

GLOSSARY OF GROUP INSURANCE TERMS

(N.B., The following provides a general explanation of various financial terms pertaining to Group benefit plans. Not all terms apply to all clients.)

Adjusted Premium: the actual paid premium for a period adjusted to reflect what would have been paid if the current rate(s) had been in force throughout that period.

Adjusted Incurred Claims: the actual *Incurred Claims* for a period adjusted to reflect the impact of *Trend*, in order to bring those *Incurred Claims* up to current period levels.

Adjusted Incurred Loss Ratio: the ratio of *Adjusted Incurred Claims* to *Adjusted Premiums*, to bring all premiums and claims for a period up to current period levels.

Administrative Services Only (ASO): an uninsured arrangement wherein the policyholder contracts with a service provider (e.g., an insurance company) to provide services such as claims adjudication and payment, production of booklets, etc. Often, these are the same services as may be provided under an insured plan, except for the insurance element. The policyholder assumes full liability for the bottom-line financial result of the plan (although the ASO plan may include some specific liability protection, i.e., Healthcare pooling). Usually, there is some form of settle-up of surpluses and deficits on at least an annual basis. The policyholder is responsible for any deficit existing at the time of policy termination. There are three common ways to fund the ASO account:

- ❑ **Billed in Arrears ASO:** the service provider issues a periodic billing – typically monthly – for claims paid in the previous period plus expenses, healthcare pooling charge and taxes, where applicable. The service provider may or may not require a deposit float and *Cash Flow Interest* would typically be applied under this type of ASO arrangement.
- ❑ **Budgetable ASO:** a method of funding an *Administrative Services Only* plan whereby regular deposits are paid to the service provider – either based on hypothetical deposit rates (similar to insured premium rates), or flat periodic deposits (e.g., monthly) – intended to fund expected claims plus expenses and applicable taxes over, a specified period – typically twelve months. Usually a periodic accounting is provided to determine whether a surplus or a deficit is generated by the deposits, and a settle-up would be required. The budgetable deposit levels are reviewed on a periodic basis – typically annually – and adjusted as required. The service provider may or may not require a deposit float and *Cash Flow Interest* would typically be applied under this type of ASO arrangement.

Zero-Balance ASO: the service provider withdraws funds directly from the policyholder's bank account on a periodic basis – e.g., daily for claims paid and monthly for expenses, healthcare pooling charge and taxes, where applicable. The service provider would not typically require a deposit float and *Cash Flow Interest* would not normally apply under this type of ASO arrangement.

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Billed Premium: the amount of premium billed by the insurance company to the client. This should be equivalent to *Paid Premiums*, in most instances.

Breakeven Loss Ratio (BLR): the proportion of premium intended to cover claims (including any changes in reserves). The difference reflects the insurer's expenses for operating the plan. This is sometimes also referred to as the *Target Loss Ratio*.

Cash Flow Interest: under a Refund Accounting arrangement as well as under certain types of ASO arrangements, service providers typically credit interest on (i) reserves and funds held on account, and (ii) premiums or ASO deposits based on the date the funds are received. Interest is typically charged on (i) claims paid, and (ii) expenses and applicable healthcare pooling charges, where applicable.

Claims Fluctuation Reserve (CFR): only applicable to benefits underwritten on a *Refund Accounting* basis, this Reserve is usually established from plan operation surpluses. Funds held in a CFR are the property of the policyholder, but the insurer has first call on these funds in the event of a plan year deficit. Any remaining funds in the CFR upon policy termination would be refunded to the policyholder, subject to a final accounting. The CFR is sometimes also referred to as a *Rate Stabilization Fund*.

Cost Plus: an arrangement whereby the insurer processes a specific claim, or specific types of claims (eligible for the Medical Expense Tax Credit under CRA) and is reimbursed by the policyholder for the claim amount paid plus applicable expenses. The expenses are usually expressed as either a flat dollar amount per claim or a percentage of the claim amount paid. The intent is to avoid conferring a taxable benefit on the employee, as would occur should the employer reimburse the employee directly.

Credibility: the degree to which a plan's own claims experience is considered indicative of what will happen in the future, and thus influences the required rate(s). Credibility for a given benefit is normally determined based on the size of the group (i.e., number of covered employees) and number of years of experience being utilized in the rating analysis.

Deductible Erosion: the impact of a static deductible reduces each year as cost trend applies to the portion of expenses previously used to satisfy the deductible.

Deficit Recovery Margin: a margin built into the renewal rates, over and above what is required to meet the expected claims plus expenses for the upcoming year. This is normally only applicable to benefits underwritten on a *Refund Accounting* basis. However, it may also be utilized under an *Administrative Services Only* arrangement. The purpose is to recover deficits generated in prior policy periods, with the recovery normally amortized over, say, three to five years.

Demographic Adjustment: the impact of a change in the volume distribution by age and/or gender. Normally applicable to only Group Life and Long Term Disability plans. It may also reflect a change in the employee occupations / industry classification and/or geographic distribution.

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Disabled Life Reserve (DLR): applicable to insured Long Term Disability plans. The reserve reflects the present value of all future payments to an open Long Term Disability claimant, and is re-valued on a regular basis. The reserve for each claimant will depend upon such factors as the monthly benefit amount, the age of the claimant at disability, the maximum benefit duration and the length of time since the date of disability. Reserves are discounted based on interest assumptions, as well as the possibility the claim will terminate (death, recovery, etc.) prior to the maximum benefit duration.

Experience-rated: an approach by which a plan's past claims experience is utilized to determine the future premium rates. Normally applicable to Extended Health, Dental and Weekly Indemnity plans. May also apply to other benefits (e.g. Group Life, Long Term Disability and/or Employee Assistance Plans), depending upon the size of the group. In some instances, a benefit may be considered partially experience-rated, depending upon the amount of *Credibility* applied to the plan's experience.

Fully Pooled: an arrangement whereby the premiums for a specific coverage are paid into the insurer's pool and any claims are charged against the pool. This typically applies to benefits with low premiums and infrequent but comparatively high claim amounts, such as AD&D and Optional Life. Normally, the premium rates for these coverages are adjusted based on the results of the pool, if at all, rather than on each client's experience. This term is also sometimes applied to other benefits when provided on an insured basis, even if renewal rates are established based on the plan's experience.

Healthcare Pooling: in exchange for a pre-determined pool charge, the insurer agrees to pool specific Extended Health claims instead of charging the claims to the plan's experience or Administrative Services Only account. The pooling may apply to certain types of "catastrophic" Healthcare claims (e.g. Out-of-Country) and/or to claims in excess of a specific threshold, such as \$10,000 per person per policy year.

Incurred But Not Reported (IBNR) Reserve: funds set aside for claims incurred during a policy period, but which were not paid by the end of the period, either because the claim had been received but had not yet been processed, or because the claim had not yet been submitted to the insurer by the end of the period. The IBNR reserve is normally established in the first policy year and then only the change (either increased or decreased) in the reserve is charged to the plan in subsequent policy years. This reserve reflects the fact that, in the event of policy termination, the insurer is still liable for any claims incurred prior to the termination date, even if the claim is submitted to the insurer after the policy termination date (subject to certain claim submission deadlines).

Incurred Claims: the total of paid claims plus any change in the *IBNR* reserve (would also include the change in *Waiver of Premium Reserves* in the case of the Life benefit, or the change in *Disabled Life Reserves* in the case of the Long Term Disability benefit).

Incurred Loss Ratio: the ratio of *Incurred Claims* to *Paid Premium*, expressed as a percentage.

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Non-Refund: an arrangement whereby premiums are paid to the insurer and the insurer is then fully liable for all eligible claims; no accounting is prepared to actually determine whether the plan operated in a surplus or a deficit. As such, the insurer absorbs any such deficit, but also retains any such surplus.

Paid Claims: the amount actually paid out during the applicable policy period.

Paid Loss Ratio: the ratio of *Paid Claims* to *Paid Premium*, expressed as a percentage.

Paid Premium: the amount of premiums actually paid to the insurer for the policy period. Normally, this is equivalent to *Billed Premiums*.

Pool Charge: the charge/premium the insurer levies in exchange for providing the specific pooling arrangement.

Pooled Claims: the portion of paid claims that are charged to the insurer's relevant pool rather than to the plan's experience or ASO account, e.g., for a Healthcare plan with a \$10,000 pooling level per person per year, any claims for that person in excess of \$10,000 in the year would be charged to the insurer's pool and, thus, would not impact any renewal rating or *Refund Accounting*. Other types of pooled claims could include Stop Loss Claims for Life Insurance Aggregate and Individual Claims.

Prospectively Rated: see *Experience-rated*.

RAMQ: the *Régie de l'assurance maladie du Québec* is the government health insurance system in Quebec and mandates the minimum level of Drug coverage that must be provided by employers in Quebec, if that employer is providing any form of Drug coverage. For employees under age 65, the employee must be covered under the employer's Drug plan, they cannot opt-out and elect to be covered under the RAMQ Drug plan instead. Employees age 65 and over may chose either their employer's plan or the RAMQ Drug plan.

RAMQ Premium: reflects the amount the insurer is required to pay to Quebec's provincially legislated RAMQ pool on behalf of the client, in connection with the RAMQ Drug plan.

Rate Stabilization Fund (RSF): see *Claims Fluctuation Reserve*.

Refund Accounting: an arrangement under which an accounting is prepared at the end of the policy period summarizing paid premiums, claims charges, expenses, etc., in order to determine whether the plan generated a surplus or a deficit. In the event of a surplus, some or all of the surplus may be returned to the policyholder. In the event of a deficit, the deficit may be recovered from any funds held in a *Claims Fluctuation Reserve* or carried forward to be recovered from any future surpluses or a *Deficit Recovery Margin*. Unlike an *Administrative Services Only* arrangement, normally, the policyholder is not responsible for any deficit upon policy termination.

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Retention Accounting: see *Refund Accounting*.

Reserves: insurers are required to hold a number of different types of reserves. Each type of reserve is independent of the other and reflects a specific and distinct liability. Some reserves represent a known liability (e.g., a *Waiver of Premium Reserve* or a *Disabled Life Reserve*), while others represent a potential liability (e.g., an *Incurred But Not Reported Reserve*).

Target Loss Ratio (TLR): see *Breakeven Loss Ratio*.

Trend: the expected increase to paid claims resulting from inflation, increased utilization, the introduction of new drugs and treatments, government cost shifting, deductible erosion and increases in the provincial Dental Fee Guides.

Waiver of Premium Reserve: established for a disabled employee who has been approved as a Life Insurance Waiver of Premium claimant. The insurer is liable for any Life claim should the claimant die while still an approved Waiver of Premium claimant, even if the claimant should die after the group Life policy has terminated. The Life Waiver of Premium claim may or may not be connected to a corresponding Long Term Disability claim. The Reserve is normally determined by such factors as the employee's amount of Life Insurance, as well as their age at the time of their disability and gender as well as interest rate and recovery assumptions.