

# Merlinos & Associates

PEO Actuaries

**MERLINOS**

actuaries  
consultants  
A Davies Company

# About Us



Founded in 1988, Merlinos & Associates - a Davies Company - is a property, casualty, and health actuarial consulting firm.



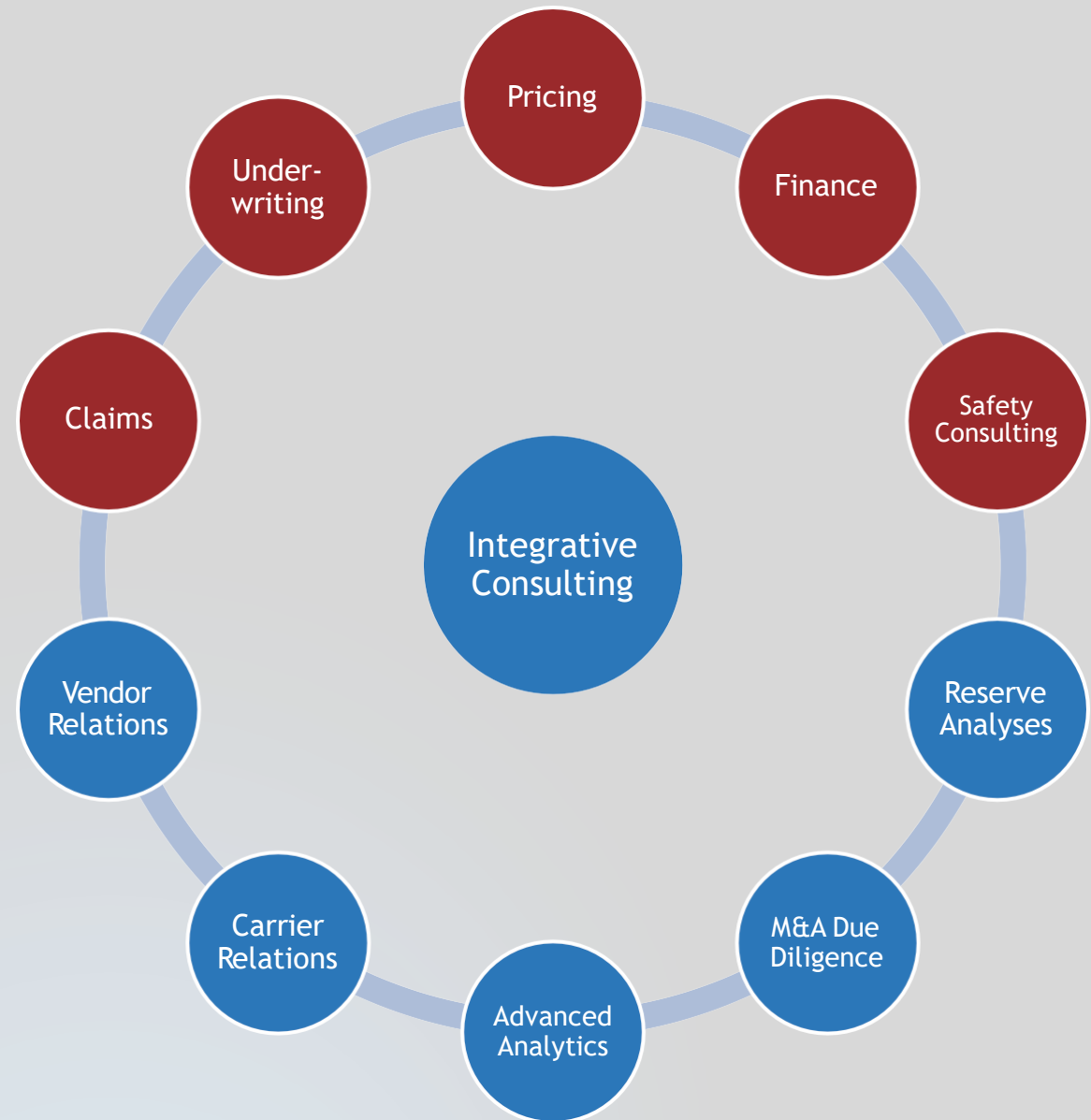
We specialize in providing actuarial consulting to the PEO industry. We leverage our collective experiences from inside, as the Chief Actuary of ADP TotalSource, and from the outside as trusted insurance consultants.



Our goal is to improve the profitability of your risk management program.

# How We Can Help

Where other firms may see segmented projects, we see connections between different areas and provide consultation with the entire PEO in mind.



# About Our Clients



Our clients range from small start-ups to the largest PEOs in the industry.



Our PEO industry clients include PEOs, MGAs, PE firms, consulting firms, insurance carriers, and state regulators.



Our clients utilize us for one-off projects and as an embedded in-house resource.

# Case Studies

## Working with Other Actuaries

A PEO client engaged Merlinos & Associates consultant Frank Huang to review the workers' compensation reserve analysis performed by a large actuarial consulting firm. Our consultant found various issues with the analysis, resulting in over-conservatism.

Our consultant communicated his observations to both the actuarial consulting firm as well as to the client, auditors, and other involved consulting firms. Over time, the actuarial consulting firm agreed with our consultant's conclusions which spurred the client to release **over 20% of booked reserves**. This release in reserves dropped to the client's bottom line, but more importantly helped facilitate **significant savings** from their own workers' compensation insurance premiums (see case study in right panel).

Our consultant estimated that this spurred **higher sales revenue** as well as potentially **higher margins** for their prospective business.

## Lower Premiums and Improved Carrier Relations

A PEO client engaged a Merlinos & Associates consultant to assist in negotiations with insurance carriers providing the client's workers' compensation coverage.

The client was concerned that they were overpaying, but had no expertise or experience beyond simple empirical observations and high-level broker support.

Our consultant was able to provide analytics and support to not only drive **a 15% rate reduction** for the client but also provide greater insight and comfortability for the carrier around the long-term profitability of the relationship with the client.

# Case Studies

## Preparing for Sale

A PEO client engaged Merlinos & Associates in efforts to prepare for an upcoming transaction due diligence. Our consultants thoroughly assessed the client's workers' compensation book and suggested that Merlinos provide the following deliverables:

- ✓ Calculate the Reserve Liabilities for the Workers' Comp exposure
- ✓ Perform a cash flow analysis
- ✓ Provide analytics to support collateral negotiations
- ✓ Determine the equity in the collateral
- ✓ Develop an underwriting model

The total impact of the above actions not only resulted in **more reliable and accurate financial data** for both seller and buyer to base their valuations, but also presented an actuarially sound risk management framework which further attracted the ultimate buyer. The client was able to successfully complete the transaction.

## Preparing to Buy

A private equity firm engaged Merlinos & Associates to assess a PEO's workers' compensation program as part of an acquisition due diligence. Specifically, we:

- ✓ Reviewed and opined on the PEO's actuarial analysis
- ✓ Evaluated the current state of the PEO's WC program
- ✓ Assessed the PEO's WC risk program going forward

Our consultants provided recommendations to the private equity firm highlighting strengths and weaknesses of the PEO's WC program as well as areas to improve future growth and profitability. Ultimately, our efforts supported the private equity firm to successfully negotiate financial terms that were 5% to 7% **less** than the initial offer.

# Case Studies

## Bang for the Loss Control Buck

A PEO client engaged a Merlinos & Associates consultant to re-evaluate how their loss control consultants were assigned to visit prospects and clients. Specifically, the client wanted our consultant to determine:

- ✓ The optimal number of loss control consultants for the risk program
- ✓ A predictive framework to assign loss control consultants to prospects and clients
- ✓ A predictive framework to determine the intensity of involvement for each client

Our consultant produced a framework which was flexible to the client's needs and perspectives. The new framework resulted in **significant operational savings and a 3-5% reduction in the loss pick** - all while not reducing headcount.

## Healthy Analytics

A PEO client engaged a Merlinos & Associates consultant to provide support for a large request-for-proposals (RFP) process. The client wanted our consultant to evaluate the analytics behind the **multi-million dollar** health benefits service that was being proposed by a large actuarial consulting firm.

Our consultant evaluated the analytics, spoke with key stakeholders on both sides of the RFP process, and produced feedback for the client that was immediately actionable.

As a result, the client chose to not engage the actuarial consulting firm for their service offering, and instead remain with its incumbent model and pricing analytics. With our consultant's support, the client began investing in upgraded pricing analytics that would ultimately outperform the proposed analytics. Our consultant estimates that the upgraded analytics could reduce sales turn-around time by **40%** and thus drive material additional revenue.

# Case Studies

## Client-Level Profitability

A PEO client engaged Merlinos & Associates to provide a framework within which the client could determine client-level profitability on an actuarially-determined ultimate basis. The hope was that with such a framework, the client could more accurately decide whether to renew existing business, identify sectors and industries that are more or less profitable, and ascertain whether other initiatives and levers were as impactful as assumed.

Merlinos & Associates provided an analysis along with an underwriting dashboard that allowed the PEO to instantly access historical profitability at the client level such that it supported renewal discussions. The analysis supported the value in some initiatives but also questioned the value in others. For example:

- ✓ The PEO was confident that discounts and dividends given to clients would improve retention. Our analysis showed that this may not be the case.
- ✓ The PEO was concerned that loss experience was deteriorating more rapidly in a particular industry. Our analysis showed that there were years with unfavorable development but that there did not appear to be a trend developing.

Ultimately, the engagement facilitated impactful discussions within the PEO's leadership about profit and best practices. Merlinos & Associates continued to support these efforts over the next two years which may have contributed to **improved retention** and **higher profitability**.



# PEO Practice Leaders

**David Shepherd**  
MANAGING DIRECTOR



David has over 33 years of actuarial and underwriting experience serving a wide range of clients, including PEOs, MGAs, and others.

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**Frank Huang**  
DIRECTOR



Frank has over 19 years of actuarial and analytics experience serving a wide range of clients, including as ADP's Chief Actuary.

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