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Timing's Everything: The Impact of Benefit Rush

by Joan C. Barrett

What is a benefit rush? Well, picture this. It is late on a beautiful autumn Friday afternoon. You have a few minutes to kill before your last meeting of the day, so you click on your company's Web site to check stock prices and there it is: The announcement that your company is going full-replacement Consumer Driven Health (CDH). What is your first reaction?

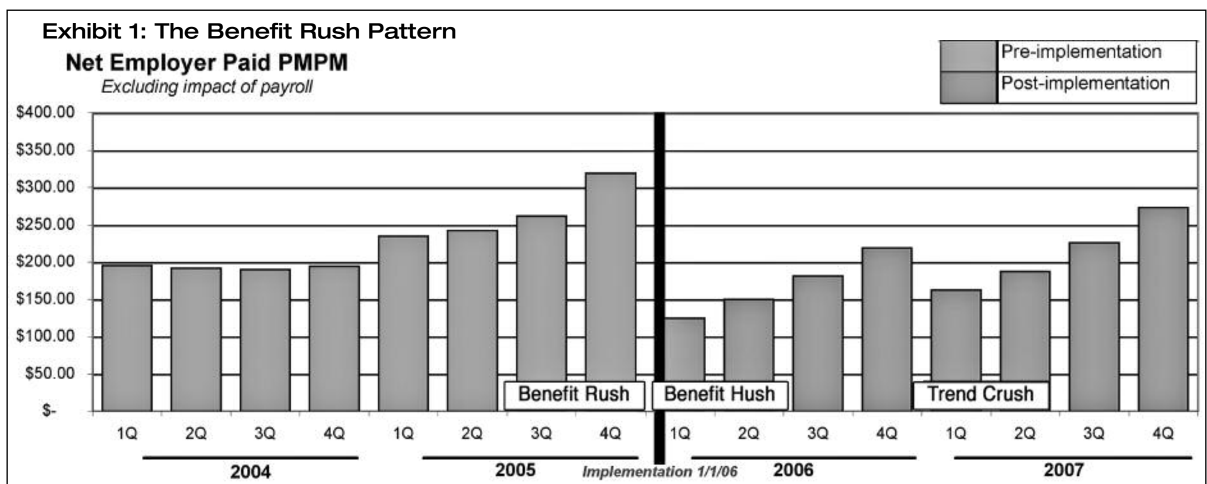
a. Wow, that is great. My company will save money.
b. I will use this as an opportunity to become a better consumer.
c. Gee, I better call my doctor and get an appointment for that procedure I have been putting off.

When this happened to me, my choice was easy: c. Like myself, most consumers who "benefit rush," receive services where the timing is optional, like some knee and back surgeries.

A benefit rush may occur anytime there is a noticeable change in the benefit package. Even simple things like a change in carrier may trigger a benefit rush. The financial impact of the rush depends on the magnitude of the change and the timing of the announcements. For large groups, announcements come early and a change such as a full-replacement CDH are considered major, so an increase in annual claims costs in the three percent to five percent range is common. On the other hand, small groups tend to have shorter announcement periods and less rich plans, so the impact on a customer by customer basis is less pronounced.

The benefit rush not only impacts the year before a change is implemented, but also has an impact for two years following implementation as illustrated in Exhibit 1 below. In the year following implementation there is a "*benefit hush*." Claims are lower than they would be on a "steady state" basis in part because some of the services that would have been incurred in that time period were incurred during the rush. In addition, there is often a wait and see attitude as consumers adapt to the new plan. In the second year, there is a "*trend crush*," as claims go back to a more normal level and consumers become more used to the new plan design. The trend, however, is higher than it would have been because it is coming off a lower base.

In a similar vein, there is a benefit delay pattern that emerges when a customer adds a major life style benefit, such as LASIK eye surgery, or increases a benefit limit on a costly service such as hearing aids. A benefit delay follows a rush-hush-rush-hush pattern in the first few months following implementation. The first rush occurs in January when consumers who are very in tune with the benefit package rush out to take advantage of the upgrade. There is a short lull, then the second rush occurs three to six months later, after word of mouth among



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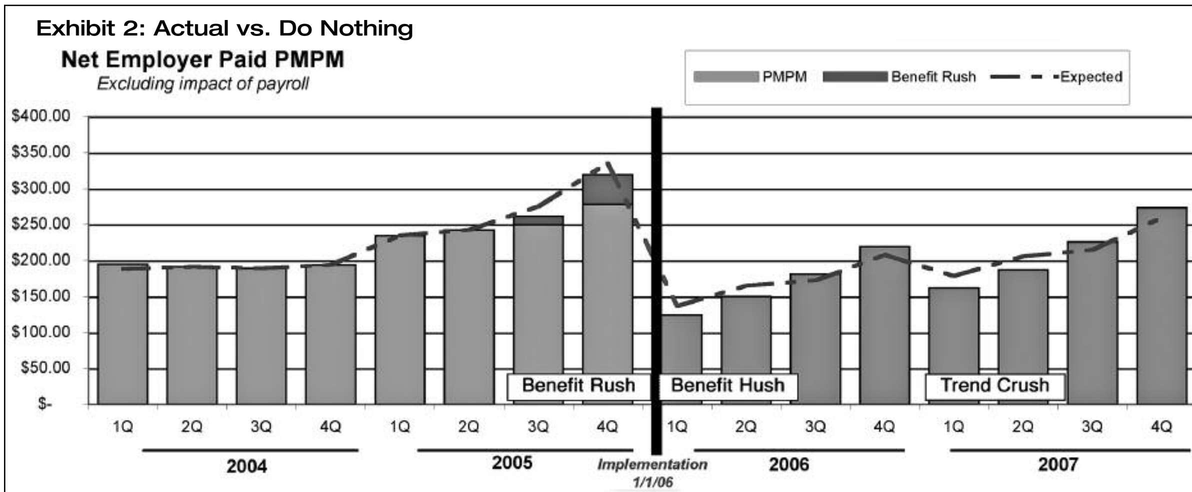

the employees and provider-induced demand kicks in. After the second rush, the pattern tends to level out.

The Impact: Large, Self-Insured Customers

If a self-insured customer makes a change to its program big enough to precipitate a benefit rush, then chances are the customer will sooner or later ask the question "How much did I save?"

To maintain credibility, consultants, underwriters, actuaries and others who advise large clients may find it prudent to walk the customer through the benefit rush cycle step by step, starting with an initial projection and true-ups as experience becomes available as illustrated in Exhibit 2 (above).

The calculation of a savings amount is always somewhat tricky because of the inter-related variables: trends, change in provider contracts, etc. Typically, savings are shown by a comparison to a "do-nothing" scenario as shown in Exhibit 3 below, which simply compares the customer's actual trend to the projected experience based on pricing trends or some other reasonable trend assumption. This approach is simple and all the key variables are implicitly accounted for. The customer may object to it, however, because at the end of the day, the do-nothing trend is still hypothetical, no matter how reasonable the assumption.

A more concrete way to demonstrate savings is an explanation of trend exhibit like the one shown in Exhibit 4 (see page 39), which breaks down the savings into the component parts. This method has the advantage that the bottom line is not hypothetical: the experience is the experience. Needless to say, the method for deriving the components is somewhat subjective.

Historically, self-insured business has been relatively "risk-free" from a carrier stand-point,

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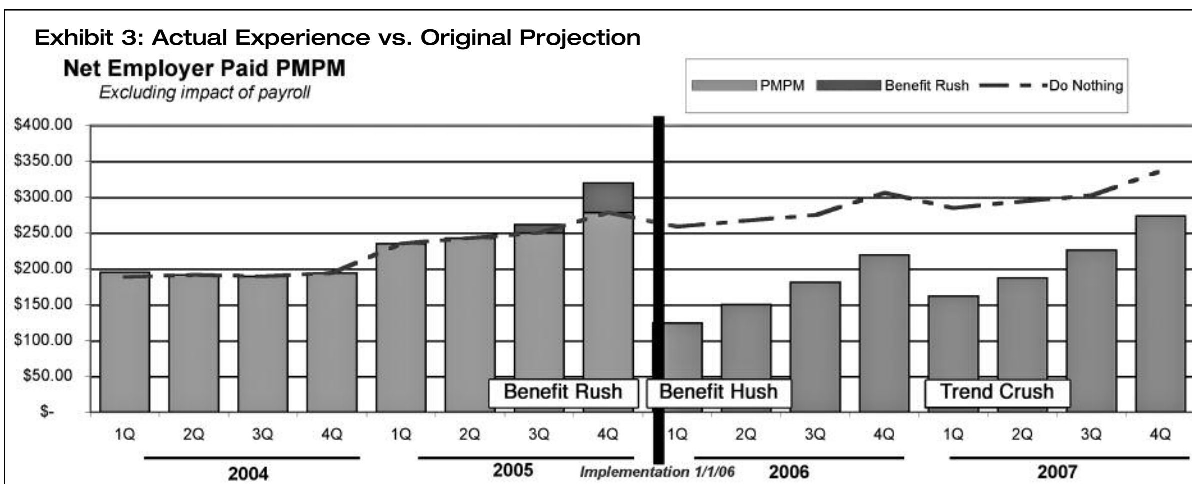

except perhaps for some stop-loss business. Increasingly, however, carriers are offering trend guarantees to large self-insured customers. Typically, the carrier puts a portion of their administrative fees for a policy year at risk if trend exceeds a specified percentage. While this may not sound like a big deal to an actuary who works with insured business, there may be several million dollars at risk. Enough that even a large carrier sits up and takes notice.

Trend guarantees are always a risky proposition, but the fact that the carrier may not know about anticipated changes adds to the risk. For example, most carriers are working now on trend guarantees for 2009. If the customer implements a major change effective 1/1/2010, then the benefit rush in late 2009 may cause the carrier to miss the guarantee even if they otherwise predicted the trend accurately. To minimize this risk, more and more carriers are caveating the guarantees to limit the risk if a major change in offering is made.

Insured Business

Although the benefit rush impact tends to be greater for a large self-insured customer, the overall financial impact can be greater for an insured block of business, especially if the proportion of CDH and other large deductible plans is growing rapidly.

For small business pricing, many insurance companies offer a new business discount off manual rates to reflect the favorable impact due to underwriting. In the second year, the company is usually limited to an increase of 15 percent + the change in manual rates under small group regulation. The 15 percent is intended to cover underwriting wear-off and to correct somewhat for unfavorable experience without causing undue hardship on the customer. Many carriers are hesitant to use the full 15 percent for fear of being accused of offering a low first year premium and then pulling a "bait and switch."

While this is always a problem, it is much more serious when a high proportion of CDH plans are introduced and the carrier is faced with the trend crush. There is no easy answer to the problem. The first year discount may be reduced, which may make them uncompetitive or they may reflect the crush and risk being accused of bait and switch.

For experience-rated cases, the underwriter should reflect the benefit rush pattern into premium calculations in a manner similar to the self-insured business.

The impact of a benefit rush on reserving is clear. An increase in annual claims in the three percent to five percent range translates to a 10 percent to 20 percent increase in claims in the fourth quarter. Since many insurers rely on projected claims costs instead of completion factors to estimate run-out on fourth quarter IBNR, the estimate can be inadequate unless the benefit rush is taken into account.

A more subtle impact, however, is the fact that a mini-rush often occurs at the end of the policy year on any type of high deductible plan. The mini-rush occurs as consumers satisfy their deductible and out-of-pocket maximums. At that point, services are either "free" if the out-of-pocket maximum is met or at least a lot cheaper if the deductible is satisfied. Savvy consumers will use that opportunity to receive optional services. If the block is stable, then the actuary can rely on seasonal patterns to develop the claims estimates. If the block is growing, however, the actuary will have to perform additional analysis to determine the impact.

Exhibit 4: Explanation of Trend

Component	Trend Impact
Aging	1.0%
Large Claims	2.0%
Recontracting	5.0%
Core Utilization	3.0%
Benefit Hush	-2.0%
Other	1.0%
Combined	**10.0%**