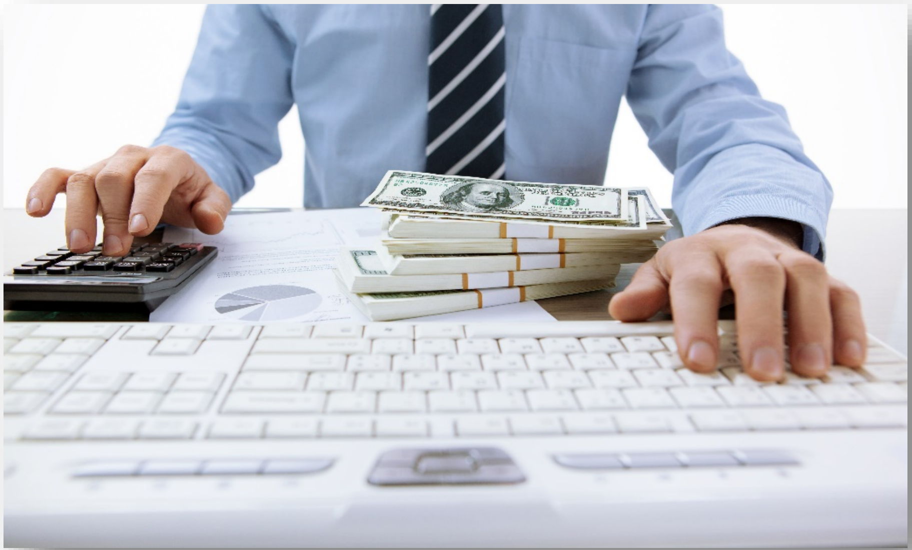
Medcom
BENEFIT SOLUTIONS

Actuarial Services

- ✓ *COBRA Rate Certification*
- ✓ *HRA Cost Projection & Design Assistance*
- ✓ *Funding Analysis Report*
- ✓ *Insurance Renewal Cost Analysis*
- ✓ *IBNR Reserve Reporting*

Offering an in-depth look at insurance funding risk, costs, and planning needs



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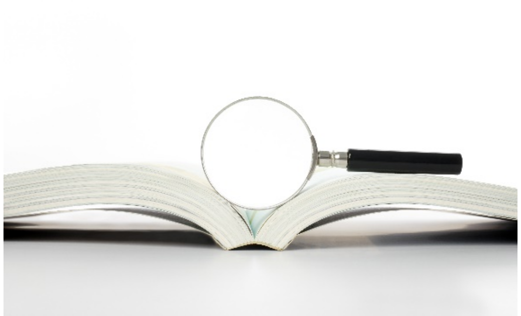
Actuarial Services

The management of employee health benefit plans has become a dizzying task for today's employers. Ever expanding regulatory requirements, unstable cost structures and an unpredictable future combine to create a deeply challenging environment. The Patient Protection and Affordable Care Act, which was signed into law in 2010, has brought additional concern and uncertainty.



Medcom's actuarial services are designed to empower employers by providing the detailed information needed to successfully navigate through the complex world of healthcare benefit planning. Our analysis delivers an in-depth examination of current benefit policies, renewal options and future prospects. Armed with actuarially sound cost projections and risk assessments, employers are able to make cost saving decisions that will work proactively over the long term.

Medcom's actuarial services cover a wide range of reporting and planning needs:

Cobra Rate Certification

Develops COBRA rates for self-funded or partially self-funded plans and HRAs and provides a letter of certification for the rates.

HRA Cost Projection & Design Assistance

Calculates the expected HRA fund usage for a prospective HRA plan design. Multiple options can be included to aid employers in making decisions regarding the design of an HRA plan

Funding Analysis Report

Includes:

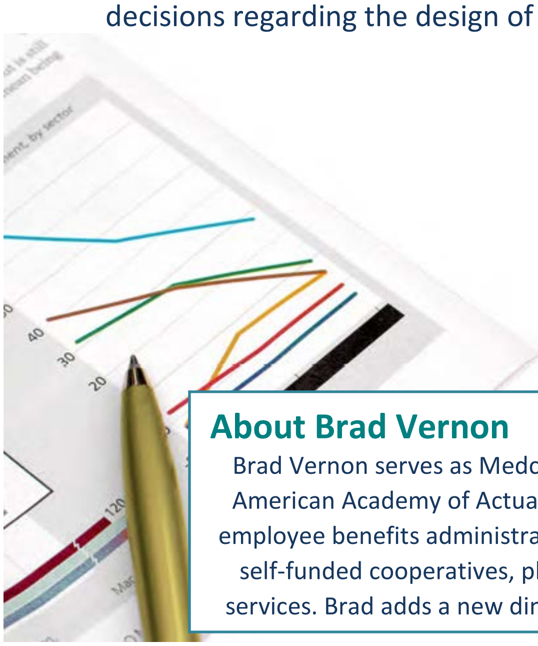
- Analysis of the company's claims trend using actuarial principles and regression analysis
- Assessment of feasibility to self-insure including appropriate specific and aggregate stop loss levels
- Actuarial cost estimate including projected retained claims and estimates of expenses including reinsurance, administration and consulting fees under self-funded arrangement options

Renewal Cost Analysis for Fully Insured Plans

Analyzes the employer group's claim history to detect trends and provide insurance carriers with a comparison renewal calculation.

Incurred But Not Reported (Terminal Liability) Claim Reserve Reporting

Calculates the IBNR or terminal liability reserve for self-funded or partially self-funded plans.



About Brad Vernon

Brad Vernon serves as Medcom's Consulting Actuary. He is a fellow of the Society of Actuaries (FSA) and a Member of the American Academy of Actuaries (MAAA). Brad has served as a staff actuary for a large insurance carrier and a highly rated employee benefits administration and consulting firm. His work has included plan performance reviews, stop loss pricing for self-funded cooperatives, plan design modeling, HRA and HSA design and modeling, COBRA rate development and other services. Brad adds a new dimension to the Medcom team in serving leading employee benefit consultants and employers.

A Closer Look at COBRA Rate CERTIFICATION

Both HRAs and Self-Funded Plans typically establish a maximum claims liability limit for an employer that is rarely reached. Claims may also fluctuate from year to year which creates challenges in terms of how to develop valid COBRA premium rates.

So, where do you start? The COBRA legislation defines "applicable premium" as the cost to the plan of providing coverage to similarly situated beneficiaries who have not experienced a qualifying event. This applicable premium must be determined prior to each 12-month determination period.

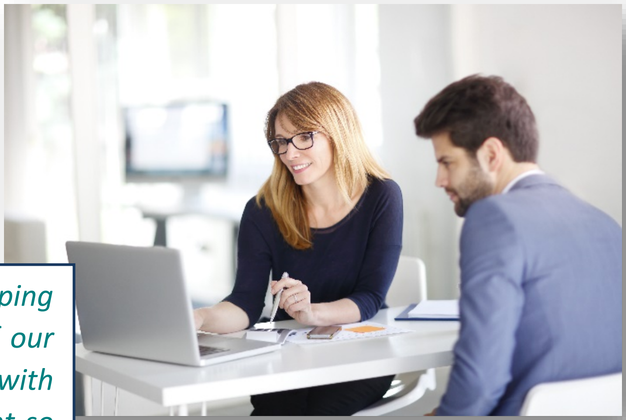
Medcom works with employers to actuarially determine the appropriate COBRA premiums based upon their plan design, demographics and prior claims history, if available. Plan sponsors should strongly consider a sound, actuarially determined method for establishing these premium rates. A plan is permitted to charge a qualified beneficiary up to 102% of the applicable premium.

Medcom provides fully certified COBRA premium rates for both HRAs and self-funded plans using the most appropriate method on a case by case basis.

A Closer Look at HRA Cost Projection & DESIGN ASSISTANCE

One of the growing strategies for employers in achieving lower healthcare costs includes the use of a Health Reimbursement Arrangement (HRA) with their underlying "core" medical plan. When an employer creates an HRA, they generally start by reducing the costs in their core medical plan by shifting more of the risk to plan members. Then, they allocate some portion of the resulting financial savings to the HRA Plan, which essentially operates as a limited self-funded plan, designed to assist plan members in offsetting some of their higher deductibles and copayments.

HRAs may be constructed in a number of different ways depending upon the budget and philosophy of the employer. Without professional guidance, it is often difficult for employers to accurately project the claims utilization of their HRA plan(s) in advance.



Medcom offers a "turnkey" solution for employers in developing an actuarially sound projection of HRA costs as a part of our actuarial portfolio of services. Frequently, we work closely with employers in "modeling" several HRA plan designs up front so that they may develop the best solution for their program.

A Closer Look at Funding Analysis REPORTS

Larger employers generally have two distinct financing methods for their group health insurance. First, they may select a "fully insured" funding approach where the insurance carrier provides a guaranteed premium for the twelve (12) month plan year. In this case, the carrier takes all of the financial risk and provides comprehensive administration for all facets of the program.

An alternative way for funding an employer sponsored medical coverage program is a self-funded financing method. With the self-funded method, the employer generally assumes more risk but has the potential for saving a significant amount of money.

In addition to the increased risk exposure, the employer is also more engaged with managing other aspects of the plan including but not limited to reinsurance selection and oversight, comprehensive administration of the program and managed care decisions.

The viability of using one funding method versus the other is a function of overall employer risk management strategies, the competitiveness of the reinsurance market and the relative competitiveness of fully insured carrier premiums in the market. Employers frequently transfer from one method to the other as market conditions change.

Medcom provides employers with a professional evaluation of all financing options so that they may select the best option for their firm. Our analysis also provides employers who self-fund with an actuarially sound projection of future costs, a review of stop loss levels, and an unbiased comparison to carrier stop loss pricing. We start with a historical analysis of the company's medical claims trends using actuarial principles and regression analysis. Next, we project an actuarial cost estimate of self-funding the medical coverage program using appropriate specific and aggregate stop loss levels. Lastly, we provide information from our statistical models regarding expected cost, variability, confidence intervals and probability of reaching the maximum liability under the different stop loss levels examined so that an appropriate choice can be made by the employer.

"The farther backward you can look, the farther forward you can see" -Winston Churchill

Medcom is strategically positioned to assist employers with the selection of the most appropriate financing option for their group medical coverage program.

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A Closer Look at Renewal Cost ANALYSIS

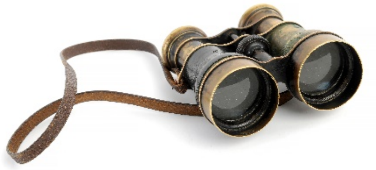
With the consolidation of medical insurance carriers and medical coverage options over the past ten years, it is frequently difficult for employers to secure more than three or four competing bids when they renew their health insurance coverage each year. Depending upon the demographics of the employer and their medical claims history, the actual number of potential bidders may be as few as two. So, where does an employer look for an objective evaluation of their medical coverage renewal costs? **Medcom.**

We provide a comprehensive analysis of the medical claims history for the group in order to detect prevailing trends and an actuarial projection of where the premiums should be targeted for the next year. We frequently uncover mathematical mistakes, overinflated fees for line items like carrier “pooling charges” and other areas where a “second opinion” from a certified actuary may make a significant difference. In a worst case scenario, we may end up validating the renewal levels established by the carrier and support their position.

Healthcare costs are much too high to leave a renewal projection to chance. A three (3%) percent reduction in cost on a $5,000,000 renewal premium that directly results from a rigorous actuarial analysis will transfer $150,000 to the bottom line.

Medcom is positioned to assist employers of all sizes in evaluating the financial impact of their plan renewals. Many of our clients and insurance consultants engage us annually to make absolutely sure that all of their renewal options have been fully explored.

A Closer Look at IBNR Reserve COMPUTATION



Many employers elect to take a more proactive approach in managing their group health care costs through a self-funded or partially self-funded financing method. One of the key differences between a fully insured plan and a self-funded plan is the basis for financially accounting for each plan year. When an employer purchases a plan from an insurance carrier, the policy typically includes all expenses that are incurred during the plan year. However, when an employer sponsors a self-funded plan, expenses are booked in the plan year in which they are paid. This means that at any given point in time the employer has a liability for claims “incurred but not yet reported” (IBNR). This ongoing claims liability should be projected on an annual basis as an IBNR reserve.

Medcom’s professional actuarial team works closely with employers in the development and certification of the IBNR reserve on either a quarterly or annual basis.

There are a number of reasons why a professionally prepared IBNR reserve calculation is important. First, the employer should know the magnitude of their unpaid claims liability for financial reporting and planning purposes. Second, this data enables the employer to better compare reinsurance policies and alternate funding arrangements at each renewal. Finally, it is important for employers to track their total benefit costs and the IBNR should be incorporated into this evaluation.