experience. Remember, benefits for any one person in excess of the specific deductible are covered by the specific stop-loss policy.

Experience Information
Information shown for the Current Plan Year is based on the first nine months of the plan year only. The ultimate experience for a plan year won't be known until the nine-month run-out period (after the end of the plan year) is completed. These nine months allow for all claims incurred during the plan year to be filed, reviewed and paid. At the time this report is produced, the experience information is limited to the claims filed in the first nine months of the plan year. (Plans having their second or later renewal will also see the final experience for the prior plan period.) Limiting the value of this information even more is that all claims incurred in those nine months have not been filed and paid. Estimated Reserves are used to help account for claims not yet filed or paid during the experience period. It is calculated mathematically using claims already paid and

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is only an estimate. Actual results could vary widely, especially if a large claim has just occurred and not been filed yet.

The Estimated Reserve is added to Paid Claims and Specific Claims (large claims covered under the specific stop-loss policy) are subtracted to determine an estimated Total Projected Claims. This value is subject to change based on actual claim payments, but is a good indicator of plan performance during the nine-month experience period. Often this experience is a good predictor for the rest of the plan year. But again, this is highly variable as actual claims can't be projected in advance.

Renewal Adjustment

Determining a plan's renewal costs is both art and science. The experience to date is a strong guide, but only a guide, to future plan performance. The number one driver of future plan performance is the health of your employees and their dependents today and in the coming year, not what it's been over the last year. Sick employees get well and some healthy employees will get sick and accidents do happen. How many get sick and to what extent ultimately determines the employer's plan costs. Experienced underwriters look at all available information to determine a renewal. This includes information on the original enrollment cards, experience and large claim information such as on this report as well as information from pre-certification calls and drug prescriptions to try and estimate the employer's exposure for the next plan year.

The starting point for the renewal process is running the current employees and dependents through the claim projection system with all other factors held constant, thus determining expected claims costs for the next plan year. This process reflects the impact of changes in age and gender of the plan participants along with health care trend (rising health care costs) to determine what next year's cost projection is compared to the current plan year cost projection. This change is labeled as Trend & Demographic Adjustment on the renewal report. This is the pure "science" part of the renewal process.

The next line, Experience Adjustment, is the "art" portion of the renewal. Using all information available, the underwriter determines what, if any, additional cost adjustment is required. If the underwriter believes the group's health characteristics are improving, then they will enter a negative value thereby reducing the Trend & Demographic Adjustment. Conversely, if the underwriter believes experience is going to get worse, or if the current plan year costs were underestimated, a positive value will be entered to increase the overall adjustment.

In general, the Trend & Demographic Adjustment is an increased adjustment. Employees are older and as employees age they consume more medical care. If younger employees have replaced older employees then costs will go down and vice versa. Health care cost trends are always going to exist and have to be taken into account to generate adequate funding year over year.

Underwriter Comments

This section allows the underwriter to convey any special information or comments they think may be pertinent to the renewal. This may be about current or future risk exposure or a benefit modification that could help lower utilization.

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