

Efficient COBRA Administration Lowers Costs

by George Harris

Director of Special Markets

COBRA Compliance Systems, Inc.

Coldwater, MI

If you're looking for good news to bring to your clients, forget health premiums. Average renewal increases exceeded 10% for many employers, while stop-loss coverage of catastrophic medical events is rising 25% to 40% this year. Ouch!

Maybe you could work some magic with multi-tiered prescription plans, or suggest increasing employee contribution levels. But, given the tight labor market, what employer wants to risk offering a benefits plan that's perceived by employees to be more expensive, less valuable or both?

Here's some good news, though: There is a proactive way to help lower your clients' employee benefits costs without lowering the quality of the benefits plan: Help them properly administer COBRA.

Efficient COBRA administration can lower costs two ways:

- Getting people who are not eligible for COBRA off your COBRA population, thereby reducing the number of administrative headaches, which ultimately lowers expenses.
- Lowering claims costs – thanks to the smaller COBRA population – which positively impacts the bottom line for self-insured and experience-rated groups.

Unmanaged COBRA is costly

Many employers who self-administer COBRA adhere to a simple, safe philosophy regarding covering beneficiaries on their plan: When in doubt, keep 'em on. These firms reason that spending a little extra time and premium dollars (in the case of self-insured groups) to keep all questionable COBRA beneficiaries on the plan is the best insurance against potential trouble. After all, what's a few extra bucks compared to the risk of lawsuits by ex-employees and their families that could cost thousands in settlements and legal fees?

But these freeloaders add up and could cost you dearly in time and dollars. Case law indicates that when exceptions are made to cover ineligible individuals, a bad precedent is set, paving the way for other to abuse your client's lenient policy. The bottom line is that those not eligible for COBRA should not be covered.

Experts estimate that an unmanaged COBRA population makes up 4.6% of the total employee population for companies with 20 to 250 employees, and 3.2% for firms with 250 to 5,000 workers. But when COBRA is properly managed, the COBRA population is about 2% for groups of all sizes.

Lowering the COBRA count lowers claims costs

Using these averages, let's take a firm with 240 employees that does not effectively manage COBRA, which can expect 11 people (about 4.6% of the employee population) on COBRA each year. By efficiently managing COBRA, this group can reduce the count to five people (about 2%) a year.

With fewer people on the plan, claims cost can diminish. According to Spencer's 11th annual survey on continuation coverage, the average loss ratio for a COBRA beneficiary is a little more than 155%. Figuring a \$4,000 annual premium, each person on COBRA incurs an average of about \$6,200 in claims, for a loss of \$2,200. As a result, the group with 240 employees that properly manages COBRA – reducing its COBRA population from 11 to five – could save more than \$13,000 in claims costs.

The savings are more dramatic for larger groups. A company with 1,000 employees with inefficient COBRA administration can anticipate 32 people (3.2%) on COBRA each year. But effective COBRA administration can lower the count to 20 people a year. Again, figuring a 155% average loss ratio amounting to \$2,200, the 1,000-life group that reduces its COBRA population by 12 could save more than \$26,000 in claims costs.

For self-insured groups, lowered claims costs mean fewer dollars spent. And experience-rated groups can expect higher claims costs to result in higher premiums.

Another reason to outsource COBRA

Lowering claims costs and relieving administrative burdens present compelling reasons to outsource COBRA administration to a COBRA compliance specialist. Few, if any, employers understand the complexities of the laws that specify who should and shouldn't be eligible for COBRA continuation coverage. Moreover, the IRS' Final and Proposed COBRA Regulations, effective January 1, 2000, further complicate eligibility criteria.

Give your clients a choice: Waste tens of thousands of dollars in time and claims costs, or spend far less and enjoy efficient COBRA administration without the hassles.

George W. Harris is director of special markets for COBRA Compliance Systems, Inc., based in Coldwater, Michigan. COBRA Compliance Systems is one of the nation's leading COBRA compliance specialists, performing day-to-day administration of COBRA for more than 8,000 clients in 46 states. Mr. Harris can be reached at 800-300-3838.

Mary Ann: possible pull quote: A group with 240 employees that properly manages COBRA – reducing its COBRA population from 11 to five – could save more than \$13,000 in claims costs.

Reprinted with permission from the National Association of Health Underwriters (NAHU).