Administrative Services Only (ASO)

Introduction

How you fund your benefits program is to some extent, entirely up to you as an employer. Naturally there are advantages from a tax and cost perspective to fund some benefits differently from others. Some benefits require true insurance due to the significant cost associated with just one claim. Benefits like Life and Disability payouts are far too high for most organizations to handle on an independent basis. The costs for other benefits like extended health and dental are far more predictable, and can effectively be managed on various alternate funding bases. One option very common in the marketplace is known as ASO.

An Administrative Services Only (ASO) plan is essentially a self-funded plan for health and dental benefits. The employer/plan sponsor is exclusively liable for all financial (claims and related expenses) and legal aspects of the group benefits plan. The insurer, or Third Party Administrator (TPA), is simply being asked to pay claims on behalf of the employer under an agreed upon contract. There is no insurance with the exception of Stop-Loss Pooling and/ or Out-of-Canada Pooling.

Billing Options

Paying for claims and expenses can be set up in a number of ways.

1. Billed in Advance – whereby monthly deposit levels or billing rates are set based on historical experience, plus expenses, and paid similar to a traditional insured plan. Taxes appear on bills and a financial report is then provided at the end of the agreed upon time period (eg 1 year) and a reconciliation is conducted.
2. Billed in Arrears - Under a "billed-in-arrears" financial arrangement, the plan sponsor will pay the actual amount claimed for the prior month, plus expenses and provincial sales taxes. In most cases, the insurer or TPA will also provide a full financial report that summarizes all claims plus expenses paid in the specified time period (eg 1year).

Risk

Insurers and employers recognize the high degree of risk associated with "true" ASO plans. It is for this reason that ASO plans are typically set up using a combination of true insurance and self-insurance. Specifically, low incidence but high payment claims such as Life Insurance, AD&D, Dependant Life, Long Term Disability, Out-of-Country and large In-Canada claims would be fully insured using one of the insurance carriers.
The high incidence but low payout claims, like under the "experienced" rated benefits (Extended Health Care, Dental Care and Short Term Disability) would be covered using an ASO financial arrangement. ASO arrangements typically include some levels of stop loss and/or high amount pooling to protect the policyholder from high individual claims, which may occur under the health or drug plan.

Policyholders who are comfortable with and ASO arrangement appreciate the true savings since no reserves are required which frees up the company's money. Expenses are definitely lower, and the employer does not pay for hidden margins charged by the insurance company for it's poor block of business and/or profitability.   The risk lies in the willingness to accept potential fluctuations in claims and annual benefit costs for these benefits.

EXAMPLE of Administrative Services Only (ASO)

ABC Company, a large employer carrying on business in Canada, has decided to implement a self-insured benefit arrangement (SIBA), or ASO plan for its employees who are also residents of Canada . The SIBA between ABC Company (the Employer) and its employees consists of the following four components:

1. Glasses,

2. Drugs,

3. Medical,

4. Dental.

The Employer also has arranged with XYZ Insurance Company, an insurer, for group life insurance and disability coverage for the employees but these benefits are not part of the SIBA.

Because it lacks the claims administration expertise and because it wishes to limit its exposure on medical benefits, the Employer approaches XYZ Insurance Company to give it administrative support. The Employer and XYZ Insurance Company, known as a Third Party Administrator (TPA), enter into an Administrative Services Only (ASO) contract. In some cases these contacts are called hold harmless agreements.

The TPA will receive and process all the claims for the above four components under the SIBA. For compensation the TPA will charge an amount (a percentage of claims paid) as a service fee. The amounts paid out as claims will be reimbursed by the Employer to the TPA.

The Employer wishes to limit its risk under the medical benefit in the SIBA. The TPA issues a "stop-loss" policy related to the medical benefit component of the SIBA, for claims in excess of $100,000 per year.