Benefits CANADA

The basics of ASO

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As employers look for ways to provide the best benefits at an acceptable cost, one option growing in popularity in Canada is administrative services only (ASO) plans. But what is an ASO plan, what makes it different from conventional fully insured benefits plans, and most importantly—is it a good fit for your organization?

Under an ASO plan, the employer is responsible for funding claims costs. A third party is appointed to administer the plan, charging fees for their services, but without requiring insurer reserves or applying insurer inflation factors.

Understanding the similarities
Both conventional fully insured group benefits plans and ASO plans provide reliable group benefits coverage, stringent claims adjudication, conveniences like drug cards, and employee cost sharing options.

To decide which solution is the best fit for your company, you need to consider the three components of a benefits plan.

1 – Insurance for catastrophic claims
Pooled insurance protects against catastrophic, sudden and unexpected events. These include claims for life insurance, accidental death and dismemberment, long-term disability, out of country medical emergencies, high-cost drug claims, and critical illness.

2 – Reimbursement of day-to-day claims
Medical, dental, drug, paramedical services and similar claims operate on a “money-in, money-out” basis rather than requiring risk insurance. Regardless of how your group benefits plan is funded, the health and dental component is strictly transaction based.

3 – Administration
Every benefits plan needs to be managed. This includes maintenance of employee records, billing, claims adjudication, renewal processes, and employee communication.

Understanding the differences

In a conventional plan, anticipated increases in claim costs will be built in to the next year's renewal rates. ASO plan costs are based on actual paid claims experience, rather than on anticipated claims. With an ASO plan, should actual claims exceed the budgeted amount, you are responsible for the deficit at the end of the year. If your claims are less than anticipated, the surplus is yours to keep.

But how do you control unexpected high cost claims? Conventional large amount pooling arrangements will protect your plan from catastrophic claims, typically exceeding $10,000 per plan member per year. However some ASO plan providers will offer stop loss contracts with insurance protection that begins at $5,000. This is an attractive option for small- to medium-sized businesses.

One of the chief concerns an employer may have about ASO funding is the unpredictable nature of month-to-month claims experience. Conventional plans offer predictable premiums over a 12 month period, regardless of transactional claim levels.

To address this concern, some third party administrators (TPAs) offer budgeted ASO plans, where you pay a fixed amount every month based on your previous claims history. Budgeted ASO plans provide monthly surplus and deficit reports, so companies are not subjected to renewal surprises at year-end.

Also, a full service TPA that is not tied to a single insurer will be able to shop around to get the best price for each benefit from a variety of specialty providers.

Flexible plan options like core + options plans, healthcare spending accounts, and benefit levels graded by seniority, can also easily be accommodated within an ASO plan.

What's right for you?

With two funding options available, employers need to consider their risk tolerance, and the level of customization they need to meet their benefits objectives.

Conventional plans are offered by many large insurers, are easy to compare against each other, and provide every employee with equal coverage.

In contrast, a customized ASO plan can offer employers greater control over their benefits plan design, and consequently over the dollars that are paid out.

The following comment is added by Jim DuBois/*CHOICE GROUP BENEFITS*

ASO/TPA options, while offering employers the same coverage as their current insurance carrier plan, can deliver products & services at drastically reduced pricing. Greater customization, availability of multiple carriers on one billing statement, industry leading administration platforms and, the elimination of insurance carrier excess premium payments (Trend & Reserve Funds), make ASO/TPA programs the logical choice for employer group benefit programs in Canada. Generally speaking, most ASO/TPA approaches require a minimum of 25 enrolled employees.

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