- ROUNDSTONE UNIVERSITY -

BUDGETING A SELF-FUNDED PLAN

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Course Notes: Budgeting a Self-Funded Plan

Budgeting for a self-funded health insurance plan with Roundstone is a little different than what you may be used to coming from fully insured. 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.

In this video, we'll discuss-

- Tips and best practices on budgeting for a self-funded plan, including
- Budgeting for future claims costs in the initial year
- Budgeting for future claims costs in subsequent years
- Specific reinsurance claim advancement
- Aggregate Accommodation

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 assure the accounting and budgeting for your plan goes smoothly.

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 time lag that is created between when a claim is incurred to when the claim is billed by the medical care provider and then presented to you for payment by your TPA. Since employers are only required to fund fixed costs (TPA fees, consultant fees & stop loss premiums), employers will experience a positive cash flow during the first few months of self-funding when compared to the fixed premium obligations of a fully insured plan. It is wise to set aside the positive cash flow generated from this claims lag for future claim obligations.

Roundstone employer clients typically end their plan year with actual plan costs at 97%

of the projected estimate on their final proposals. Remember that final proposal is based on a specific number of lives (census). When calculating projected future costs, remember to adjust the projected claims costs for future census changes. For example, a 10% increase in enrollment would increase projected claims 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.

Calculate estimated future claim obligations based on this PEPM calculation on a monthly basis and pre-fund a separate bank account for those costs. You can also accrue funds if you know you won't spend money earmarked for future claim costs. When claim payments are made to your TPA, pay the TPA from the pre-funded bank account or earmarked funds.

Budgeting for Future Claims Costs (Subsequent Year)

Budgeting for future claims costs after the initial year should first follow the same steps as for your first year. Once your initial year has ended, you can also take into consideration any surplus funding that remains from your first year.

Employers estimating the new year's annual claim costs can apply all or a portion of the surplus created in the initial year before calculating the next year's PEPM estimated claims costs (used for monthly pre-funding of their bank account).

Specific Reinsurance Claim Advancement

When specific claims are greater than the specific deductible, employers can file a request with Roundstone for specific reinsurance claim advancement. This ensures you does not have to pay claims above the specific deductible and wait for reimbursement (which may create a financial hardship).

TPAs may have different thresholds for filing advance specific reimbursement claims, so check with prospective TPAs prior to making a final decision as to which TPA will be administering your health plan.

Aggregate Accommodation

Aggregate accommodation is another cash flow resource that provides employers cash flow assistance when claims obligations are above the aggregate attachment point or prorated aggregate attachment point. Aggregate coverage must have been purchased as part of the stop loss coverage.

Remember the projected claims costs shown on your final proposal are annual costs, and there will be timing differences in your claims experience. Claims will not necessarily be incurred or paid uniformly over the course of any given year- some months will be lower and some months will be higher. There may be instances when the actual monthly claims obligations are greater than the funds available in the pre-funded bank account.

If elected, aggregate accommodation will help normalize cash outflows created when your health plan is experiencing claim obligations below your specific deductible, but above the projected monthly obligation.

With aggregate accommodation, if your eligible paid claims are greater than your prorated aggregate attachment point, Roundstone will advance the difference. At the end of the plan year, if you're still above that aggregate attachment point (incurring an aggregate loss), the funds advanced don't need to be repaid. If at any point during the plan year or after the plan year ends, you fall below the aggregate attachment point (or

prorated aggregate attachment point), the aggregate accommodation advance will be repaid by you.

Budgeting for a self-funded plan is different when compared to a fully insured plan. But with some careful planning, the accounting and budgeting for your Roundstone plan should go smoothly. The cash flow benefits and ultimate costs are certainly worth taking advantage of these budgeting tips.