Health Risk Services Inc.™

BENEFITS 101

Benefits made clearer. One topic at a time.

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healthriskgroupbenefits.ca

THE FINANCIAL STRESS TEST

We will track a mid-sized Canadian business with 40 employees over two contrasting years: Year 1 (The Low-Claims Year) and Year 2 (The High-Claims Shock Year).

40

EMPLOYEES

TWO CONTRASTING YEARS

CORPORATE WORKFORCE PROFILE

HEADCOUNT

- 40 Employees

TARGET BASELINE BUDGET

- $120,000 annually (~$250/month per employee)

TRADITIONAL PLAN DESIGN

- 80% Drug & EHC
- 80% Basic Dental
- 70% Target Loss Ratio (TLR)

SELF-DIRECTED ASO/HSA DESIGN

- Core Catastrophic Insurance (Life/LTD)
- $2,000/year HSA Cap per employee
- $5,000 Individual Stop-Loss Layer per person

SCENARIO 1

Year 1: The Low-Claims Year

HEALTHY WORKFORCE

*During this fiscal year, the workforce has a low utilization rate. Total actual employee medical and dental claims come in at only **$70,000.***

OPTION A

TRADITIONALLY INSURED PLAN

The business pays a fixed, non-refundable monthly premium to a standard commercial carrier.

- **Fixed Monthly Premiums:** $10,000 / month
- **Total Annual Outlay:** $10,000 × 12 = $120,000.00
- **Real Claims Paid Out by Carrier:** $70,000.00
- **The Sunk Cost:** The insurance carrier retains the remaining $50,000.00 as corporate margin and profit.
- **Upcoming Renewal Quote:** Because the group's real Loss Ratio was low ($70,000 claims / $120,000 premiums = 58.3%), the underwriter leaves rates relatively flat, issuing a nominal **+3%** inflation adjustment for Year 2. New fixed cost: **$123,600.00**

OPTION B

SELF-DIRECTED ASO/HSA MODEL

The business unbundles its benefits, paying only for core catastrophic insurance premiums and funding real employee claims on a pay-as-you-go basis through Health Risk Services.

- **Fixed Core Insurance Premiums (Life, LTD, Stop-Loss):** $30,000.00
- **Real Claims Paid Out to Employees:** $70,000.00
- **TPA Administration Fee (10% applied strictly to claims):** $7,000.00
- **Total Annual Outlay:** $30,000 + $70,000 + $7,000 = **$107,000.00**
- **Capital Reclaimed:** The business spent only what was used. The remaining $13,000.00 stays fluidly in the company's operating bank account.

SCENARIO 2

Year 2: The High-Claims Shock Year

*Two unexpected high-cost events occur simultaneously: one employee is diagnosed with a severe auto-immune condition requiring a specialty biologic drug costing **$45,000/year**, and overall staff usage of paramedical services (chiropractic, RMT) spikes. Total raw claims value reaches **$140,000.***

OPTION A

TRADITIONALLY INSURED PLAN

The carrier covers the claims checks throughout the year, keeping the employer's immediate cash outlays locked at the preset monthly rate. However, the financial damage hits during the annual experience-rated renewal audit.

- **Traditional Paid Premiums:** $123,600.00
- **Real Claims Incurred:** $140,000.00
- **The Shock Metrics:** The group's Loss Ratio hits **113.2%**, heavily exceeding the carrier's Target Loss Ratio (TLR) of 70%.
- **The Upcoming Renewal Quote:** To recover their losses and buffer future risk, the underwriter applies a compounding trend penalty, issuing a massive **+35%** premium hike for Year 3.
- **The Balance Sheet Damage:** Fixed benefit overhead permanently surges by $43,260.00 for the upcoming fiscal year, locking the company into a **$166,860.00 annual fixed liability** regardless of whether claims drop back down.

OPTION B

SELF-DIRECTED ASO/HSA MODEL

Because everyday claims are hard-capped at $2,000 per employee, routine utilization is strictly contained. Meanwhile, the specialized $45,000 biologic drug claim hits the individual stop-loss threshold.

- **Fixed Core Insurance Premiums (Life, LTD, Stop-Loss):** $30,900.00 *(3% baseline adjustment)*
- **Routine Team Claims Payouts (Capped via HSA parameters):** $85,000.00
- **Biologic Drug Corporate Exposure (Employer pays strictly up to the Stop-Loss Cap):** $5,000.00
- **Stop-Loss Insurer Payout (Absorbs the remainder of the specialty drug):** $40,000.00 - *paid by underwriter pool, completely hidden from the employer's routine experience rating*
- **TPA Administration Fee (10% on corporate claims: $85K + $5K):** $9,000.00
- **Total Annual Outlay:** $30,900 + $85,000 + $5,000 + $9,000 = **$129,900.00**
- **The Renewal Resolution:** Because the catastrophic $40,000 drug surge was fully insulated by the independent stop-loss pooling layer, it's excluded from routine renewal calculations. Year 3 core premiums face a minor pool adjustment (~**+4%**). Year 3 total projected overhead stays highly stable at **~$131,000.00**.

PROACTIVE PLAN REVIEW

COMPLETE TWO-YEAR BALANCE SHEET SUMMARY

This comparative overview highlights the ultimate financial difference between a variable retail premium approach and a capital-efficient wholesale model over a full two-year operational cycle:

FINANCIAL LINE ITEM	TRADITIONAL FULLY INSURED PLAN	HEALTH RISK SERVICES SELF-DIRECTED ASO/HSA
Year 1 Outlay (Low Claims)	$120,000.00	$107,000.00
Year 1 Capital Retained	$0.00 (Kept by carrier)	**$13,000.00** (Kept in corporate cash reserves)
Year 2 Outlay (High Claims Shock)	$123,600.00	$129,900.00
Year 3 Renewal Premium Shock	**+35% Increase Bounded**	**Minimal Pooling Adjustment Only (+4% on Core)**
Year 3 Fixed Balance Sheet Liability	**$166,860.00**	**$131,136.00**
Total Two-Year Outlay Cumulative	$243,600.00	$236,900.00

YEAR 3 FIXED LIABILITY

TRADITIONAL PLAN

$166,860

after +35% renewal

↓

SELF-DIRECTED ASO/HSA

$131,136

after +4% pooling only

DIFFERENCE:

$35,724 / YEAR

THE STRATEGIC TAKEAWAY

While the traditional plan appeared to "absorb" the high claims shock during Year 2, it clawed back that capital - plus a substantial profit buffer - by locking the business into a **$166,860.00 multi-year fixed overhead liability**.

Conversely, the self-directed ASO/HSA setup allowed the business to **retain its cash** during healthy years, utilize an **independent stop-loss shield** during major health crises, and **permanently escape compounding premium traps**.

Ready to stress-test your own plan?

Book a complimentary Benefits Breakdown to see what these numbers look like on your actual headcount and claims history.

REQUEST A BREAKDOWN