MHS ALLIANCE MEDICAL EXPENSE PLAN OPTIONS

Employer risk   Shared risk   Reinsurance

Diagrams illustrate risk management for three different size employers in each plan option.

Name	Fully Pooled	Cooperative	Employer Self-funded
General Description	Operates much like a fully insured plan. The Employer pays a premium covering member risk, pooled risk and reinsurance plus specific administrative fees.	Operates like a traditional self-funded plan with a specific and aggregate stop loss set for each employer, with the added benefit of risk pooling with like-minded organizations.	Operates like a traditional self-funded plan with a specific and aggregate stop loss. While claims are not pooled, each employer participates in reinsurance with like-minded organizations.
Risk Sharing	Claims over an employer's specific deductible are pooled; Pooled claims are paid from a Pooled Claim Account. An additional form of pooling occurs as base plan rates are smoothed over a 3 year period.	Claims over an employer's specific deductible are paid from that employer's cooperative account. If an employer's cooperative claims exceed their cooperative account, they are paid from cooperative surplus.	No risk sharing between employers.
Funding or Capitalization	New employers pay one month's funding for initial capitalization. To acquire equity ownership, employers make a payment equal to 4 months of expenses. This must be done within 3 years. Otherwise, in lieu of equity ownership, employers pay a 3% monthly surcharge.	New employers pay in 25% of their expected cooperative claims. This is approximately 2-5% of total expected claims. Unused funds are retained by each employer. Employers replenish capital if it falls below 25% of their expected cooperative claims. Employers own cooperative surplus.	Near zero. Relies heavily on weekly cash flow requirements.
Dividend/Surplus Distribution	When surplus exceeds 7 net months of expenses (NME), a surplus distribution in excess of 5 NME is considered by the Governing Council. Surplus distributions are based on each employer's relative contribution to surplus.	Dividends are declared when cooperative surplus exceeds 25% of expected claims. Dividends are payable over a three year period: 50% immediately, 30% 1 year later, and 20% 2 years later.	Does not apply.

THE VALUE OF RISK SHARING

From a long term cost perspective, both the Fully Pooled and Cooperative risk sharing options provide the opportunity for more savings since stop loss reinsurance is purchased at a much higher level than in the employer self-funded option.

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