



University of Alaska's Health Care Accounting

Overview of UA Health Care Accounting Process Including Terms and Definitions



Table of Contents



UAChoice	3
Reporting	4
Funding	5
Accounting Model	6
Accounting Terms	9
Accounting Cycle	11
Projections	13
Accounting Components Summary	16
Costs	17
Net Costs	20
UA Obligation	22
Employee/Dependent recovery needed	23
Employee/Dependent Rates	26
Over/ Under Recovery	27



UA Health Care: UAChoice

The University of Alaska's health care program is known as "UAChoice." As of July 1, 2005, all UA benefit eligible employees (union and non-union) are enrolled in this plan unless they have chosen to "opt-out." UAChoice allows employees to choose from three different health care plans: Economy, Standard, and Deluxe. This enables employees to choose the health option that best meets their health care needs.

UA Health Care: Reporting

The University of Alaska's health care program represents a large proportion of total compensation to UA employees. Therefore, periodic reporting and discussion occurs to keep UA leaders and decision makers informed of the program's current financial status.

These groups include:

- ◆ UA Board of Regents
- ◆ President's Cabinet
- ◆ UA Business Council
- ◆ UA Human Resource Council

Similar presentations are made to union and governance representatives along with a discussion of health care components such as the wellness program, annual employee rates, etc.



UA Health Care: Funding



The University of Alaska's health care program is self-funded, which means that the plan pays for actual claims and administrative costs incurred by all members of the plan (pooling). These costs are funded by two sources: UA (through the UA obligation) and UA employees (through biweekly health care employee charges).

UA Health Care: Accounting Model

The University of Alaska
is on a
Prospective Model
for purposes of Health
Care Accounting





Prospective Model

1. The Prospective model projects the fiscal year costs, recoveries and enrollment prior to the year beginning.
2. The Employee and Dependent health care rates for the upcoming fiscal year are determined based on the projections from step 1.
3. Employees pay their portion of the health care costs in the same fiscal year that the costs occur.



Prospective Model (continued)

4. After the close of the fiscal year, the actual costs and actual recoveries are determined.
5. Any under or over recovery is carried forward into future periods.

Note: Non-represented employees transitioned to the prospective model with implementation of the UAChoice plan on July 1, 2004. Union-represented employees transitioned to this model on July 1, 2005.

Accounting Terms

- ◆ Fiscal Year (FY) refers to a July 1st through June 30th accounting year, e.g. FY08 runs from 7/1/07 through 6/30/08.
- ◆ Projections: An estimate of the costs and recoveries that are anticipated in a future period
- ◆ Actuals: The actual amount of costs and recoveries that were incurred in a past period
- ◆ Pooling: Costs and recoveries are shared or “pooled” for health care accounting. The pool is comprised of all UA employees who receive health care
- ◆ Enrolled Employee: An active university employee enrolled in a UA Health Plan

Accounting Terms (Continued)

- ◆ COBRA Participant: Former UA employee, spouse or dependent who is enrolled in a UA Health Plan through the COBRA benefit.
- ◆ Self- Insured: The UA health program pays the actual costs of claims submitted by covered individuals and the administrative costs charged by the health care vendors.
- ◆ Insurance Premium: The UA health program pays a traditional insurance premium to the vendor for the benefit (i.e. Vision benefit through VSP).
- ◆ Health Plan: Level of health care coverage selected by the individual enrolled employee, i.e., Deluxe, Standard or Economy health plan
- ◆ Plan Tiers (4 options): Employee; Employee + Spouse; Employee + Child, and Employee + Family

UA Health Care: Accounting Cycle

The University of Alaska's health plan accounting cycle is on a fiscal year, which is a July 1 through June 30 period. There are two stages to the UA health plan accounting cycle:

- ◆ **Projections:** Costs and recoveries are estimated for the future period.
- ◆ **Actuals:** Costs and recoveries that were incurred for the past period are tabulated.

UA Health Care: Accounting Cycle

Projections

January- March:

- Estimate the costs and recoveries for the next fiscal year
- Develop the employee health care rates that will be used for open enrollment in April and May

Fiscal Year Activity

July- June:

- Cost are incurred and paid
- Recoveries are received

Actuals

August-October:

- Determine the actual costs and recoveries for the prior fiscal year
- Determine the over or under recovery that will be rolled into future periods



UA Health Care: Accounting Cycle- Projections

Costs are projected (estimated) for the coming fiscal year using several factors including:

- ◆ Prior year's actual claims costs
- ◆ Claims trends for medical, dental, and pharmacy
- ◆ Projected administrative fee increases by vendors
- ◆ Projected increase in number of eligible employees
- ◆ Projected health care plan design changes for new fiscal year
- ◆ Projected changes in the health care industry due to new medicines, technology, and medical advances.

UA Health Care: Accounting Cycle- Projections (Continued)

Projected funding of the health care plan has two components:

- ◆ UA funding (referred to as the UA Obligation) is figured by taking the defined contribution rate times the projected number of employees or 80% of net costs, whichever is greater.
- ◆ The employee funding is the projected net costs less the the projected UA Obligation. Employee/dependent rates are developed so that the projected employee portion is recovered through the biweekly employee/dependent charges.

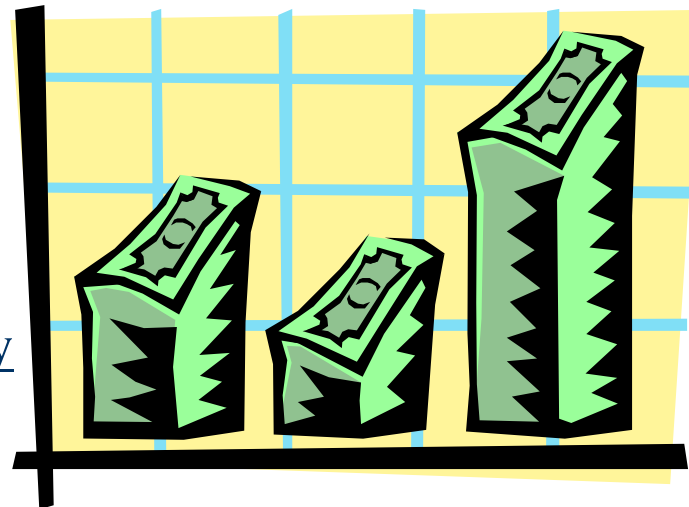


UA Health Care: Accounting Cycle- Projections (Continued)

Projections are estimates, therefore they will **always** differ from what actually occurs.

Components of Health Care Accounting

- +Costs
 - COBRA Recovery
 - UA Obligation
 - +Prior Year Adjustments
 - Employee/Dependent Recovery
- Health Plan (Over) Under Recovery**





Costs

Costs:

- +Health Claims
 - +Vision Insurance Premium
 - +Medical and Pharmacy Admin Fee to Vendors
 - +COBRA Outsourcing Admin Fee to Vendors
 - +Wellness Program
- = Total Costs**

Costs (Continued)

- ◆ **Health Claims:** Cost of medical, pharmacy, and dental claims incurred and paid by UA's claims vendors (Premera Blue Cross and PharmaCare) on the university's behalf
- ◆ **Vision Insurance Premium:** Monthly insurance premium per enrolled employee paid to Vision Service Plan (VSP) for the vision benefit
- ◆ **Health Admin Fee:** Monthly fee per enrolled employee paid to Premera BCBS to administer the health claims benefit plus additional fees for BlueCard Access (employees accessing care through another BCBS vendor other than Premera), interest, and other miscellaneous items



Costs (continued)

- ◆ **Pharmacy Admin Fee (beginning July 2006):** Monthly fee per enrolled employee paid to PharmaCare to administer pharmacy claims benefit
- ◆ **COBRA Outsourcing:** Monthly fee per enrolled employee paid to LifeWise to administer the COBRA program
- ◆ **Wellness Program:** Cost of administering the Wellness program, incentives to employees, and wellness coaching. Program available to active enrolled employees only (does not include Opt-Outs or COBRA participants)



Net Cost

Total Costs
- COBRA Recovery
Net Cost



COBRA Recovery

- ◆ COBRA Recovery: Amount paid by the COBRA participants to receive the UA health benefit (less a 2% administrative fee paid to vendor)

UA Obligation

The amount UA pays to fund health care costs. This is determined by multiplying the average number of active employees by the Defined Contribution Rate. If this amount is less than 80% of net costs, the university obligation will equal 80% of net costs:

Yearly Defined Contribution Rate

X Average Number of Active Employees

UA Obligation

OR 80% of Total Net Costs (whichever is greater)



Employee and Dependent Recovery Needed

Net Cost

- UA Obligation

**Employee Recovery Needed (before any
prior year adjustments)**



Net Employee and Dependent Recovery Needed

**Employee and Dependent Recovery
Needed (before prior year adjustments)**

- Prior Year Adjustments

**Net Employee and Dependent Recovery
Needed**



Prior Year Adjustments

Prior year adjustments may include:

- Over and under recovery from prior periods
- Claims costs from a prior fiscal year, but reported from vendor in current fiscal year.
- Miscellaneous adjustments that occurred in a prior fiscal year, but not reported till current fiscal year



Employee and Dependent Rate Development

In consultation with the university, Mercer Human Resource Consulting develops the employee rates by allocating the net employee and dependent recoveries needed according to benefit ratios for the various health plans and tiers.

Employees are advised of the employee charges for health plans and dependent tiers prior to open enrollment each year, so the information can be used in making selection decisions.

The rates for the new fiscal year are charged to the employees starting the first paycheck issued in July.

Over/ Under Recovery

This is determined when preparing the Actuals in the August through October time period following the close of the fiscal year. The actual costs, UA obligation, and employee/dependent recovery are tabulated. If the actual costs are greater than the funding, then there is an under recovery. If the actual funding was greater than the costs, then there is an over recovery.

Actual Net Costs

- **Actual UA Obligation**
 - **Actual Employee and Dependent Recovery Received**
- Health Plan (Over)/ Under Recovery**

Over/ Under Recovery (Continued)

There will be an over or under recovery every fiscal year. The over/under recovery represents the difference between the *projected* net health care costs and the *actual* net health care costs that occurred.

Some reasons for this difference may include:

- ◆ Claims were higher or lower than projected
- ◆ Number of enrolled employees was higher or lower than projected
- ◆ Number of employees enrolled in each health care plan (Economy, Standard, Deluxe) was different than projected
- ◆ Health plan changes may or may not have had the impact on health/pharmacy claims that was projected.

Actual health care costs are factored into the next fiscal year's cost projections.

Over/ Under Recovery (Continued)

Any over or under recovery is applied to future periods in consideration of the following goals:

- ◆ Maintain cost sharing between UA and employees in consideration of the University's goal of an 80/20% split of net costs.
- ◆ Maintain integrity of the three health plans (cost level should relate to the value of the benefits).
- ◆ Maintain employee/dependent rates that are competitive with those of comparable employers
- ◆ Prevent employee and dependent rates from fluctuating significantly from year to year.



Over/ Under Recovery (Continued)

The University of Alaska advances funding, as needed, to cover health care costs as they are incurred.

No interest is charged or paid by UA for health care plan over/ under recovery.



Summary

- ◆ The University of Alaska's health plan is self-funded.
- ◆ There are two sources of funding: the University of Alaska and the employees.
- ◆ Actual costs and funding are reconciled at the end of every fiscal year.
- ◆ Any over or under recovery is carried forward to a future period.