CASH FLOW CONSIDERATIONS
FOR SELF-FUNDED HEALTH PLANS*

One of the biggest areas of confusion with having a self-funded health plan vs fully insured coverage deals with cash flow and budgeting for self-funded costs.

With fully insured coverage, employers issue one check per month to their fully insured carrier. The only cash flow consideration is making sure there is ample cash to cover the monthly premium amount. Although simple, the fully insured carrier is making a significant profit on your premium payment. You made a smart decision to self-fund. Now let's take a look at a few tips to ensure the accounting and budgeting for your plan goes smoothly.

*Roundstone as an institution does not advise on any business income tax or accounting requirements or issues. Use of any information from this document is for general information only and does not represent tax or accounting advice either expressed or implied. You are encouraged to seek professional advice for corporate income tax and accounting questions and assistance.

Budgeting for Future Claims Costs (Initial Year)

During the initial year of being self-funded, your claims costs in the first couple of months will be extremely low. This is caused by the lag time created between when a claim is incurred to when the claim is actually presented to you for payment by your TPA. Since employers are only required to fund fixed costs (TPA fees & stop loss premiums), employers will experience a positive cash flow during the first few months of being self insured when compared to the fixed premium obligations with being fully insured. It is wise to set aside the positive cash flow generated from this claims lag for future claim obligations.

On average, Roundstone employer clients ended their plan year having incurred actual plan costs that were 98% of the expected estimate on their final proposals. Remember your final proposal is based on a specific number of lives (census)- when calculating expected future claim costs, employers will need to adjust the expected claims costs for changes in future enrollment (ie. A 10% increase in enrollment would mean your expected claims would increase by 10% on a prorated basis).

Due to changes in enrollment that will take place during a plan year, Roundstone suggests you calculate a PEPM (per employee per month) claims estimate and use that PEPM figure for calculating your estimated monthly funding obligation.

Employers should calculate estimated future claim obligations based on this PEPM calculation on a monthly basis and pre-fund a separate bank account for those future costs (or simply accrue the costs if the employer has the discipline not to spend the funds earmarked for future claim costs).

When claim payments are made to your TPA, employers would pay the TPA from the pre-funded bank account.

Budgeting for Future Claims Costs (Subsequent Year)

Budgeting for future claims costs after the initial year should first follow the same steps as stated above. Additionally, employers should take into consideration any surplus that was created in the initial year of their self funding experience. Employers estimating annual claim costs can apply all or a portion of the surplus created in the initial year before calculating the PEPM estimated claims costs (used for monthly pre-funding of their bank account).

Specific Reinsurance Claim Advancement

When an employer's specific claims are greater than its specific deductible, employers can file for specific reinsurance claim advancement so the employer does not have to pay claims and wait for reimbursement (which could create a financial hardship). Prior to making a final decision on which TPA will administer health benefits, employers should make note of the threshold for filing advance specific reimbursement claims, as they may differ.

For additional detail on accounting for specific reinsurance claims, see our white paper detailing the process and offering examples of how to review TPA reporting to assure specific claims are being accounted for properly.

Aggregate Accommodation (Aggregate coverage must be purchased)

Even if an employer funds future claims costs consistent with the expected claim method stated above, there may be instances in which the actual claims obligations are greater than the funds available in the pre-funded bank account. Recall that the estimated claims costs shown on your final proposal are annual costs and there will be timing differences in your claims experience. Stated differently, claims will not be incurred and/or paid uniformly over the course of any given year ~ some months will be lower and some months will be higher.

Aggregate accommodation, if elected, will help normalize cash outflows created when an employer's health plan is experiencing claim obligations that are below the employer's specific deductible, but above the expected monthly claim obligation. If you elect aggregate accommodation and your eligible paid claims are greater than your prorated aggregate attachment point, Roundstone will advance the employer the amount over the employer's prorated aggregate attachment point. If at the end of the plan year the employer is still above its aggregate attachment point (incurs an aggregate loss), the funds advanced will not be required to be repaid. If at any point during the plan year or after the plan year ends, the employers falls below their aggregate attachment point (or prorated aggregate attachment point), the employer would be required to repay the aggregate accommodation advance.

In short, aggregate accommodation is a cash flow resource that provides employers cash flow assistance when their claims obligations are above their aggregate attachment point or prorated aggregate attachment point.

Claim Reimbursement – ACH vs Check

When an employer has a specific claim (over the employer's specific deductible), aggregate accommodation, or an aggregate claim (over the employer's aggregate attachment point), Roundstone remits payment either directly to the employer or to the employer's TPA . Roundstone remits payment either by physical check or by ACH. Roundstone strongly encourages the use of ACH payments since employers receive funds much more quickly. On average, employers receive funds 1-3 weeks sooner if ACH is elected versus a physical check. The use of ACH also eliminates the possibility of checks being lost in the mail, stolen, or checks being misplaced or mishandled while being processed by employers and TPAs.

Not all TPAs give employers the option of receiving payment via ACH. Employers should check with prospective TPAs on this topic prior to making a final decision as to which TPA they want to administer their health plan.