Administrative Services Only

Is an ASO plan the right choice?

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Comparing administrative services only (ASO) plans to insured benefits

When deciding between insured and ASO benefits, plan sponsors should consider the **differences**, **risks** and **benefits** of each option.

What is an ASO plan?

An ASO plan is a benefits arrangement in which plan sponsors assume the risks and financial responsibilities of plan members' claims, instead of paying a premium for insured benefits.

Why do plan sponsors choose ASO?

Plan sponsors choose an ASO arrangement for many different reasons, but one of the main factors is the potential for cost savings. An ASO arrangement may mean savings for plan sponsors willing to assume more risk.

What are the differences between insured benefits and ASO?

The most significant difference between an insured plan and ASO is who assumes the risk for benefits. With insured benefits, the risk is shared among all plans in the insurer's risk pool. With ASO, there is no sharing of risk as the plan sponsor assumes the risk for the plan.

The following comparison highlights the differences between insured benefits and ASO:

	Insured	ASO
Risk	Plan sponsor pays a premium for insurance and the insurer assumes the risk of paying claims	Plan sponsor assumes the risk of paying claims and won't know benefit costs until claims are submitted
Reserves	Insurer holds reserves to pay claims that are incurred but have not yet been submitted	Plan sponsor has no legal obligation to hold reserves, but must be financially prepared to cover all claims submitted
Expenses	Insured premiums include all expenses regardless of number or value of claims submitted	Plan sponsor generally pays fees for administration and for the processing of claims, and these costs are usually calculated based on a percentage of paid claims
Taxes	Insured premiums include all applicable taxes	With the exception of Ontario, Quebec and Newfoundland and Labrador, plan sponsor does not pay premium tax
Legislative changes	Insurer manages the analysis and implementation of any legislative changes.	Plan sponsor is responsible for managing legislative changes and the impact to their benefit plan

Are there any differences in administrative services offered by an insurer versus a third-party claims payer?

Plan sponsors do have choices available in the market for ASO providers. While Great-West provides the same range of services to ASO plans and insured plans, some TPPs may not offer a comparable level of service. For example, some TPPs may not offer the same:

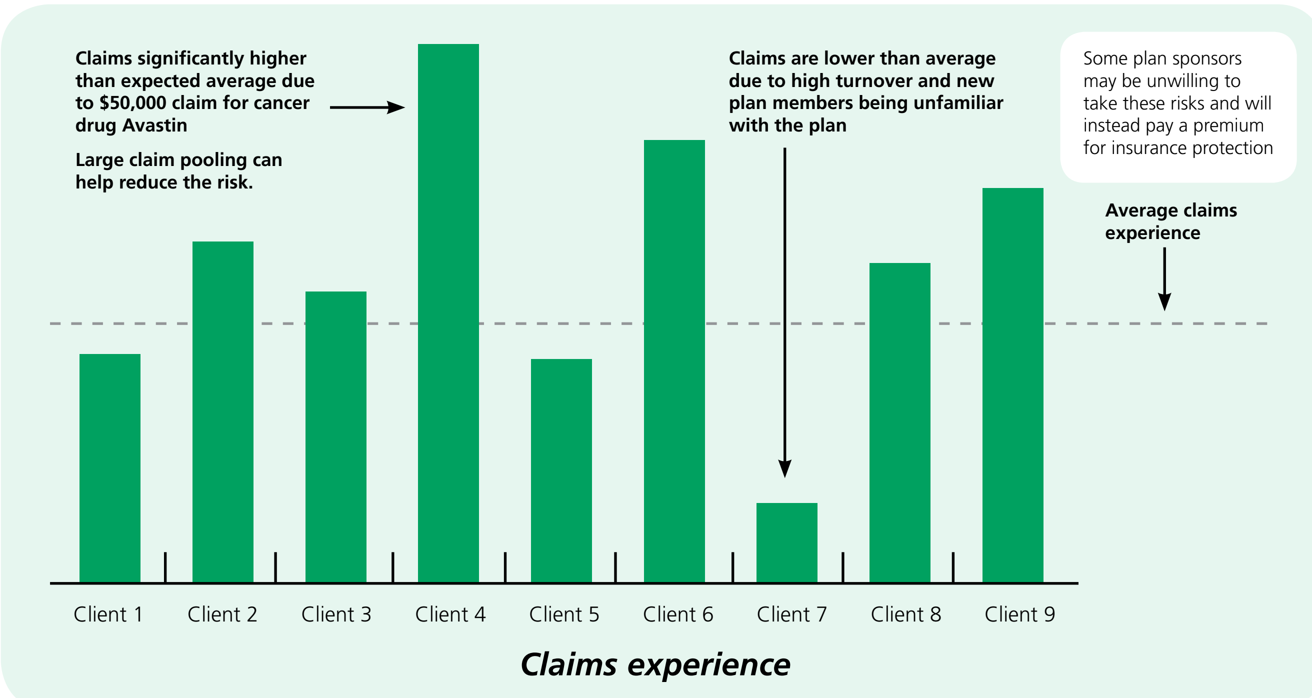
- **Product features**
  - Are plan maximums applicable to individual services such as visioncare?
  - Are innovative product features, such as *Best Doctors*®, offered?
- **Service options**
  - Does the TPP offer access to websites for both plan administration and plan member self-service?
  - Are fully trained call centre staff available?
- **Access to one-stop shopping**
  - Does the TPP offer life, long-term disability, critical illness and coverage for expatriates, or does the plan sponsor need to go elsewhere for these services?
- **Professional adjudication services**
  - Does the TPP offer value-added services? For example, where available Great-West pays out-of-country claims up front and collects amounts owing from provincial governments on behalf of plan members. Instead of this value-added service, some TPPs direct plan members to provincial governments for reimbursement.
  - Does the TPP offer access to local experts and services, such as account management, administration and training?

Risks

Choosing an ASO arrangement involves making trade-offs. ASO offers the potential for long-term savings to plan sponsors willing to forgo the protection offered by insured benefits and accept an increased level of risk.

Stable and better-than-average claims experience is a good starting point for plan sponsors considering an ASO arrangement. However, even with a stable claims history, predicting the upcoming year's claims experience is not easy. When comparing the claims experience of nine hypothetical group benefit plans, there will inevitably be nine different claim levels.

The following example shows how claims experience can fluctuate:



Risks that could affect claims experience and benefit costs include:

- **Changes in utilization patterns:** Changes in benefit utilization can occur simply because plan members become more aware of their available benefits. Awareness of certain services can spread through a plan member population quickly. It's not uncommon for plan sponsors to see an increase of more than 25 per cent a year for massage therapy or other services as a result. Plan sponsors with an ASO arrangement should be prepared for potential changes in utilization patterns.
- **Catastrophic claims:** These are defined as claims that require extensive medical treatment at a very high cost, such as claims for costly drugs. For example, expenses for some cancer drugs, such as Avastin and Herceptin, can be as high as $50,000 per treatment. Plan sponsors should be prepared to finance these types of claims or ensure large claim pooling insurance is in place.
- **New services:** New drug therapies are now more frequently introduced, often at great expense to plan sponsors. For example, the human papilloma virus (HPV) vaccination now represents $2 out of every $5 spent on vaccinations, versus $0 just a short time ago.
- **Legislative risk:** Governments are shifting healthcare costs to private plans more aggressively than ever. These types of legislative changes can mean increased risk for plan sponsors with an ASO arrangement.
- **Legal:** In addition to direct claims risk, the relationship between the plan sponsor and plan members can be more involved when claims are denied under an ASO arrangement, leaving a plan sponsor open to possible legal action.

These risk factors can cause significant monthly cash-flow variations, and plan sponsors unable to weather these short-term fluctuations may not be ready to take on an ASO arrangement.

How can the risks of an ASO arrangement be managed?

There are options for offsetting risk, but these options can create additional costs.

To help manage the risk, plan sponsors may consider:

- **Pooling:** Pooling coverage is purchased separately to protect the business from catastrophic claims.
- **Reserves or additional funds:** Maintaining reserves for claims incurred but not yet submitted is considered a good accounting practice and also helps protect plan sponsors from the fluctuations and unforeseen costs common with an ASO arrangement.
- **Plan design:** Plan maximums can help reduce risk and shift some of the cost responsibility to the plan member once the maximum is reached. Plan maximums may not be appropriate for benefits such as out-of-country insurance and drug benefits, which are intended to provide coverage for high-cost claims. Applying maximums could also reduce the value of these benefits from a plan member's perspective.
- **Time:** Similar to a riskier investment, an ASO arrangement is better suited for the long term. Plan sponsors with an ASO arrangement may experience short-term, year-to-year fluctuations that need to be weathered for potential long-term savings.
- **Size:** The more plan members a plan sponsor has, the less chance any one event will significantly impact claims experience.

What are the potential benefits of ASO?

For plan sponsors willing to assume the higher level of risk of an ASO arrangement, there is a potential for long-term cost savings as a result of:

- **Lower risk charges:** Plan sponsors with an ASO arrangement pay a lower risk charge as they are assuming the majority of the risk.
- **Claims payment:** The premiums for insured plans are determined by looking at a plan sponsor's claims experience from the previous year. With an ASO arrangement, claims experience is not a factor in determining benefit costs since plan sponsors pay the entire cost of approved claims.
- **Management of cash flow:** An ASO option can provide plan sponsors with more flexibility in managing resources, such as choosing to invest funds used for reserves.
- **Premium tax savings:** With the exception of Ontario, Quebec and Newfoundland and Labrador, plan sponsors with an ASO arrangement save this expense as they are not required to pay premium tax.
- **Group characteristics:** Factors such as demographics and claims stability can help reduce plan sponsor risk and could translate into savings on expected costs over the long term.

Is ASO the right choice?

An ASO arrangement isn't the right choice for every business. Plan sponsors considering this type of benefits arrangement should evaluate their risk tolerance, as well as their willingness to assume more financial responsibility for the possibility of cost savings.

What ASO solutions does Great-West offer?

Great-West currently serves the needs of more than two million plan members under ASO programs and plans to launch its newly enhanced ASO product for small businesses in 2008. This new product will provide ASO solutions to help meet the needs of businesses with 20 lives or more. To learn about ASO options for small businesses, contact your Great-West Group representative.

Additional considerations

Plan sponsors should consider these factors when choosing a funding arrangement:

How stable is the organization's claims experience?

Plan sponsors with a stable and predictable claims history are better suited to an ASO arrangement. To help determine whether the claims history is stable, plan sponsors should review their last three years of claims experience.

Does the plan sponsor anticipate any significant organizational changes in the near future?

An example of a significant organizational change could be an acquisition or a large increase or decrease in staff. These changes can create unknown variables and leave the plan sponsor vulnerable to greater risk with an ASO arrangement.

What are the organization's staff demographics?

For organizations with a mature, aging workforce, ASO may not be the best fit, as a mature workforce can translate into increased claims and costs.

How much risk is the plan sponsor willing to assume on behalf of plan members?

Organizations offering plans that include plan member contributions may want to consider how comfortable plan members would be contributing to an uninsured benefit plan. Plan sponsors may want to keep in mind that some Great-West plan member communication items such as processed claims payment cheques will indicate if a plan is ASO. Also, informing plan members that their plan is uninsured is a legislative requirement in some provinces.

Is the plan design suitable for reducing plan sponsor risk under an ASO arrangement?

Plan sponsors can further reduce their risk under an ASO arrangement through plan features such as setting low maximums for benefits.

Will ASO help plan sponsors afford benefits coverage?

If a plan sponsor is considering an ASO arrangement to better afford benefits coverage, ASO may not be the right choice. In fact, due to unexpected claims costs, an ASO arrangement could prove to be unaffordable. An ASO arrangement requires plan sponsors to have the benefit dollars available at the front end to achieve the possibility of cost savings over the long term.

To learn more about the differences between ASO and insured benefits, contact your benefit advisor or Great-West group representative.

Great-West is a leading provider of group benefits. Our clients deserve high performance and value, which we consistently provide through innovative product and technology-based solutions. We are ***your Benefits Solutions People.***

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