



## **Self Bill Premium Calculation**

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## Introduction

This document provides more detailed information regarding the calculation of premiums for self billed invoices.

The samples provided on the following page may not list the same products that are available as part of your group plan. These procedures are applicable for all lines of insurance that are self-billed.

## Premium Calculation Examples

**Rates and benefits shown on the next few pages are illustrative only. Please see your contract for actual benefit amounts.**

### Calculating Premium

Please follow the formulas included in the examples on the next few pages to calculate the premium due for a particular product. Refer to your schedule of benefits to determine the benefit amounts for your employees.

#### Example: Life/AD&D Insurance (Basic and Supplemental)

Life and AD&D monthly rates are usually per \$1,000 of insurance. Base the premium calculations on the actual benefit amounts provided to each employee in thousands, taking into account age reductions where appropriate. Use this formula to calculate the cost:

$$\text{Benefit Amount} / 1,000 \times \text{Rate} = \text{Premium}$$

<p style="text-align: center;"><b>Example #1</b>  <b>Life Insurance for John Smith</b>            25,000 Benefit/1000 = 25            25 x \$0.30 = \$7.50</p>	<p style="text-align: center;"><b>Example #2</b>  <b>Life Insurance for all employees of ABC, Inc.</b>            610,000 Benefit/1000 = 610            610 x \$0.30 = \$183.00</p>
<p style="text-align: center;"><b>Example #3</b>  <b>AD&amp;D Insurance for John Smith</b>            25,000 Benefit/1000 = 25            25 x \$0.05 = \$1.25</p>	<p style="text-align: center;"><b>Example #4</b>  <b>AD&amp;D Insurance for all employees of ABC, Inc.</b>            610,000 Benefit/1000 = 610            610 x \$0.05 = \$30.50</p>

**Example: Dependent Life Insurance**

Dependent Life insurance rates are either per family unit or per \$1,000. In cases where the rate is per family unit, charge the same rate per family regardless of the actual number of dependents insured. Use this formula to calculate the cost of dependent life insurance when the rate is per family unit:

$$\text{Family Unit x Rate} = \text{Premium}$$

<p><b>Example #1</b>  <b>Dependent Life Insurance for John and Sara Smith and children</b>          1 family unit x \$1.20 = \$1.20</p>	<p><b>Example #2</b>  <b>Dependent Life Insurance for all families of ABC, Inc.</b>          20 family units x \$1.20 = \$24.00</p>
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**Example: Long Term Disability Insurance**

LTD monthly rates are per \$100 of insured Monthly Covered Payroll (MCP). Base the premium calculations on MCP. Use this formula to calculate the cost of LTD insurance.

$$\text{Monthly Covered Payroll}/100 \times \text{Rate} = \text{Premium}$$

<p><b>Example #1</b>  <b>LTD Insurance for Julie Johnson</b>          According to the group policy, this plan will cover 60% of the MCP up to a maximum monthly benefit of \$5,000 at a rate of \$0.38 per \$100 of MCP          Julie's monthly earnings: \$3,012          MCP insured by plan: \$8, 333 (maximum monthly benefit divided by 60% of benefit).          Cost of Julie's insurance:  <math>\\$3,012 \text{ monthly earnings}/100 = \\$30.12</math>  <math>\\$30.12 \times \\$0.38 = \\$11.44</math></p>
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**Example #2**

**LTD Insurance for all employees of ABC, Inc**

According to the group policy, this plan will cover 60% of the Monthly Covered Payroll (MCP) up to a maximum monthly benefit of \$5000 at a rate of \$0.66 per \$100 of MCP.

**Step 1:** Determine the maximum MCP based on the plan design:

Take the Maximum Monthly Benefit and divide by the Benefit Percentage<sup>1</sup>:

$$\$5,000 / 60\% = \$8,333 \text{ MCP Maximum}$$

**Step 2:** Determine the MCP for each person. Anyone who exceeds the Monthly Covered Payroll Maximum calculated in Step 1 must be capped at that amount.

Census File	Annual Salary	Monthly Salary	Maximum MCP	Actual MCP
CEO	\$500,000	\$41,667	\$8,333	\$8,333
CFO	\$280,000	\$23,333	\$8,333	\$8,333
Managing Director	\$50,123	\$4,177	\$8,333	\$4,177
Clerk	\$25,000	\$2,083	\$8,333	\$2,083
Sales & Marketing	\$65,000	\$5,417	\$8,333	\$5,417
Total MCP				\$28,343
Total MCP divided by 100				\$283.43
Times rate per \$100 of MCP				\$0.66
Monthly Premium				\$187.06
Annual Premium				\$2244.77

<sup>1</sup> If multiple classes exist, pay special attention to the Maximum Monthly Benefit for each class.

### Example: Short Term Disability Insurance

STD monthly rates are per \$10 of insured Weekly Covered Benefits (WCB). Base the premium calculations on WCB. Use this formula to calculate the cost of STD insurance:

$$\text{Benefit Amount}/10 \times \text{Rate} = \text{Premium}$$

#### Example #1

#### STD insurance for John Smith

#### Weekly Covered Benefit Method

According to the group policy, this plan will cover 60% of weekly earnings (this percentage of earnings is also known as Weekly Covered Benefit or WCB). Assume in this example the maximum Weekly Covered Benefit (WCB) is \$1,500 and the rate is \$0.44 per \$10 of WCB.

John's weekly earnings: \$750

John's weekly earnings: \$450 (60% of \$750)

Maximum weekly benefit: \$1,500.

Cost of John's insurance:

$\$450.00 \text{ weekly earnings} / 10 = \$45.00$

$\$45.00 \times \$0.44 = \$19.80$

**Example #2**

**STD Insurance for all employees of ABC, Inc**

**Weekly Covered Benefit Method**

According to the group policy, this plan will cover 60% of the weekly earnings (this percentage of earnings is also known as Weekly Covered Benefit or WCB) up to a maximum Weekly Covered Benefit (WCB) of \$1,500 at a rate of \$0.50 per \$10 of WCB.

**Step 1:** The WCB maximum weekly benefit is \$1,500.

**Step 2:** Determine the WCB for each person. Anyone who exceeds the maximum weekly benefit must be capped at that amount.

Census File	Annual Salary	Weekly Salary	WCB	Maximum WCB	Actual WCB
CEO	\$500,000	\$9,615	\$5,769	\$1,500	\$1,500
CFO	\$280,000	\$5,385	\$3,231	\$1,500	\$1,500
Managing Director	\$50,123	\$964	\$578	\$1,500	\$578
Clerk	\$25,000	\$481	\$288	\$1,500	\$288
Sales & Marketing	\$65,000	\$1,250	\$750	\$1,500	\$750
Total WCB					\$4,616
Total WCB divided by 10					\$461.60
Times rate					\$0.50
Monthly Premium					\$230.80
Annual Premium					\$2,769.60

**Example #3**

**STD Insurance for all employees of ABC, Inc based on the MCP method**

**Monthly Covered Payroll (MCP) Method**

**Before using this example:** *Please validate if your STD rate is based on the MCP method. If you are not sure or have questions, please contact the billing department or your Strategic Account Executive/Account Manager.*

Occasionally, STD premiums may be calculated using the method defined in the LTD Monthly Covered Payroll (MCP) example.

**For example:**

According to the group policy, this plan will cover 60% of the Monthly Covered Payroll (MCP) up to a maximum weekly benefit of \$1500 at a rate of \$0.66 per \$100 of MCP.

**Step 1: Convert Maximum Weekly Benefit to Maximum Monthly Benefit:**

Based on plan design, take Maximum Weekly Monthly Benefit, then multiply by 52, then divide by 12 to get the Maximum Monthly Benefit:

$$\$1,500 \times 52 \text{ weeks} \div 12 \text{ months} = \$6,500 \text{ Maximum Monthly Benefit}$$

**Step 2: Convert Maximum Monthly Benefit to Maximum Monthly Covered Payroll:**

Based on plan design, take Maximum Monthly Benefit from Step 1 and divide by benefit percentage:

$$\$6,500 \div 60\% = \$10,833 \text{ Maximum Monthly Covered Payroll}$$

**Step 3:** Determine the MCP for each person. Anyone who exceeds the Maximum Monthly Covered Payroll calculated in Step 2 must be capped at that amount.

Census File	Annual Salary	Monthly Salary	Maximum MCP	Actual MCP
CEO	\$500,000	\$41,667	\$10,833	\$10,833
CFO	\$280,000	\$23,333	\$10,833	\$10,833
Managing Director	\$50,123	\$4,177	\$10,833	\$4,177
Clerk	\$25,000	\$2,083	\$10,833	\$2,083
Sales & Marketing	\$65,000	\$5,417	\$10,833	\$5,417
Total MCP				\$33,343
Total MCP divided by 100				\$333.43
Times rate per \$100 of MCP				\$0.66
Monthly Premium				\$220.06
Annual Premium				\$2,640.72