

## Components of an effective health care cost/benefit analysis

Many small to mid-sized businesses find it difficult to make decisions on how to optimize benefits during a renewal. Without access to hard data, claims and utilization information to help make projections, these organizations often don't know how to best formulate the renewal changes to consider to help make the plans more efficient.

Luckily, that information is available – one needs only know where to find it and how to use it. The right employee benefit specialists can provide a great deal of assistance and will be able to guide a small or mid-sized business through the components of an effective cost-benefit analysis.

The first component of the health care cost/benefit analysis is to understand how the renewal is calculated; renewal formulas vary with the size of a company and with the carrier.

For employers employing less than 50 employees, knowing the organization's risk adjustment factor (RAF) is important. The RAF, or risk-score, is based on the health status of the group. Knowing the score helps the employer understand the options available to lower cost.

If an organization is rated on a pooled basis, it gets the same rate as everyone else within that same plan design and group size. Each carrier will have its own trend increase factor, so understanding the data each carrier uses is key to putting the renewal into context. An informed health insurance broker is able to provide quarterly trend data; for example, the experienced broker knows what Aetna, Cigna and Blue Cross renewals will be in the first quarter in 2012.

Outside of cost trends, it's a good idea to review benchmark data; examining similar organizations in terms of size, region and industry will help a company gain insight into what works for its particular needs. By reviewing competitive plan features such as co-pays and contributions, an organization will know where it stands from a coverage level perspective. Knowing carrier cost trends – as far as what each is charging a company of a particular size – will provide a more accurate picture of future renewal increases.

A small or mid-sized company may consider partially self-funding their benefit plans, especially if they know of no large on-going claims. It's the broker's job to bring self-funded options to clients after initiating a feasibility study. Reasons for going down this path may include obtaining the claims utilization data and benefiting from favorable claims experience.

Any broker who makes one appearance each year should be fired on the spot. A truly concerned broker is willing to [partner with an organization](#) to provide a stable, year-round presence. Due diligence should be provided throughout the year, including market and benchmarked data. Additionally, a broker must ensure that an organization does a thorough job so that an employer feels confident explaining to employees that, yes, this is the benefits package for the year and that it was chosen after an informed, well-considered decision process.