

## Overview of the Health Plan Accounting Process

The University of Alaska is self funded for health care, with the medical plan administered by Premera Blue Cross Blue Shield of Alaska and the pharmacy plan administered by PharmaCare. The University's "UAChoice" health plan includes deluxe, standard and economy levels, or employees may opt out of coverage with proof of other insurance.

The UAChoice health plan and the accounting are maintained on a fiscal year (FY) basis. The UAChoice health plan incurs costs from the medical, dental, and pharmacy claims of employees and covered dependents, vision plan insurance premiums, and administrative fees paid to vendors to process the claims. The plan receives funding from the University and from University employees to pay for plan expenses.

### Projection of Plan Costs and Funding Needed

The University accounts for the UAChoice plan on a prospective basis. The University projects health plan expenditures for the plan year before the plan year begins. The projections form the basis for decisions as to the level of University funding and employee funding that will be needed during the plan year to pay for health plan expenditures.

The University contributes a set dollar amount or "defined contribution" per eligible employee per year to the UAChoice health plan. Contributions for union represented employees and non-represented employees are the same. The dollar amount of the defined contribution usually is determined several years prior to the beginning of the plan year, given the three year contract periods with the unions. The University's goal for the sharing of health care costs has been to pay 80% of net health plan costs on an annual basis, with employees responsible for 20% of the costs.

### Setting of Employee Charges

Employee charges are established prior to the beginning of each health plan year based on a number of factors. These include projected net health costs, allocated University funding, the projected number of employees on the plan, and the projected enrollment by employees in each plan option (deluxe, standard, economy or opt-out). The university also considers additional factors when setting employee rates, which include health plan over or under recoveries from prior years, the importance of keeping employee rates relatively stable, a desire to maintain rates at a level comparable to those of other employers, and the need to maintain integrity of the rate structure between the various plan options relative to the benefits provided by that option.

### Actual Costs and Funding Received

During the plan year, health care costs are incurred as employees utilize the plan. Funding is received from the University and from the employees during the plan year based on the rates established prior to the beginning of the plan year. If health care costs were to exceed available funds during an annual period, the University would advance to the plan the additional money

needed to pay plan expenses. No interest is charged to anyone or to the plan when this occurs. The account would later be reconciled to restore any payment that exceeded the University's commitment in a particular year.

#### Health Care Plan Balance (Over/Under Recoveries)

After the close of the plan year, the University accounts for actual health plan costs and actual funding received. If the net costs exceed the funding, there is an "under-recovery" of funding. As noted above, in this instance, the University would have advanced money to the plan to pay for actual health care costs. The health plan under-recovery would be carried forward into future periods until the plan is able to return the funds to the University. No interest is charged by the University when the health plan has an under-recovery.

Conversely, if health plan funding exceeds the plan net costs in any year, an "over-recovery" results. The over-recovery is first used to offset under-recoveries from prior years. The remaining balance is then carried forward into future periods to offset future plan costs and to help smooth or moderate employee charges. No interest is paid to anyone when the health plan has an over-recovery.

In each plan year, there will always be either an over or under recovery of funds because the rates initially are set using projections. Despite best efforts to make accurate projections, actual net health care costs will always vary from the projected net health care costs. However, amounts that the University contributes for health care, as well as amounts collected in employee charges, are always used to pay for health care plan costs, even if the money is not applied during the current plan year.

#### University Communications Regarding Health Care Accounting and Plan Balance

The Statewide Office of Human Resources presents and reports on health care costs and funding to University and employee groups throughout the year. Regularly updated information on health plan costs and an understanding of the University's accounting processes have been subjects of interest to employees. The University also recognizes the advantage of having employees who are well informed participants of the health plan and can provide useful feedback on issues such as the setting of the annual employee charge.

Groups that help to communicate information to employees on these topics include the Human Resources Council, the Union Management Committee (UMC) for Health Care and the Staff Alliance. UAHR is increasingly using its website to communicate information on health care topics. For more information or questions on the health care accounting process, please contact the SWHR Assistant Director of Payroll and Benefit Accounting at [sypba@email.alaska.edu](mailto:sypba@email.alaska.edu). For more information or questions on the health care benefit, please contact the SWHR Director of Benefits at 907-450-8200.