

An Alternative Health Care Option

Finding affordable health care coverage can be a challenge, and you may be looking for new options. An association health plan is an option you may want to consider.

by **JIM CARROLL**

SMALL- to medium-sized greenhouse businesses are challenged more today than ever in their efforts to purchase affordable health care coverage for employees. The businesses that turn to the open market – the highly volatile status quo – are met with double-digit price increases and little hope for change on the horizon. Business owners who don't want to pass along the extra costs to customers end up diluting their group insurance plan or asking for more contributions from those employees participating.

So, greenhouse businesses looking for an affordable option to the open

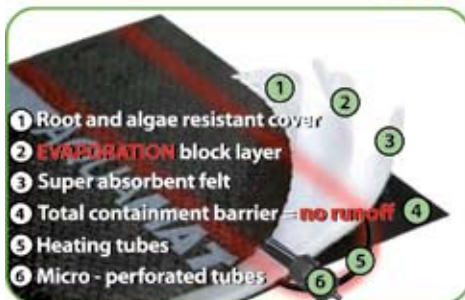


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market may want to consider association health plans (AHPs).

How Does An AHP Work?

AHPs have been around for decades. They are a value-added service to dues-paying members of a business or trade association. Their negotiating position comes from the buying power that a larger group provides. Some have performed

well and continue to be a source for employers to achieve better pricing, more flexibility and some protection from the open marketplace.

The primary purpose of establishing and maintaining an AHP is to reduce long-term costs and gradually lower the administrative costs of the plan. As the AHP grows and buying power is increased, the savings should offset some

of the medical trend (inflation) being applied by underwriters. In addition, the underwriting company agrees to allow incremental profits to be placed in a pool of money owned by the AHP. This pool of money can be used to offset future increases. Thus, having a plan through the AHP provides some protection from the open market. If no money is available in the pool (because of higher claim levels), the employer is no worse off than if they had been buying coverage for their employees as they had done for years.

AHPs offer several advantages to the employer, regardless of the size of their business. Most members of associations are smaller businesses, and as a small business they typically do not get many price breaks. AHPs put small businesses in a better position pricing wise. Larger employers, meanwhile, will see a greater menu of benefits offered.

Another advantage of being covered under an AHP is having industry peers making decisions on your behalf. Typically, trustees comprised of industry peers are appointed by the association to oversee the plan. Recommendations are made by the insurance experts, but final decisions are determined by the trustees with regard to rate adjustments, management of the plan and other insurance matters. This is very important to insured members because the trustees are more likely to take into account the current business climate for the industry when decisions are made.

Issues To Consider

I was recently involved in helping set up a nationwide AHP, and many of the association's members contacted me hoping for a special deal. Be aware: If you're looking to save lots of money right away by joining an AHP, it's probably not going to happen. You know what they say: "If it sounds too good to be true, it probably is." The goal of any AHP is to help members over the long term, not to provide a quick fix.

Many AHPs are state or regionally based. And some states make it easier for insurance carriers to do business than others. Several states, for example, dictate to the carriers what plans can be sold in their state and at what price. National

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AHPs are rare because many health underwriters have evacuated the small group market (two to 50 employees) due to small group reform laws.

Some employers and brokers I've spoken to expressed apprehension about AHPs due to what they see as an inherent flaw in how they're set up. Most of their apprehension is focused on what the industry calls the "death spiral." It's important for current

insured members or prospective members to understand how it happens so they know how it can be avoided.

Typically, the death spiral of an AHP begins at renewal time. The insurance carrier approaches the plan's trustees and recommends the plan accept an increase in rates (let's use 10 percent for our example) for the entire membership in order to maintain the appropriate premium to

cover claims for another year. The insurance company then gives all businesses insured under the AHP a 10 percent increase in premiums. The businesses that have had significant claims the previous year readily accept the 10 percent increase.

The businesses that have remained healthy and are an attractive risk believe they should be subject to a lesser increase. Feeling they're being unfairly penalized, they leave the trust (AHP) and obtain coverage elsewhere. Hence, the death spiral begins. The loss ratio becomes worse, and the "larger group" advantages of the AHP begin to become a disadvantage because of the high claims from the remaining members.

Working with an experienced professional in this area, AHPs can now be set up to avoid the death spiral. The renewal aspect is handled the same as it is in the open market. Healthy groups with less claim activity are rewarded with lesser increases. Those with claim issues get larger increases. If the pool of money set aside is significant, it will help reduce these increases. However, each insured business will still have to pay its appropriate share in order to keep the financial part of the block of business healthy.

AHP Benefits Beyond Price

A business or trade association is only as strong as its membership. If an AHP can be offered and sustained, it will become a membership benefit beyond just being a source for insurance. It will also help with the recruitment and retention of new members, ensuring strong association membership for years to come.

Finally, because association plans are different than traditional group programs, I've found the customer service to be better. Many non-AHP carriers now use call centers, which means the insured person's customer service issues may be handed off from service rep to service rep, creating a frustrating impediment to resolving issues. AHPs I work with enjoy a single contact point person and a dedicated team of service professionals who are familiar with the association, its members and their needs. **GG**

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