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TRENDS in Employer-Sponsored Dental Insurance Plans

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Employers, and consequently their employees, have realized an increasing trend of increasing premiums for dental insurance over the past couple of years. While our economy was in a downturn, employees covered by dental insurance plans were receiving dental services at an astounding rate. That means that insurance carriers have been paying claims at an equally astounding rate.

The Situation

It's a common phenomenon that happens when instability in employment arises. When employees feel like their employment outlook is uncertain, they tend to use their benefits while they know that they have them. The result is a rise in dental claims for insurance carriers.

Of course, the effect of higher claims paid by insurance carriers is higher premium rates for dental insurance plans. This manifests not only in new insurance plans, but also in rising renewal rates for in-force dental insurance plans.

The good news is that these trends are generally short-term in nature. The demand for dental care is remarkably stable and inherently predictable over long-term cycles. When dental insurance utilization increases like it has over the past couple of years, it's typically the result of accelerated care rather than additional care. This means that many employees and their families have received care over the past couple of years that ordinarily would have been stretched out over a longer period of time.





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The Outlook

The outlook is good for insurance carriers and their insured customers, which includes employers and their employees. We see a significant improvement coming over the next two years for insurance carriers. The accelerated demand for dental insurance over the past few years is expected to lead to lower claims volume for carriers, which will likely lead to improved rate stability for the coming few years.

Of course, all dental insurance carriers are not the same. The carriers that were very aggressive with rates leading into 2009 and 2010 have been impacted much more than carriers that were more conservative in their rating over the same period. The aggressive carriers will have a longer recovery period and will likely continue to strive for higher rate increases.

Generally speaking, we expect to see considerably improved rate stability over the next two years. As economic indicators improve in many parts of the United States, employees will get increasingly comfortable with their continued employment outlook and it is expected that utilization of their benefits will subside to more traditional levels. Claims stability for carriers is good news for employers and their employees relative to rates. When insurance carriers pay lower claims, they do not need to collect as much premium to pay those claims, and the result is rate stability for their insured customers.

Strategies for Improved Dental Rate Stability

There are many strategies that can be used to improve rate stability for employer-sponsored dental insurance plans:

Increase Participation

Generally speaking, when more employees are participating on a dental plan, the group tends to realize greater rate stability. Many dental insurance carriers routinely reduce rates as participation on the dental plan increases.

So how do you improve dental plan participation? The two most common ways to increase participation are increase employer contribution and provide more affordable solutions for employees. The first is quite logical. By increasing the employer contribution, obviously the amount that employees pay for their dental insurance is reduced, which typically results in higher participation among employees.

The second strategy for increasing participation is to provide more affordable coverage for employees. An employer that provides a single-option dental plan may want to consider offering a dual- or even triple-option dental plan. By providing more price points with various coverage levels, employees are more likely to find a plan that meets their individual dental care needs and more closely matches their family's budget. Again, the result is typically higher participation among employees and their families.

Often, rates for a low-cost dental insurance plan can start below \$10 per month per employee. This offers a solution that allows an employer to contribute a little bit of premium for its employees to provide a basic dental insurance benefit and allow employees to buy up to higher coverage. Employers can pay 50% to 100% of a low plan to ensure high participation among employees and then offer higher coverage options for employees to choose if they would like to pay more for a higher level of coverage.

Utilize Network Dental Providers

The more a dental plan utilizes network providers, the greater the opportunity for rate stability. Dental insurance carriers have contracts with dentists, either directly or indirectly, to access a high number of dental professionals nationwide that provide various dental services. Through network access agreements, dental carriers pay claims to network providers at a reduced rate. In return, dental providers join networks to gain quick access to a higher number of customers that have dental insurance—a predictable payer source for dentists. It's a symbiotic relationship that benefits both parties.

So how does this impact rates and rate stability? Because dental carriers pay claims at a reduced, contract rate when their members use contracted network providers, they provide pricing incentives to those customers that utilize their network providers. Lower rates are the result of lower cost of claims.

If a plan requires access to out-of-network providers, it can still benefit from network savings. There are two ways to gain out-of-network benefits in a dental plan: indemnity plans and passive PPO plans. Both provide access to dentists that do not participate in dental networks, however, the passive PPO plans have an advantage to the carrier. Under a passive PPO plan, the carrier has a lower cost when employees covered under the plan do visit network dentists. While all employees covered under a passive PPO plan will not use network providers, most of the time, some employees will receive their dental care from network providers. The employees who receive their dental care from network providers provide the cost incentive for the carrier, which in turn provides a better rate for the entire group.

We can routinely provide a mixture of these plans under the same policy, which provides the employer group with multiple price points and a choice of using network dentists or choosing any dentist.

Utilize 24-Month Rate Guarantees

During a period of rate instability, it can often benefit a group to enter into a 24-month dental contract with a carrier rather than the traditional 12-month contract. This provides a longer period of time to normalize claims activity for the carrier and the employer. It is not uncommon for utilization to increase during the first year of a dental plan as many new employees join the plan that have not had dental insurance and other employees gain knowledge of their benefits. Over a 24-month period, the group has a stronger trend, statistically speaking, for underwriters at the dental carrier to evaluate before calculating a renewal rate. Because the rates are guaranteed by the carrier for a 24-month period, the rates do not change on the first anniversary date.

While initial rates are slightly higher, the additional rate is lower than the current trend, so it is often a good strategy to consider. Additionally, because there is no rate change at the first anniversary of the plan implementation, there is nothing to do to evaluate the rates for two years, which is an administrative benefit.

Build in an Office-Visit Co-pay

For years, medical plans have utilized an office-visit co-pay to reduce premium rates for health in-

surance. This slight cost-sharing strategy is acceptable to employees and provides a bit of claims relief for the carrier. The same strategy can be used in dental insurance to reduce initial rates and provide greater rate stability over the life of the dental insurance plan. By adding just a \$5 or \$10 office-visit co-pay, dental premiums are reduced. Furthermore, employees are very accustomed to paying office-visit co-pays when they use their health insurance plan, so many times a small co-pay for their dental plan is not a concern for them. It can be an effective strategy for managing employer-sponsored dental plan rates. **HIU**

Where in the World is HIU?



John Rudy recently took his HIU to Spain, where he visited the Chocolate Museum and the Picasso Museum in Barcelona.