

# Funding Options, What's the Difference? October 2016 KS Accountant's Assoc.

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# Agenda

- Funding Options
- Common reasons for alternate funding
- NRECA funding options
- Considerations for alternate funding
- Summary

# Funding Options

- Fully Insured
- Minimum Premium/Cost Plus
- Retrospective Rating
- Self-Insured/Partially Self-Insured
- HRA Variation on Partial Self-Funding

# Funding Options

- Fully Insured

- Fixed, level premiums guaranteed for specified time frame

# Funding Options

- **Minimum Premium/Cost Plus**
  - An arrangement whereby the employer pays the insurer only a portion of the premium which is to be used for administration costs. The remainder is placed in a "bank account" which is then used by the insurer to pay claims

# Funding Options

- **Retrospective Rating**
  - A plan for which the final premium is not determined until the end of the coverage period and is based on the insured's own loss experience for that same period. It is subject to a maximum and minimum.
  - Some carriers offer reserve building features

# Funding Options

- **Self-Insured/Partially Self-Insured**
  - Type of plan usually present in larger companies where the employer itself collects premiums from enrollees and takes on the responsibility of paying employees' and dependents' medical claims. These employers can contract for insurance services such as enrollment, claims processing, and provider networks. Typically done with a third party administrator.

# Funding Options

- **HRA Variation on Partial Self-funding**
  - Employer-funded plans that reimburse employees for incurred medical expenses that are not covered by the company's standard insurance plan. Because the employer funds the plan, any distributions are considered tax deductible (to the employer).



# Common reasons for alternate funding

## Advantages

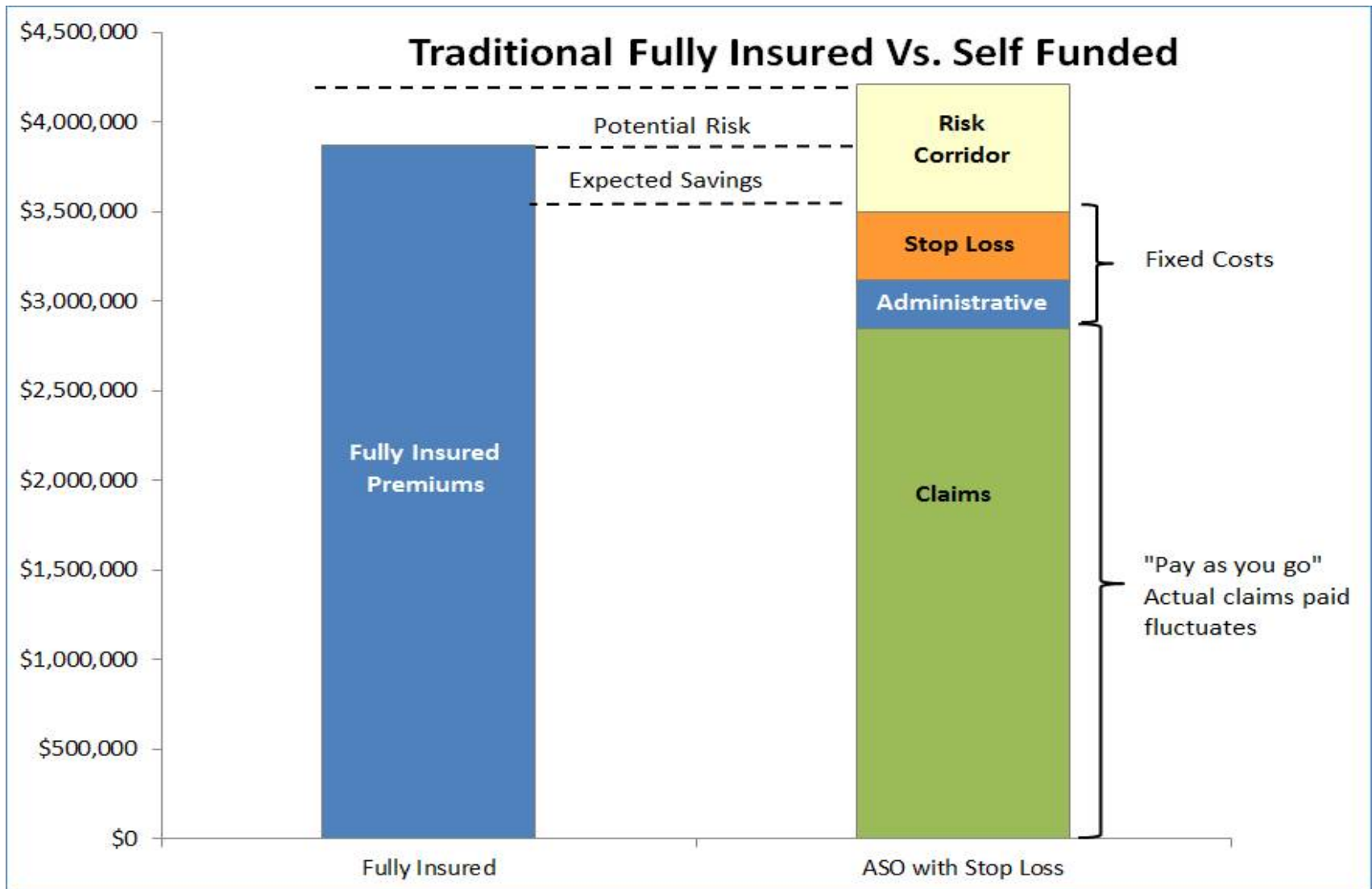
- Customization
- Control over reserves, otherwise generated by insurance carrier
- Self-funded not subject to state premium taxes (2%-3%)
- Self-funded plans not subject to sometimes conflicting state regulations and are regulated by federal ERISA guidelines

# Common reasons for alternate funding

## Advantages

- Less profit built in
- Access to better claims data
- Lower claims and cost containment accrue directly to group
- Lower PPACA fees, self-funded not subject to HIT (Health Insurance Tax)

# Common reasons for alternate funding



# Common reasons for alternate funding

## Disadvantages

- Increased claims risk
- Fluctuations in claims expenses
- Employer becomes plan sponsor
  - Fiduciary Liability
  - Compliance/HIPAA Regulations

# Common reasons for alternate funding

## Disadvantages

- Stop-loss market complexity for self-funded
  - Lasers, renewal guarantees, contract types, terminal liability, captives, integration with TPA, etc.
- Administrative responsibilities and employer involvement increases
- Assets are exposed for any liability created by legal action against the self-funded plan

# NRECA Funding Options

## Factors in setting the premiums under 75 EEs

- Demographics
- Trust claims for all members under 75 EEs

# NRECA Funding Options

## Factors in setting the premiums 75+ EEs

- Administrative charges
  - Plan administration services
  - Member access and services
- Pooling charges
- Expected claims

# NRECA Funding Options

## Factors in setting the premiums 75+ EEs

- Co-op utilization experience is pooled with the larger experience rated pool
- Cooperative experience is blended with experience rated claims
- Greater the co-op population, the more their actual claims experience is weighted



# NRECA Funding Options

- NRECA administers three funding options:
  - Fixed Annual Premium
  - Retrospective Funding
  - Administration Services Agreement
    - HRA available on all options

# NRECA Funding Options

## Fixed Annual Premium

- Premium is calculated upon enrollment or renewal and is static for the year
- Employee level rates by enrollment category (i.e. individual, family) are pre-determined and fixed

# NRECA Funding Options

## Options for Experience Rated

- 75 - 99 Employees
  - Fixed Annual Premium, Retrospective
- 100+ Employees
  - Fixed Annual Premiums, Retrospective & Administrative Services Agreement (ASA)

# NRECA Funding Options

## Retrospective Funding Structure

- Monthly billing = 90% of expected claims + admin expense
- Co-op retains cash flow to fund
  - internal needs
  - external investments

# NRECA Funding Options

## Retrospective Funding Structure

- Reconciliation typically 9 months after plan year, using 6 months of data
  - Co-op should always assume that some amount will be “called”
- No interest charged on additional 18 months of cash-on-hand
- Co-op liable for claims expense in excess of 90% at “call”
- Claims liability capped at 110% of expected

# NRECA Funding Options

## Retrospective Funding Structure

- Employee level rates by enrollment category can be based on
  - minimum expected claims
  - expected claims, or
  - maximum expected claims
- Cash flow advantages allocated as co-op sees fit

# NRECA Funding Options

## Administrative Services Agreement

- Administrative expenses + actual paid claims
  - Billed monthly
- No minimum claims liability
- Immediate savings if claims experience is favorable

# NRECA Funding Options

## Administrative Services Agreement

- Maximum funding flexibility
- Maximum claims expense liability of 125% above “expected claims”
- Provides a mechanism for co-op to immediately benefit from claims experience better than the Trust



# NRECA Funding Options

## Administrative Services Agreement

- Employee level rates by enrollment category can be based on
  - expected claims
  - maximum claims
  - a level deemed appropriate by the co-op

# NRECA Funding Options

## Administrative Services Agreement

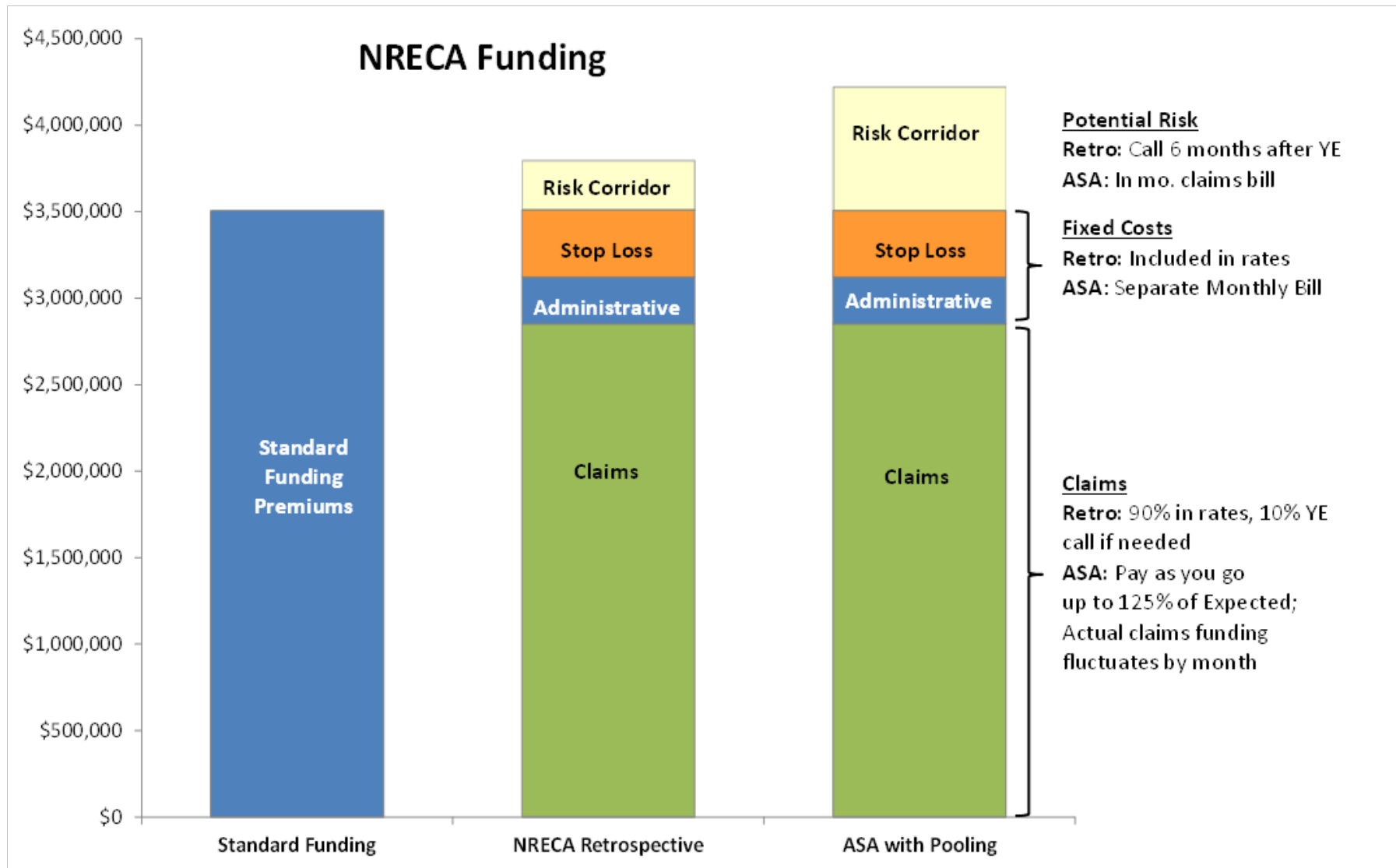
- Cash flow advantages allocated as cooperative sees fit
- Co-op/PUD/PPD should always fund/budget for IBNR liability

# NRECA Funding Options

## Administrative Services Agreement

- Services and protections of the NRECA Benefits Trust
  - Trust assumes claims fiduciary liability
  - Trust fulfills compliance requirements
    - SPD development
    - 5500 filings

# Considerations for alternate funding



# Considerations for alternate funding

- Does alternate arrangement include any fiduciary liability protection?
- What additional services (i.e., Disease Management, Centers of Excellence, Utilization Management, Wellness) are included/excluded in the cost?
- Does the stop-loss coverage preclude lasering?
- Are network fees variable, fixed, capped?

# Considerations for alternate funding

- What are stop-loss contract provisions?
- What are terminal liability provisions?
- What is the performance track record of the third party administrator?
- Does the arrangement reflect a realistic figure for “expected claims” based on your claims experience?
- How do the multiple services integrate?

# Summary

- Private Market offers a wide variety of funding options with various levels of risk
- Risk vs. reward analysis important factor in considering what funding type is right for you
- NRECA offers unique advantages providing FAP, HRA, Retrospective & ASA options