

# ADVANTAGE

RISK CATEGORIES AND YOUR RATE RENEWAL  
CONTRIBUTION ADJUSTMENTS & UNDERWRITING

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RISK CATEGORIES AND YOUR RATE RENEWAL

## AGENDA

- 1) How Rate Increases Are Calculated
- 2) What Are Risk Categories
- 3) What Your Risk Category Means
- 4) What Factors Are Used To Determine Risk Categories
- 5) Risk Category Quick FAQ
- 6) What You Can Do To Change What You Pay

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RISK CATEGORIES AND YOUR RATE RENEWAL

## THE MILLIMAN UNDERWRITING MODEL

- 1) AHP's Underwriting Model is Based Upon the Milliman Small Group Underwriting Model
- 2) Developed for Employee Leasing Programs (PEOs), Association Plans, and Small Group Insurance Companies

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RISK CATEGORIES AND YOUR RATE RENEWAL

### HOW RATE INCREASES ARE CALCULATED

HOW THE TRUST INCREASE PLUS BUCKET/RISK CATEGORY MOVEMENT IMPACTS YOUR RATES

**STEP 1:**

- Milliman Recommends the Rate Increase Needed for AHP as a Whole
  - First, the rate increase necessary for AHP is calculated by Milliman
    - This is calculated on claims verses premium or loss ratio or dollars in vs. dollars out plus expected medical inflation
  - The additional amount Milliman calculates that AHP will need for claims, reserves, and operating costs in the coming year is then added to the current rates/contributions
  - Your Trustees consider the Milliman recommendation and then they vote to accept, alter, or reject this recommendation

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RISK CATEGORIES AND YOUR RATE RENEWAL

### HOW RATE INCREASES ARE CALCULATED

HOW THE TRUST INCREASE PLUS BUCKET/RISK CATEGORY MOVEMENT IMPACTS YOUR RATES

**STEP 2:**

- Milliman Determines Your Bank's Risk Category/Bucket- Stay Put, Move Up, Or Move Down Based on Your Risk
  - Risk Factors determine risk category/bucket movement
  - Only ONE category/bucket per year
  - Only move if it is determined that the bank's risk indicates a category/bucket shift of MORE than one category/bucket
    - For example, if Milliman indicates a bank should move from a "0" to a "+1", the bank will stay at a "0"
    - If Milliman indicates that a bank should move from a "0" to a "+2", then the bank will move to a "+1"

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### HOW RATE INCREASES ARE CALCULATED

HOW THE TRUST INCREASE PLUS BUCKET/RISK CATEGORY MOVEMENT IMPACTS YOUR RATES

**STEP 3:**

- Combine Step 1 and Step 2
  - The Trust increase + risk category = total rate increase for your bank
  - For example:
    - If the Trust increase is a 12% and the bank moves up a risk category, the difference in cost will be added to the 12%
    - If the bank is going down a risk category, the difference between risk categories will be subtracted from the 12%

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RISK CATEGORIES AND YOUR RATE RENEWAL

### WHAT ARE RISK CATEGORIES?

INDICATES YOUR RISK CATEGORY

- 10 Risk Categories Labeled "-5" through "+4"
  - Numbered
  - Color-coded
- Individual Responsibility Vs. Shared Risk
- Higher Numbers Indicate Banks With Higher Risk
- Lower Numbers Indicate Lower Risk

-5	-4	-3	-2	-1	0	+1	+2	+3	+4
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RISK CATEGORIES AND YOUR RATE RENEWAL

### WHAT YOUR RISK CATEGORY MEANS

MORE THAN JUST PRICE...

- Your Bank's Risk Category Indicates Your Bank's Health "Risk"
- Your Bank's Risk Category Is Based On Multiple Factors
  - Demographics
  - Morbidity Score/Health Score
  - Claims/Loss Ratio

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RISK CATEGORIES AND YOUR RATE RENEWAL

### DETERMINING YOUR RISK CATEGORY

THE FACTORS MILLIMAN USES

- Contrary To Popular Belief, Your Claims History Accounts For A Very Small, If Any, Portion Of The Information That Is Used To Calculate Your Future Risk Category And Increases
- Morbidity Score – up to 50%
  - Health conditions, procedures, and prescription drugs are assigned a point value according to their risk and potential cost
    - Health factors and diagnoses that are ongoing, potentially expensive conditions have the highest points assigned
    - High dollar drugs = more points
    - Compliance with Medical Advice – Claims combinations
  - "Shock" claims that have little future health impact are usually **not** included in this score

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RISK CATEGORIES AND YOUR RATE RENEWAL

### DETERMINING YOUR RISK CATEGORY

THE FACTORS MILLIMAN USES

- Demographics Score – up to 50%
  - Age
  - Gender
  - Coverage tier/relationship type of each member (single vs. family)
    - High % of single employee coverage can have a negative effect
    - High % of family coverage can have a positive effect
  - Area factor - Zip code of each member

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RISK CATEGORIES AND YOUR RATE RENEWAL

### DETERMINING YOUR RISK CATEGORY

THE FACTORS MILLIMAN USES

- Claims/Loss Ratio - 0% - 75%
  - Depending on your group size, your claims can count for as little as 0% of your risk assessment
    - Under 25 employees - 0%
    - Under 100 employees, but greater than 25 - single digit % based on total lives
    - 100+ employees – ranges from 10%-75% based on number of employees
  - Loss ratios are not an effective measure of overall risk for most small groups

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RISK CATEGORIES AND YOUR RATE RENEWAL

### RISK CATEGORY QUICK FAQ

THINGS TO REMEMBER

- Risk Category Quick FAQ
  - No matter how good or bad a claims year you have had, you can only move ONE risk category per year
  - Your bank is only moved up or down one risk category only if Milliman's model indicates your bank should move two or more risk categories
  - Your risk category is likely not based on your loss ratio
  - You can lower your bank's risk by employing Go for Green strategies

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RISK CATEGORIES AND YOUR RATE RENEWAL

HOW DO I AFFECT HOW MUCH I PAY?  
THERE ARE THINGS YOU CAN DO!

1. Talk to YOUR employees about being owners of THEIR Plan
2. Help Them Understand What Self-funding Is About
  - a. By affecting the total claims for AHP, we can lower contributions for everyone
3. Contact Us to Assist You in Creating a "Go For Green" Strategic Plan in Your Bank
  - a. Encourage healthy behaviors and compliance with medical recommendations
  - b. Encourage the use of Premier Providers, GREEN doctors on Healthcare Blue Book, LabCard, OneCall, Free OTC drugs, and Therapeutic Alternatives
  - c. Explore adding a Wellness Program

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# ADVANTAGE

## QUESTIONS



-5	-4	-3	-2	-1	0	+1	+2	+3	+4
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