



# advanced experience rating techniques

**This Innovative Seminar Will Provide You With The Comprehensive Information And Strategies You Need To DRAMATICALLY IMPROVE Your Company's Ability To Experience Rate Its Clients PROPERLY!**

**ORLANDO, FL  
APRIL 12-13, 2012**



**PLEASE NOTE: Even If The Health Care Reform Law Is Repealed In The Future, The Appropriateness Of The Experience Rating Formula And Strategies That We'll Examine During This Seminar Will Be Unaffected.**

[www.smsnow.com](http://www.smsnow.com)

# introduction

Experience rating is the most sophisticated form of pricing. Its goal is to develop highly equitable and appropriate renewal premiums for each group that's large enough to be experience rated. Although this sounds easy, accomplishing this task is another matter!

Virtually every insurer in the country is significantly or substantially off the mark when it comes to developing renewal premiums for most of their experience rated groups. The three main reasons for this are as follows:

- The experience rating formula and the rating factors (the formula relies on (i.e., completion factors, medical trend factors, pooling charges, and credibility factors) aren't doing the job for which they were intended.
- The insurer doesn't properly reflect how the group's health plan and/or situation has changed in recent years, or will change at the beginning of the next plan year, when developing the renewal premiums. The past is a very poor predictor of the future when a group's health plan and/or situation in the next plan year will be very different than what it was in the past unless the prior claims experience is properly adjusted. Because of Health Care Reform, virtually EVERY group's health plan and/or situation has changed substantially and will continue to change in the future. Groups are also making changes to their health plans in record numbers these days in order to better manage their costs. The most common experience rating challenges involve the following:
  - ◆ Changes In The Child Eligibility Rule Resulting From Health Care Reform
  - ◆ Changes In The Group's Grandfathered Status
  - ◆ Changes In The Employer Contribution Strategy (Which Impacts The Group's Participation Rate)
  - ◆ Changes In Covered Benefits Or Employee Cost Sharing
- The insurer prices the non-credible portion of the group's renewal rates using the 50+ year old TRADITIONAL Community Rating by Class (CRC) pricing methodology which is EXTREMELY IMPRECISE. If a group is 30% credible, 30% of their renewal premiums will be based on their actual claims experience (with appropriate adjustments) while 70% of their renewal rates will be determined using the traditional CRC pricing methodology. If the CRC-generated premiums are only 10% off (which is a common occurrence), 70% of the group's renewal premiums will be 10% off which means that the actual renewal rates for the experience rated group will be off by 7%. This assumes that the 30% piece (that's based on actual claims experience, with appropriate adjustments) is perfectly rated.

During this comprehensive seminar we'll examine what we feel is the ULTIMATE experience rating formula and

provide you with many INVALUABLE experience rating techniques that your company should seriously consider implementing. We'll also show you how to develop a NON-TRADITIONAL CRC pricing methodology that's vastly superior to the TRADITIONAL CRC approach which will greatly improve your ability to develop proper renewal premiums for your experience rated groups that aren't fully credible. EVERY insurer in the country will BENEFIT GREATLY by attending this innovative seminar!

## your instructor

**Scott M. Snow FSA, MAAA** is the sole presenter throughout this program.

He is a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and the President of S. M. Snow & Associates, Inc. He has thirty six years of experience working with HMOs, Blue Cross Blue Shield Plans, and Commercial Insurance Companies. Mr. Snow is an industry expert regarding group health insurance. He's lectured extensively on underwriting, pricing, profitability, benefit design, and many other aspects of group health insurance during the past seventeen years.

Mr. Snow is an extremely effective communicator and presents complicated subject matter in a clear, concise, and down-to-earth manner.



## about our company

S. M. Snow & Associates, Inc. has been providing the most comprehensive and worthwhile training seminars available in the industry for the past seventeen years. We conduct training seminars throughout the country on a regular basis and we also conduct in-house training programs for HMOs, Blue Cross Blue Shield plans, and commercial insurance companies. To date, we've conducted over 185 seminars and approximately 100 in-house training programs and have trained nearly eleven thousand insurance professionals.

## who should attend

This seminar is an intermediate/advanced level program that's primarily intended for group health underwriters, actuaries, and consultants.

### continuing professional development credits for actuaries

This innovative seminar qualifies for 12 units of continuing professional development (CPD) credit.



## why our seminars are in a class by themselves

Unfortunately, the vast majority of the seminars and conferences that are conducted in our industry each year can best be described as **“social gatherings” in contrast to “meaningful learning experiences”**.

We’ve all attended many of these events over the years. We’ve listened to keynote addresses by politicians or celebrities who know nothing about group health insurance, we walked through the exhibitor’s hall where everyone was selling their products and services, we’ve enjoyed bumping into old friends who were also in attendance, and we may have had a great dinner at a restaurant or two; however, we’ve learned **LITTLE OR NOTHING** that would improve our company’s business results!

The main reasons for this are two-fold:

- The presenters at these events are unpaid volunteers who aren’t going to devote a great deal of their time and energy into preparing their presentations.
- The presenters are usually consultants who only provide “teaser information” since they’re trying to attract new clients, or the presenters are your competitors who also are not going to provide you with any useful information for obvious reasons.

From an educational perspective, these events are quite frankly a **WASTE OF YOUR TIME AND YOUR COMPANY’S MONEY!** These days, insurers shouldn’t be sending anyone to any seminar or conference unless it provides **COMPREHENSIVE INFORMATION** to attendees that will translate into **IMPROVED BUSINESS RESULTS**. The seminars conducted by S. M. Snow & Associates are the **MOST COMPREHENSIVE AND WORTHWHILE** seminars available in the industry **BY FAR**. We invest over 1,000 hours of time developing

and refining each of our seminars. We provide you with the formulas, rating factors, and highly effective strategies you need to be successful! The benefits of attending our seminars **FAR EXCEED** the cost involved.

## a few words about the MLR requirement

When it comes to incurring administrative expenses these days, insurers are quite concerned about the **MINIMUM LOSS RATIO** requirement, and rightfully so. However, insurers should be **FAR MORE CONCERNED** about **HOW HIGH THEIR LOSS RATIOS COULD BE** if they don’t price their groups properly. If an insurer has a loss ratio on “large group” business that’s under 85%, they’ll have to pay premium rebates but they’ll still achieve solid profitability. If an insurer has a 90%+ loss ratio on “large group” business, they won’t have to pay any premium rebates but they’ll probably incur a **FINANCIAL LOSS**. Obviously, paying premium rebates is preferable. Incurring a reasonable amount of administrative expenses makes a great deal of business sense **IF** the expenditure results in improved business results. This is the case with respect to **OUR SEMINARS!**

## our website

**For additional information** regarding all of our seminars, our in-house training programs, our company, the instructor, and our seminar schedule, visit our web site at **www.smsnow.com**. You can also register online.

## Comprehensive Training Manual Included!

www.smsnow.com

### our in-house training programs

We also conduct the most comprehensive and worthwhile **IN-HOUSE** training programs available in the industry. We can conduct any of our seminars on an in-house basis or we can customize a program to meet your staff’s specific training needs. In-house training programs are cost effective for groups of 10 people or more. Call us at (508) 393-2663 or visit our web site at [www.smsnow.com](http://www.smsnow.com) for more information.

### our other upcoming seminars

**March 15-16, 2012 “Bulletproof Strategies In Uncertain Times” ~ Las Vegas**

**April 26-27, 2012 “Cost-Control Boot Camp” (Self Funded Plans) ~ Orlando**

**May 3-4, 2012 “Cost-Control Boot Camp” (Self Funded Plans) ~ Las Vegas**

# day one

## 8:00 Registration - Continental Breakfast

## 8:30 OPENING REMARKS / PROGRAM OVERVIEW

## 8:40 AN INTRODUCTION TO EXPERIENCE RATING

- The Pros And Cons Of Experience Rating (ER)
- A Brief Overview Of Retrospective ER And How It Compares To Prospective ER
- The Minimum Group Size Eligible For ER
- How ER Differs From “Community Rating By Class” (CRC)
- The Various Approaches To ER
  - ◆ Using “Incurred Claims” Versus “Paid Claims”
  - ◆ Using A Member-Based Approach Versus A Subscriber-Based Approach

NOTE: Our Experience Rating Formula Focuses On Incurred Claims At The Member Level

- How Health Care Reform Greatly Complicates The Experience Rating Process. We'll Examine The Following:
  - ◆ The Group's “Grandfathered Status”
  - ◆ Covering “Children” To Age 26
  - ◆ Providing Free Preventative Health Care Services If Not Grandfathered
- A Detailed Overview Of What We Feel Is The Ultimate Experience Rating Formula And Process
  - ◆ The Timing Considerations Involved In The ER Calculation
  - ◆ The NINE Steps That Are Involved When Experience Rating A Group

## 10:20 Refreshment Break

## 10:40 STEP 1 IN OUR EXPERIENCE RATING FORMULA: ADJUSTING THE GROUP'S PRIOR CLAIMS EXPERIENCE

*In Our Experience Rating Formula, We Rely On 30 Months Of Fairly Recent Claims Experience Which Spans THREE PLAN YEARS. In This Module, We'll Examine A CASE STUDY That Will Demonstrate How A Group's Prior Claims Experience Must Be Adjusted To Reflect The Health Plan That Will Be In Effect During The Next Plan Year. The ABC Company Has A January Anniversary And On 10/1/12 We're Calculating The Renewal Rates For Their 2013 Plan Year. The Claims Experience That We'll Be Examining Is From 1/1/10 To 6/30/12. Some Additional Information Follows:*

**PLAN YEAR 2010:** Health Care Reform Did Not Apply To This Group During Their 2010 Plan Year. This Group Covered Children To Age 23, Had Co-Pays For Preventative Health Care Services, Had A \$15 Office Visit Co-Pay, And Their Employer Contribution Was 80%.

**PLAN YEAR 2011:** Health Care Reform Applied And The Group's Health Plan Enjoyed “Grandfathered Status”. In 2011, Children Were Covered To Age 26 On A “Grandfathered” Basis. Since The Health Plan Was “Grandfathered”, They Were Able To Retain Their Co-Pays For Preventative Health Care Services. They Also Continued To Require A \$15 Office Visit Co-Pay, And Their Employer Contribution Was Still 80%.

**PLAN YEAR 2012:** No Changes Were Made To The Health Plan.

**PLAN YEAR 2013:** This Group Will Lose Their “Grandfathered Status” On 1/1/2013. In 2013, They'll Have To Cover Children To Age 26 But On A “Non-Grandfathered” Basis. They Must Also Provide Preventative Health Care Services Without Any Patient Cost Sharing. They'll Also Be Increasing Their Office Visit Co-Pay From \$15 To \$25 And Will Lower Their Employer Contribution From 80% To 75%.

- We'll Show You How To Adjust The Prior Claims Experience For Plan Years 2010 & 2011, And For The First Six Months Of The 2012 Plan Year To Estimate What The Claims Would've Been Back Then If This Group's Health Plan Was Identical To What It Will Be In Their 2013 Plan Year. In Other Words, The Prior

Claims Experience Must Be Adjusted To Reflect The Following:

- ◆ If They Covered Children To Age 26 On A Non-Grandfathered Basis
- ◆ If They Had No Patient Cost Sharing Regarding Preventative Health Care Services
- ◆ If Their Office Visit Co-Pay Was \$25 Instead Of \$15
- ◆ If Their Employer Contribution Was 75% Instead Of 80% (Which Will Impact Their Historical Participation Rates And Incurred Loss Ratios Because Of Increased Adverse Selection)

## 12:00 Lunch (Provided For Attendees)

## 1:00 STEPS 2-5 IN OUR EXPERIENCE RATING FORMULA

- **STEP 2:** “Completing” The Adjusted Claims (From Step 1) For Each Of The Three Plan Years
  - ◆ “Large Claims”: Completed By A Medical Professional
  - ◆ “Non-Large” Claims: Completed By Using Completion Factors For This Type Of Health Plan
  - ◆ Two Additional Complications Associated With Completing The Claims For The Most Recent Plan Year Which Isn't Finished Yet
- **STEP 3:** The Pooling Of Individual Large Claims For Each Plan Year
  - ◆ How Insurers Decide On The Most Appropriate Pooling Points For Each Group Size Bracket
  - ◆ The Three Different Pooling Methods That Can Be Used
  - ◆ We'll Review A Table Of Pooling Charges For The Various Pooling Points (We'll Also Outline Several Ways To Develop Pooling Charges)
  - ◆ How “Leveraging” Impacts Pooling Charges As Time Passes
- **STEP 4:** Trending The Claims Forward To The Renewal Period To Get A Projected Claims Estimate For Each Of The Three Plan Years
- **STEP 5:** Taking A Weighted Average Of The Three Projected Claims Estimates (Weighted By Member Months And By Plan Year) To Obtain Our Best Estimate Of This Group's Projected Claims For Their Next Plan Year

NOTE: For Groups That Are “Fully Credible”, After Step 5 You'll Immediately Go To Step 8. For All Other Groups, After Step 5 You'll Continue To Step 6.

## 2:30 Refreshment Break

## 2:50 STEPS 6-9 IN OUR EXPERIENCE RATING FORMULA

- **STEP 6:** Calculating “Expected” Claims Using A Traditional “Community Rating By Class” (CRC) Approach
- **STEP 7:** Melding “Projected” And “Expected” Claims (Based On The Group's Credibility Factor) To Develop A Claims Estimate For The Next Plan Year
  - ◆ We'll Examine A Credibility Factor Table And Discuss Its Development
- **STEP 8:** Situations Where An Adjustment To Formula-Generated Claims For The Renewal Period May Be Appropriate
  - ◆ Approximately How Often, And Under What Circumstances, Is An Adjustment In Order
- **STEP 9:** Developing The Renewal Premium Rates From “Projected Claims Per Member Per Month” Using The HMO's Infamous Step-Up Factor

## 3:25 AN IN-DEPTH CASE STUDY ILLUSTRATING THE EXPERIENCE RATING FORMULA

We'll Go Through A Detailed Case Study For The ABC Company Illustrating How The Renewal Premiums Are Developed, Step By Step.

## 4:30 End Of Day One

# day two

## 8:00 Continental Breakfast

### 8:30 APPROPRIATELY REFLECTING “RECURRING” AND “OPEN” LARGE CLAIMS IN A GROUP’S RENEWAL PREMIUMS

*Note: This Module Shows You A More Refined Approach To STEP 3 Of Our Formula Which We Examined Yesterday Afternoon (i.e., “Large Claims” Pooling) That Some Insurers Prefer*

■ Should All Large Claims Be Pooled Without Exception, Or Should An Exception Be Made For A “Recurring Large Claim” (RLC)?

- ◆ The Various Types Of Exceptions:
  - Don’t Pool A RLC At All
  - Pool A RLC, But At A Higher Pooling Point Than Normal
  - Assess A RLC Surcharge To The Group’s Renewal Premiums
  - Make A Pooling Exception AND Assess A Surcharge

■ How Should An Open Large Claim Be Handled?

■ Various Insurer Philosophies Regarding Pricing “Large Claims”

■ Special Problems (Illustrated In Case Studies Below):

- ◆ Not Pooling A RLC Has Little Impact On A Group That Has A Low Credibility Factor. A Surcharge Will Also Be Required.
- ◆ Why Not Pooling A RLC In Regards To A Group With A Fairly High Credibility Factor May Be Inadequate As Well

### 9:15 USING A NON-TRADITIONAL COMMUNITY RATING BY CLASS METHODOLOGY TO PRICE THE NON-CREDIBLE PORTION OF THE RENEWAL PREMIUMS FOR EVERY “EXPERIENCED RATED” GROUP THAT’S NOT “FULLY CREDIBLE” (Part 1)

*Note: This Module Shows You A More Refined Approach To STEP 6 Of Our Formula Which We Examined Yesterday Afternoon (i.e., Calculating “Expected Claims”) That Insurers Should Seriously Consider Implementing*

■ A “Report Card” That Demonstrates How Very Poor The TRADITIONAL CRC Pricing Methodology Is

- ◆ We’ll Examine Over A Dozen “Dynamics” That Impact A Group’s Claims Level (Like The Participation Rate For Example). Why Don’t We Have Over A Dozen Types Of Rating Factors?
  - Under The Traditional CRC Pricing Methodology:
    - Most Of The “Dynamics” Are Being Ignored
    - Some Other “Dynamics” Aren’t Handled Properly

■ Why Geographic Area Rating Is So Imprecise

- ◆ How Insurers Can Dramatically Refine Their Geographic Area Rating Factors And The Way That They’re Applied To A Specific Group

■ Why Industry Rating Factors (IRFs) Are EXTREMELY Imprecise

- ◆ A Comprehensive Examination Of The Three Main Problems Regarding The Way IRFs Are Developed That Makes Them Practically Worthless

■ The “Game Plan” For Our Superior Non-Traditional CRC Pricing Methodology:

- ◆ Use Our Traditional Age/Sex Factors
- ◆ Perform Geographic Area Rating (But Doing It In The Improved Manner Which We Examined Earlier)
- ◆ Replace Your EXTREMELY Imprecise Industry Rating Factors (IRFs) With Up To Four Non-Traditional Rating Factors That Reflect The Claims Impact Resulting From Some Of The “Dynamics” That Aren’t Even Considered In The Traditional CRC Pricing Approach!
  - Participation Rating Factors

- “Employee Type” Rating Factors
- “Annual Employee Turnover” Rating Factors (Optional)
- Industry ADJUSTMENT Factors (For A Few Industries Only)
- ◆ Build In Retention As Usual

## 10:35 Refreshment Break

### 10:55 USING A NON-TRADITIONAL COMMUNITY RATING BY CLASS METHODOLOGY TO PRICE THE NON-CREDIBLE PORTION OF THE RENEWAL PREMIUMS FOR EVERY “EXPERIENCED RATED” GROUP THAT’S NOT “FULLY CREDIBLE” (Part 2)

*(We’re Continuing With Our More Refined Approach To STEP 6 Of Our Formula Which We Examined Yesterday Afternoon.)*

■ Developing Participation Rating Factors (The Method We’ll Use Here Will Be Our Template For Developing All Non-Traditional Rating Factors)

- ◆ Judiciously Selecting The Data You’ll Use To Minimize The Claims Distortion Caused By Those Dynamics Other Than Participation

- ◆ We’ll Examine The Incurred Loss Ratios (ILRs) Associated With Various Participation Levels, Make Appropriate Adjustments, Then Develop The Participation Rating Factors

■ Developing “Employee Type” Rating Factors

- ◆ Judiciously Selecting The Claims Data We’ll Use Here
- ◆ Developing The Five “Employee Type” Rating Factors Will Involve Claims Adjustments For Age, Sex, Product, And The Group’s Participation Rate. These Adjustments Will Strip Out The Impact Caused By These Dynamics.

■ Developing “Annual Employee Turnover” Rating Factors (Optional)

■ Estimating Industry ADJUSTMENT Factors For A Handful Of Industries (Optional)

■ A Detailed Case Study That Illustrates How This Non-Traditional Approach To CRC Rating Is Used To Develop The Non-Credible Portion Of An Experience Rated Group’s Renewal Premiums

### 11:40 THE MANY CIRCUMSTANCES WHERE ADJUSTMENTS (UP OR DOWN) TO FORMULA-GENERATED RATES MAY BE APPROPRIATE

*Note: This Module Provides Additional Elaboration With Respect To STEP 8 Of Our Formula Which We Examined Yesterday Afternoon*

■ Determining If The Account’s Risk Profile Is Improving Or Deteriorating In A Significant Manner. We Refer To This As “Account Inertia”.

- ◆ The Many “Indicators” (i.e., Participation Rate, Large Claims Experience, Employment Stability, Etc.) That Need To Be Examined Over Several Years To Assess The Account’s Inertia
- ◆ When The Account’s Risk Level Is Not Within The Neighborhood Of “Average-Ness”, An Adjustment (Up Or Down) To The Formula-Generated Renewal Rates Will Be In Order

- How Often Adjustments Should Occur
- Ensuring That The Adjustments That Are Made Are “Revenue-Neutral” In The Aggregate

■ We’ll Examine FIVE CASE STUDIES Where Preliminary Renewal Premiums Need To Be Adjusted (Up Or Down). These Five Are Only A Fraction Of The Many Situations Where A Rate Adjustment Is In Order.

## 12:20 Wrap-Up / Q & A

## 12:30 Adjournment



# registration details

The registration fee for this outstanding training seminar includes the two day training program, continental breakfasts, all refreshment breaks, lunch on day one, a calculator, and the invaluable training manual.

	# of attendees from the same company			
	1	2	3	4+
<b>"Per Person" registration fees</b>	\$1,395	\$1,295	\$1,195	\$1,095

**NOTE REGARDING THE GROUP DISCOUNT: ALL THOSE FROM THE SAME COMPANY MUST REGISTER AT THE SAME TIME TO RECEIVE THE GROUP DISCOUNT!!!**

### IF YOU'LL BE PAYING BY CHECK, YOU MAY REGISTER AS FOLLOWS:

**BY FAX:** Fax in your completed Registration Form to (508) 393-9601

**ON-LINE:** Our web site address is [www.smsnow.com](http://www.smsnow.com)

**BY PHONE:** Our phone number is (508) 393-2663

We will email or fax you a confirmation/invoice by the end of the day.

Your check should be made out to "S. M. Snow & Associates, Inc.". We'd like to receive your check no later than three full weeks prior to the program.

**Our Address:** S. M. Snow & Associates, Inc.  
P. O. Box 275  
Berlin, MA 01503

### IF YOU WISH TO PAY BY CREDIT CARD, YOU MAY ONLY REGISTER BY FAX.

Fax in your completed Registration Form to (508) 393-9601. We will email or fax you a confirmation by the end of the day.

We accept American Express, MasterCard, Visa, and Discover.

**Cancellation Policy:** *Only written cancellations received more than two full weeks prior to the program will receive a tuition refund (less a \$195 "per person" processing fee). No refunds or tuition credits will be granted for cancellations made after this time, or for "no shows". No exceptions will be made to this policy regardless of circumstances. Registrant substitutions will be accepted provided that S. M. Snow & Associates is notified prior to the program.*

**Attire:** "Business Casual" is appropriate.

## the orlando venue

The award-winning **Walt Disney World Swan and Dolphin Resort** is located in the heart of the Walt Disney World® Resort and is your gateway to Central Florida's greatest theme parks and attractions. Enjoy their 17 world-class restaurants and lounges, their luxurious Mandara Spa, five swimming pools, two health clubs, four lighted tennis courts, nearby golf, jogging trails, and many special Disney benefits, including complimentary transportation to **Walt Disney World** theme parks and attractions.

If you'd like to reserve a guest room at the **WALT DISNEY WORLD DOLPHIN RESORT**, DO SO AS SOON AS POSSIBLE and mention that you will be attending the "Advanced Experience Rating Techniques" seminar to receive our room rate of \$175 Single or Double (plus

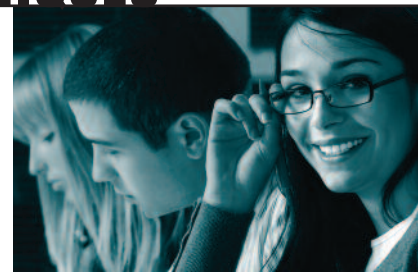
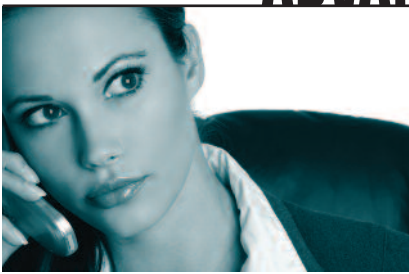
a \$12 per day resort fee for many amenities which include high-speed internet access and unlimited use of the resort's health club facilities to name a few). Their phone number for reservations is **(800) 227-1500**.

**WALT DISNEY WORLD DOLPHIN RESORT**  
1500 Epcot Resorts Boulevard  
Lake Buena Vista, FL 32830

**After March 12th at 5:00 PM EST (or after our room block fills if earlier),** room availability and the room rate are at the hotel's discretion.

**RESERVE YOUR ROOM EARLY!  
SPACE IS LIMITED!**

# ADVANCED EXPERIENCE RATING TECHNIQUES



## registration form

orlando, fl ■ april 12-13, 2012

### PLEASE PRINT CLEARLY:

name: \_\_\_\_\_ job title: \_\_\_\_\_

organization: \_\_\_\_\_

address: \_\_\_\_\_

city, state, zip: \_\_\_\_\_

phone number: (        )                      fax number: (        )

email address: \_\_\_\_\_

### PAYMENT METHOD:

Check forthcoming

Please charge my registration fee immediately to one of the following credit cards:

**(check one)**

VISA     MasterCard     Discover     American Express

Credit Card #: \_\_\_\_\_ Expiration Date: \_\_\_\_\_

Security Code *(4-digit code on front of AMEX card, or the last 3 digits of the number on the back of M/C, Visa or Discover):* \_\_\_\_\_

Cardholder's Signature: \_\_\_\_\_

Name and/or Company Name on Card: \_\_\_\_\_

■ FAX THIS FORM TO US AT (508) 393-9601 ■

S. M. Snow & Associates, Inc.  
P. O. Box 275  
Berlin, MA 01503

FIRST-CLASS MAIL  
U.S. POSTAGE  
PAID  
BERLIN, MA  
PERMIT #11

# advanced experience rating techniques

**ORLANDO, FL APRIL 12-13, 2012**

