

Administrative Services Only (ASO)

Administrative Services Only (ASO) is simply a different way to fund the employee benefit plan. ASO is self-insurance; the plan has a funding level instead of a premium. ASO applies only to Extended Health Care and Dental Care and less commonly, Short Term Disability benefits. The funding for Life Insurance and Long Term Disability benefits would remain unchanged.

Most insured Extended Health Care and Dental Care plans are “100% experience-rated”; which means the premium paid reflects one or more past years’ of actual claims. The insurance carrier uses an experience-based estimate of future claims and adds on expenses, profit margin, insurance reserve costs and “trend factors”. This projects the impact of inflation on the expenses covered by the plan. All these elements establish a set of rates at the beginning of the period for both Extended Health Care and Dental Care.

In an ASO arrangement, in order to set a funding level, the insurance carrier starts with recent claims, just like an insured plan. Typically, expenses, profit and reserves are lower under a self-insured program. The policyholder receives a statement each month which outlines the total claims paid during that month plus the necessary administration expenses.

While the policyholder accepts the responsibility to pay all Extended Health Care and Dental Care claims under an ASO policy, to have protection against huge certificate level claims is crucial. A Stop Loss threshold can be established which would provide a maximum dollar amount the policyholder would be responsible for per claim, i.e. \$10,000; anything about this established threshold would not be charged to the policyholder but would be pooled and covered by the insurance carrier. The policyholder pays a premium for the pooled or Stop Loss protection.

With ASO funding, the carrier has no risk and no longer provides insured coverage. The policyholder assumes all the risk; therefore, ASO plans are normally recommended for large groups where the claim level is predictable.

Feasibility

Your company may consider ASO if you have:

Favourable Experience

If the premiums you pay significantly exceed your claims on a regular basis.

A Stable Claiming Pattern and Credibility

A claiming pattern should be established with a carrier before implementing an ASO agreement. Extended Health Care and Dental Care claims can be quite volatile from one year to the next. We would not wish to recommend ASO and then at the next financial statement see that the claims have increased significantly. Naturally no one can predict if any catastrophic claims will occur but the environment is better once a pattern has been established. The claims should be relatively stable for a few years to establish credibility. If your company is either growing or downsizing, it may be prudent to consider ASO at a later date, once the population has stabilized.

Risk Tolerance

Under the ASO contract, the employer is responsible for all claims up to the Stop Loss limit. In some periods, it is possible that the claims submitted will exceed the fixed rates being charged by the adjudicator. Depending on the balance in the ASO account at the time, this may produce a deficit. If this occurs, the employer has the option to pay the deficit immediately or increase the fixed rates paid into the ASO account the following year and slowly refund the deficit over the next 12 months.

If your company has a low risk tolerance or strict budgetary concerns, ASO may not be a viable choice.