WEBINAR SERIES

PEO Underwriting and Risk

Behind the Scores and Beyond the Numbers

June 11, 2025

PrestigePEO™

PrestigePEO

Today's Presenters

Kym Porter

VP of Underwriting
PrestigePEO

Kym brings a strong benefits, risk and underwriting background to Prestige with over 34 years in benefits and PEO. Kym comes to Prestige from PEO Velocity where she served as Senior VP of PEO Consulting. While at PEO Velocity, Kym worked with over 40 different PEO clients to help them manage their risk on their master health plan while helping the PEOs grow and develop their benefits offering. Kym's experience also includes various consulting for Aon, Willis Towers Watson, and Keystone Insurers Group as well as roles within TriNet, CoAdvantage and other PEO's.

Kym is a Pennsylvania native and enjoys playing golf, traveling, and spending time with family. Kym is active with various nonprofit organizations in her community and is a board member of the Payton Wright Foundation.

Kym is a graduate of the Pennsylvania State University. She maintains a Health, Life and Annuities license, and has received her GBA, CBC and CWCA designations.

Today's Agenda

- US Healthcare – Update
- PEO Underwriting
- Underwriting, HCCs, and MLRs
- Underwriting and Type of Service
- Underwriting and AI
- Underwriting and RX
- Weight Management RX/GLP-1
- Underwriting and Group Size
- Underwriting and Volatility
- NB Underwriting and Quality Forecasts
- Underwriting and Plan Growth

Webinar Forum

All participants are muted.

Please type questions in the side navigation panel and we will try to address most questions during today's session.

Today's presentation will be posted online at prestigepeo.com/webinars

PrestigePEO™

BE AFRAID…

US Healthcare - Update

According to CMS, the US will spend $5.3 trillion on healthcare in 2025 or 17.6% of GDP.

Funded by

- Individuals, businesses, other private revenues = 52% private funding
- Federal, state, and local government = 48% public funding

Paid to

- Private insurers, TPAs, providers through OOP = 52% private receipts
- Medicare, Medicaid/CHIP, military and other public = 48% public receipts

PrestigePEO™

US Healthcare - Update

The half of the healthcare spend in the country that is privately funded covers 65% of people (**50%** through employer-sponsored plans).

The half that is publicly funded (Medicare, Medicaid/CHIP, Military) covers 35% of people.

Demographics play a predicable role in spending:

- Under 34: 44% of population and 21% of spend
- 35-54: 25% of population and 23% of spend
- 55+: 31% of population and 56% of spend

PEO plans typically have an average member age in the mid to upper 30s. NAPEO estimates over 1M people receive medical insurance through PEOs (less than 1% of all employer-sponsored coverage).

PrestigePEO™

PEO Underwriting

Conditions and claims are important modifiers to demographics

- Forecasted morbidity scores (SAIL/Curv) (e.g. 1.25)
- Underlying medical conditions/Rx (SAIL/CURV/PHQs/GHQs) (e.g. Autoimmune/Skyrizi)
- High renewals from incumbent carriers (if experience rated) (e.g. 40%)
- High claims and loss ratios (if claims experience is available) (e.g. 125%)
- Location- market location PMPM cost varies by region

Velocity study of plan with $135M in annual premium (26,000 members enrolled for 12 months); 540 claimants of at least $50,000 (HCC)

- Highest 0.1% of members had nearly 10% of all claims all year
- Highest 2% of members had nearly 50% of all claims all year
- Mean cost is $125,000/claimant; median cost is $80,000/claimant

High-cost conditions/claimants are the significant driver in year-over-year cost increases and performance volatility

- 10,000 “rare” conditions in the U.S. affecting 1 in 10 individuals
- High-claim incidence in master-medical plans is approx. 1 in 40 members

PrestigePEO™

Underwriting, HCCs, and MLRs

- Best underwriting helps identify pre-existing top 2% of claimants (most worksite clients don't have enough premium to fund them)
- Velocity study of worksite MLRs in their first and subsequent years on the medical plan. Target is 75% or better MLR:
- Composite of new and renewing business
  - 125% or higher MLR: 15% of groups; 50% of claims (c/g ratio: 3.33)
  - 75%-125% MLR: 15% of groups; 20% of claims (c/g ratio: 1.33)
  - 25%-75% MLR: 35% of groups; 20% of claims (c/g ratio: 0.57)
  - Under 25% MLR: 35% of groups; 10% of claims (c/g ratio 0.29)
- Most expensive cohort of groups more than 10x the cost of the least expensive cohort. Plan experience varies greatly by incidence and magnitude of claims in the 125%+ MLR cohort.

Underwriting and Type of Service

Where are the claims falling across types of service?

- For private-insurance plans
  - Inpatient Hospital: 25%
  - Outpatient Hospital: 18%
  - Hospital ER: 7.5% (50.5% combined hospital)
  - Physicians/surgical: 26%
  - Urgent care/clinic: 0.5%
  - Retail Rx: 23%

Basically, it's 50% hospital with the rest split between physicians and pharmacy.

Retail Rx is the fastest growing segment of cost in the system with trends 33%-50% higher than all other medical combined. Since 2020, retail prescription drugs spending has grown faster than hospital and physician service spending.

NB underwriting tools that utilize claims data rely on retail pharmacy data primarily because it is more commonly captured than other service data held with data aggregators. *Certain high-cost Rx can alone make a client high risk.*

PrestigePEO

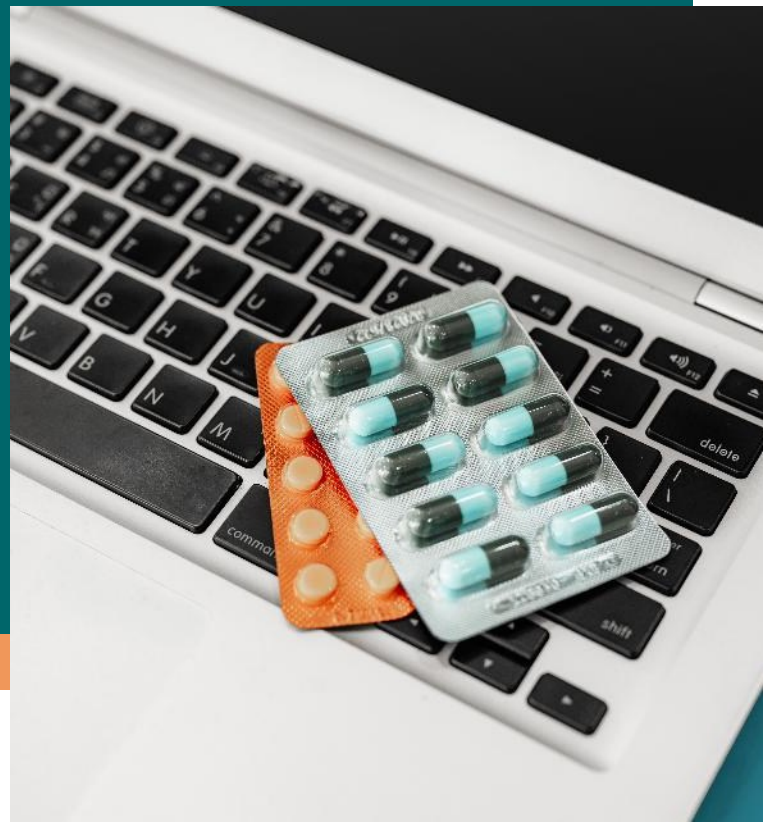
Underwriting and AI

Can we use AI exclusively in underwriting?

- AI plays a role
  - Identify high-cost RX, conditions
  - Provides look back period to see when high-cost conditions started
  - PHQ Scoring
  - Assist in identifying top risk/cost drivers
  - Machine learning keeps improving
  - Faster U/W process

Insurance coverage denials have risen in recent years driven in part by the automated algorithms powered by AI- however it is essential to have a human review the AI data to make the decisions and not leave it entirely to AI.

Underwriting and RX



- Velocity study of high-cost Rx in large risk-bearing medical plan:
  - “Specialty” Rx trending to nearly 50% of all Rx spend or over 10% of total plan spend. Highest claimants in recent study of 26,000 members:65% with autoimmune including psoriasis: Stelara, Humira, Simponi, Cosentyx, Enbrel, Rinvoq, Skyrizi, Tremfya, Taltz, Dupixent, Otezla: $100,000+ pmpy
  - 12% with CF, hepatitis, HIV, HGH, Blood disorder, eye disease: Trikafta, Dovato, Descovy, Epclusa, Norditropin, Promacta, Oxervate: $91,000 pmpy
  - 8% with cancer: Calquence, Alecensa, Tagrisso, Verzenio: $145,000 pmpy
  - 5% with MS: Mayzent, Mavenclad, Kesimpta, Plegridy: $87,000 pmpy
- If these types of drugs are identified in underwriting, we need a larger group size to provide enough premium: We need roughly 11 eligible ee’s for every $25,000 in forecasted expense.
  - A drug of $75,000 would require a group of 33 eligible employees
  - A drug of $150,000 would require a group of 66 eligible employees
  - (Average PEO client size is 25-35 eligibles)

Weight Management RX/GLP-1

Claims data show rapid adoption of GLP-1 for weight loss with steady increase in utilization since 2021 and peaking at 213% in 2023.

In 2024 drugs targeting weight management accounted for about half of the total increase in drug spend and equaled 6.7% of total drug cost.

GLP-1 therapies are poised for continued growth with nearly one quarter of consumers currently considering them.

- GLP-1s drive a historic shift in traditional drug spending increase. Consumer adoption has surged, with nearly one third of commercially inured households reporting that they or a household member has used GLP-1s.
- Surging use amplifies sustainability and supply concerns. Early adoption of these costly treatments can create an unstable burden on health plans, employer and communities because of the lifelong reliance of these costly treatments.

PrestigePEO

Underwriting and Group Size

- Velocity study on existing business provided important insight on strategies for retention and long-term, profitable growth.
- Reviewed all clients, all PEOs, all carriers by size cohort.
- Conclusion: All groups claim similarly with a possible bias to higher claims on larger groups.
- Smaller groups were willing to pay a higher premium, providing better margin to the master medical plans (premium yield is a key metric).

Subs	Worksites	Sub Months	Premium PMPM	Claims PEPM	MLR%
1-9	5,646	238,735	$1,017	$826	81%
10-24	3,168	415,733	$957	$843	88%
25-49	1,292	363,472	$924	$860	93%
50-99	473	267,652	$918	$838	91%
+100	147	219,378	$901	$877	97%
	10,726	1,504,970	$942	$849	90%

PrestigePEO™

Underwriting and Volatility

- Velocity conducted a study of in-force business.
- Actual performance is very fluid and unpredictable using most recent past.
- Using carrier claims data but that is designed for claims payment and not clinical treatment (e.g., we know tests were run, but not the results).
- Unfortunate reality: For every 165 groups, 25 perform unexpectedly well, 25 perform expectedly poorly, and 115 perform generally near forecasted.
- Risk Question: If all currently favorable groups are treated favorably, who pays for the 25 groups that perform unexpectedly poorly next year?

Performance Category	Groups	%
Much Better	25	15%
Generally As Expected	115	70%
Much Worse	25	15%
Total	165	

PrestigePEO

NB Underwriting and Quality Forecasts

- New-business underwriting models select against groups with high demographic scores and high claim risks through SAIL/Curv, claims, and credible renewals.
- Data suggest we should not write groups that do not qualify for quotes based upon risk factors (we shouldn’t override declines).
- With that said, some groups have highly favorable demographic, SAIL, claim, renewal, participation and forecasted industry risk.
- Risk Question: How do they perform relative to all others?
- Turns out, all qualifying groups claim at about the same level, and merely “acceptable” risks tend to perform better than all others because of higher premium on those deals.

Underwriting and Plan Growth

- Occasionally for mature clients on plans, there is no competitive rate level available to adequately fund forecasted claims. Those groups may choose other coverage.

- Sales scenario given inevitable attrition:
  - Assuming 12% attrition from the plan each year (88% retention).
  - Assuming 5% organic employment growth in remaining clients.
  - Assuming 20% close ratio on new-business sales.
  - 100% - 12% = 88% after attrition.
  - 88% x 1.05 = 92.4% after organic growth.
  - Must replace 7.6% of enrollment just to keep plan at same enrollment level next year.
  - With 20% close ratio, need to quote enrolled volume equal to 38% of in-force subs just to remain neutral (20% x 38% = 7.6%).
  - To grow by 7.6% would require quote volume equal to 76% of in-force subs (20 x 76% = 15.2% + 92.4% = 107.6%).
    - For example, a plan with 3,000 subs would need to quote into groups with 2,280 subs, or approximately 4,500 eligibles to grow by 7.6%. That would equal approximately 150 quotes.

PrestigePEO™

Underwriting Summary

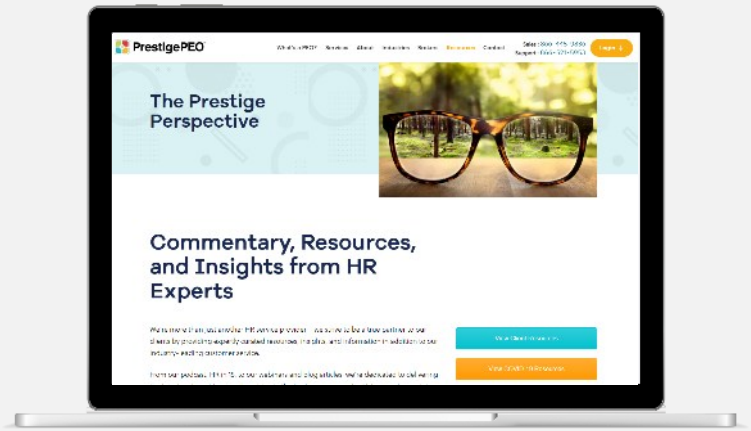
- High-cost claims are very impactful to overall performance.
- 2% of members contribute approximately 50% of all medical cost.
- Specialty Rx is fastest growing cost category.
- R-squared on all models is still relatively low given limitations of claim data set and unpredictability in human conditions and behavior.
- Annual performance is fluid, with 30% of groups have highly unpredictable results (favorable and unfavorable).
- Smaller groups tend to perform better and are easier to plan around when they don't.
- Sustainable growth is favored by limiting exposure to larger groups and generating high NB quote volume relative to in-force block.
- All qualifying NB quotes tend to claim similarly by quality cohort.
- Therefore, overall premium yield is a key measurement to help predict if a plan will perform well over time (or cohorts within the plan).

PrestigePEO™

Questions

PrestigePEO℠

Questions / Comments / Discussion?



You can view today's presentation and video recording by visiting:

prestigepeo.com/webinars

PrestigePEO insights

Be on the look-out for our email newsletter, **PrestigePEO Insights**

Join us on **Linkedin, Facebook, Instagram, Twitter, and Youtube** to receive event notifications and weekly updates

PrestigeGO

Reach out to your support teams – HR and Compliance, Employee Benefits, and Payroll directly from our **PrestigeGO mobile app**

PrestigePEO

We Are Here For You

PrestigePEO℠

Human Resources, Employee Benefits, and Payroll Simplified

You started your business because you had a great idea. We started our business to handle the rest.