

Statutory Issue Paper No. 47

Uninsured Plans

STATUS

Finalized June 23, 1998

Original SSAP and Current Authoritative Guidance: SSAP No. 47

Type of Issue:

Common Area

SUMMARY OF ISSUE

1. The Accounting Practices and Procedures Manuals for Life and Accident and Health and for Property and Casualty Insurance Companies (Life/A&H and P & C Accounting Practices and Procedures Manuals) provide guidance on the recording and reporting of transactions related to uninsured plans. GAAP does not specifically address these types of transactions.
2. The purpose of this issue paper is to establish statutory accounting principles for Administrative Services Only (ASO), Administrative Services Contract (ASC) and Medicare or similarly structured cost based reimbursement contracts that are consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts).

SUMMARY CONCLUSION

3. For purposes of this issue paper, uninsured accident and health plans, including HMO administered plans, and uninsured property and casualty plans (collectively referred to as uninsured plans) are defined as plans for which a reporting entity as an administrator, performs administrative services such as claims processing for a third party that is at risk, and accordingly, the administrator has not issued an insurance policy, regardless of whether an identification card is issued. In the case of uninsured accident and health plans, the administrator may arrange for the provision of medical services through a contracted or employed provider network. The plan (whether insured by another reporting entity or self insured) bears all of the insurance risk, and there is no possibility of loss or liability to the administrator caused by claims incurred related to the plan. The administrator, however, may be subject to credit risk with regard to the risk bearing entity. An uninsured accident and health plan may be either an ASO plan or an ASC plan. Under an ASO plan, claims are paid from a bank account owned and funded directly by the uninsured plan sponsor; or, claims are paid from a bank account owned by the reporting entity, but only after the reporting entity has received funds from the uninsured plan sponsor that are adequate to fully cover the claim payments. Under an ASC plan, the reporting entity pays claims from its own bank accounts, and only subsequently receives reimbursement from the uninsured plan sponsor. No arrangement where the reporting entity receives a capitated payment for providing medical services to a third party shall qualify as an insured plan.
4. Uninsured accident and health plans also include Federal, state or other government department funded programs such as Medicare cost contracts where there is no underwriting risk to the reporting entity. Under Medicare cost contracts, service provided to recipients includes the direct delivery of health care for which the reporting entity is reimbursed based on costs incurred as provided for in regulations governing the administration of such contracts. Other such programs may include some Medicaid and Champus contracts for which administration or other non-underwriting services are provided.
5. Partially insured or combination plans exist, under which the reporting entity issues an insurance policy for some of the risks related to the claims (e.g. minimum premium and stop-loss plans), but acts as

an administrator for some, or all, of the claims paid by the plan. Such plans shall be treated as two plans: an insured plan (the part for which the reporting entity has issued a policy) and an uninsured plan (the part that meets the definition in paragraph 3 of this issue paper). The components related to uninsured plans shall be accounted for using the accounting principles established in this issue paper; the components related to insured plans shall be accounted for as insurance.

Revenue/Expense Recognition

6. The administrator's statement of operations shall exclude all income and expenses related to claims, losses, premiums, and other amounts received or paid on behalf of uninsured ASO or uninsured ASC plans. An administrator acting as a provider of services, that provides such services through a salaried network, where the cost allocation of the service provided to insured vs. uninsured plans cannot be reasonably determined, shall report medical and hospital expenses on a gross basis by type of expense and report revenue from uninsured plans on a gross basis as fee for service income.

7. Commissions, expenses, and taxes paid by the administrator to administer such plans shall be reported on a gross basis by type of expense. Where the only functions provided are administrative, administrative fees and related reimbursements from the plan shall be deducted from general expenses. Where the reporting entity provides both administration and health care services directly, income from Medicare or similarly structured cost based reimbursement contracts is not recorded as premium but is recorded as revenue on the appropriate line. Health care services rendered as "medical and hospital" categorized by type and administrative expenses by type of expense shall be reported on an incurred basis. Income from cost based reimbursement contracts is recorded as revenue because the service provided is for the direct delivery of care to recipients. There are risks associated with these plans in that all costs incurred under the contract may not be reimbursable and revenues may be adjusted based on subsequent challenges of costs included in filed cost reports. In addition, revenue may also be adjusted based on the performance under the terms of the contract or other external factors.

Amounts Receivable

8. Amounts receivable from uninsured plans for (a) claims and other costs paid by the administrator on behalf of the third party at risk and (b) fees related to services provided by the administrator to the plan meet the definition of assets as set forth in *Issue Paper No. 4—Definition of Assets and Nonadmitted Assets*. A receivable shall not be recorded for unpaid claims. A receivable related to Medicare or a similarly cost based reimbursement contract shall only be recorded when services have been rendered.

9. An evaluation shall be made of the amounts receivable to determine any nonadmitted amounts. Next, an evaluation shall be made in accordance with *Issue Paper No. 5—Definition of Liabilities, Loss Contingencies and Impairments of Assets* (Issue Paper No. 5), to determine whether there is an impairment. This two step process is set forth below:

- a. Uncollected uninsured plan receivables (excluding Medicare and similar government plans) over ninety days due shall be accounted for as a nonadmitted asset;
- b. Remaining amounts determined to be uncollectible shall be written off. If in accordance with Issue Paper No. 5, it is probable the amount receivable is uncollectible, any uncollectible amount receivable shall be written off against operations in the period such determination is made. If it is reasonably possible a portion of the balance is uncollectible and is therefore not written off, disclosure requirements outlined in Issue Paper No. 5 shall be followed. This evaluation may consider irrevocable letters of credit to which the administrator is beneficiary, amounts on deposit with the administrator or other unrestricted funds available to the administrator.

10. The following shall provide additional guidance in determining the nonadmitted portion of amounts receivable from uninsured plans:

- a. Amounts classified as nonadmitted assets collected subsequent to the date of the statutory financial statements shall not be used to decrease the nonadmitted asset otherwise calculated;
- b. The due date is governed by the contractual billing date of the uninsured plan;
- c. Medicare and similar government funded plans - Amounts due related to Medicare and similar government plans shall not be nonadmitted when they become over ninety days due. Appropriate reserves shall be established to cover costs incurred which may not be reimbursed upon final determination by the governing agencies under the cost contract or for adjustments to revenues based on performance under the terms of the contract or other external factors.

Liabilities

11. A liability shall be established for funds held by an administrator in its general assets for the benefit of an insured plan, or for funds which may be owed by the administrator in connection with the administration of an uninsured plan. A liability relating to one plan shall not be offset by an asset relating to a different plan. Administrators shall not record aggregate reserves, claim/loss reserves, or liabilities (except for Medicare or similarly structured cost based reimbursement contracts) for any other claim costs paid by the administrator on behalf of uninsured plans.

Disclosure

12. The statutory financial statements shall provide the following:

- a. Information with regard to the profitability to the administrator of all ASO plans and the uninsured portions of partially insured plans for which the reporting entity serves as an ASO administrator;

For the total and each category separately provided: (i) net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses, (ii) total net other income or expense (including interest paid to or received from plans), (iii) total net gain or loss from operations and (iv) the claim and reimbursement volume;

- b. Information with regard to the profitability to the administrator of all ASC plans and the uninsured portions of partially insured plans for which the reporting entity serves as an ASC administrator;

For the total and each category separately provided: (i) gross reimbursement for medical cost incurred, (ii) gross administrative fees accrued, (iii) other income or expense (including interest paid to or received from plans), (iv) gross expenses incurred (claims and administrative) and (v) total net gain or loss from operations.

- c. Information with regards to Medicare or similarly structured cost based reimbursement contracts shall include: (i) major components of revenue by payor, (ii) receivables from payors with account balances the greater of 10% of gross Health Care Receivables or \$10,000, (iii) recorded allowances and reserves for adjustment of recorded revenues, (iv) adjustments to revenue resulting from audit of receivables related to revenues recorded in the prior period.

DISCUSSION

13. The conclusion above adopts existing statutory accounting guidance for uninsured accident and health plans and extends this guidance to other uninsured plans. The current statutory accounting disclosure requirements were expanded to include claim and reimbursement volume.

14. The Statement of Concepts states:

The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which may be unavailable due to encumbrances or other third party interests should not be recognized on the balance sheet but rather should be charged against surplus when acquired or when availability otherwise becomes questionable.

15. Based upon the above concept, ASO, ASC and Medicare or similarly structured cost based reimbursement contract, plan assets and liabilities should reflect only amounts that are available to meet both current and future policyholder obligations and obligations of the reporting entity, respectively.

16. Under the conservatism concept of statutory accounting, ASO and ASC plan receivables which are over ninety days due, shall be treated as nonadmitted assets and charged to surplus. In keeping with the concept of conservatism, subsequent collection of nonadmitted assets shall not be considered in the determination of period-end nonadmitted assets. These recoveries shall be accounted for in the period received.

Drafting Notes/Comments

- Accounting for claims of insured plans are addressed in *Issue Paper No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*.
- Accounting for property and casualty high deductible and retrospective insurance contracts are addressed in *Issue Paper No. 65—Property and Casualty Contracts* and *Issue Paper No. 66—Accounting for Retrospectively Rated Contracts*, respectively.
- Accounting for Medicare and Medicaid Risk Contracts are addressed in *Issue Paper No. 54—Individual and Group Accident and Health Contracts*.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

17. Chapter 8, Other Admitted Assets, of the Life/A&H Accounting Practices and Procedures Manual discusses uninsured accident and health plans as follows:

Some insurers may act as administrators of accident and health plans under which the plans bear all of the risk of claims. Such plans are commonly termed administrative services only plans and are described in this manual as uninsured plans. The definition of risk used here for the purpose of classifying funding arrangements as they relate to the insurer is the possibility of liability to the insurer due to claims under an accident and health plan.

In addition to plans under which there is no risk to the insurer, there are also partially insured or combination plans. Such plans may include, but are not limited to, plans described as minimum premium, cost-plus/stop-loss, or other similar names. For purposes of statutory financial statement reporting, combination plans or partially insured plans should be treated as, in effect, two plans: one insured and one uninsured. For accounting purposes, the components of a partially insured plan which are applicable to insured benefits should be classified as one would any insured plan. Those components which are related to uninsured and administrative services only should be treated as if they apply to an uninsured plan.

A receivable from a plan relating to uninsured business must be reported as an asset and may not include amounts relating to claims unpaid by the insurer. Balances due and unpaid in excess of three months, except for those relating to Medicare or similar government plans, must be deducted as not admitted. Correspondingly, a liability must be established for a plan for which an insurer holds funds in its general assets or to which funds may be owed by the insurer, including funds due to certificate holders. An asset relating to one plan may not be offset by a liability relating to a different plan.

18. Chapter 13, Other Liabilities, of the P & C Accounting Practices and Procedures Manual contains similar guidance.

19. Chapter 13, Aggregate Reserves for Accident and Health Policies, of the Life/A&H Accounting Practices and Procedures Manual discusses aggregate reserves for uninsured accident and health plans as follows:

The insurer's aggregate reserves should not include any amounts arising from uninsured accident and health plans or the uninsured portion of partially insured plans. The insured portion of any partially insured plan should be treated as any other insured plan with appropriate reserves established.

20. Chapter 10, Losses, of the P & C Accounting Practices and Procedures Manual discusses reserves for uninsured accident and health plans as follows:

The insurers loss reserves should not include any amounts arising from uninsured accident and health plans or the uninsured portion of partially insured plans. The insured portion of any partially insured plan should be treated as any other insured plan with appropriate loss and loss adjustment expense reserves established.

21. Chapter 14, Accident and Health Claims, of the Life/A&H Accounting Practices and Procedures Manual discusses claim reserves for uninsured accident and health plans as follows:

The insurers claim reserves should not include any amounts arising from uninsured accident and health plans or the uninsured portion of partially insured plans. The insured portion of any partially insured plan should be treated as any other insured plan with appropriate reserves established. This is the same treatment described with regard to aggregate reserves in Chapter 13.

22. Chapter 17, Other Liabilities, of the Life/A&H Accounting Practices and Procedures Manual discusses establishing a liability for uninsured accident and health plans as follows:

Liability for Amounts Held Under Uninsured Accident and Health Plans

A liability must be established for a plan for which an insurer holds funds in its general assets or to which funds may be owed by the insurer, including funds due to certificate holders. A liability relating to one plan may not be offset by an asset relating to a different plan.

23. Chapter 18, Premium Income, of the Life/A&H Accounting Practices and Procedures Manual discusses premium recognition on uninsured accident and health plans as follows:

Amounts related to uninsured plans or the uninsured portion of partially insured plans must not be reported in premiums. Conversely income relating to the insured portion of any plan must be reported as premiums.

24. Chapter 14, Premiums, of the P & C Accounting Practices and Procedures Manual contains similar guidance.

25. Chapter 20, Policy and Contract Benefits, of the Life/A&H Accounting Practices and Procedures Manual discusses paying claims for uninsured accident and health plans as follows:

Claims paid by the insurer under uninsured accident and health plans and the uninsured portion of partially insured accident and health plans should not be reported in the Summary of Operations. Claims payments under the insured portion of partially insured plans are reported as accident and health benefits.

26. Chapter 17, Loss and Loss Adjustment Expenses Incurred, of the P & C Accounting Practices and Procedures Manual discusses losses paid on uninsured accident and health plans as follows:

Losses paid by the insurer under uninsured accident and health plans should not be reported in the underwriting and investment exhibits. Loss payments under the insured portion of partially insured plans are reported as accident and health losses.

27. Chapter 22, General Expenses and Taxes, Licenses and Fees, of the Life/A&H Accounting Practices and Procedures Manual discusses expenses of uninsured accident and health plans as follows:

Uninsured accident and health plans have been discussed in prior chapters of this manual. Commissions, expenses, and taxes incurred by the insurer for such plans are to be reported on a gross basis by type of expense; however, administration fees and expense reimbursements relating to uninsured business are deducted in the general expense exhibit and general insurance expenses are to be reported in the Summary of Operations net of such fees and reimbursements.

28. Chapter 19, Expenses, of the P & C Accounting Practices and Procedures Manual contains similar guidance.

29. The NAIC Annual Statement Instructions for Property and Casualty Insurance Companies, the NAIC Annual Statement Instructions for Life, Accident and Health Insurance Companies and the NAIC Annual Statement Instructions for Health Maintenance Organizations include the following disclosure requirements:

Gain or Loss to the Insurer from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

Instruction:

Provide information with regard to the profitability to the insurer (HMO) of uninsured accident and health plans and the uninsured portions of partially insured plans for which the company serves as administrator. For the total and each category separately provided: (1) net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses, (2) total net other income or expense (including interest paid to or received from plans), and (3) total net gain or loss from operations.

Illustration:

The gain from operations from uninsured accident and health plans and the uninsured portion of partially uninsured plans was as follows during 19XX:

	(1)	(2)	(3)
	Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total
i. Net reimbursement for administrative expenses over (under) actual expenses	\$	\$	\$
ii. Other income or (expenses)	\$	\$	\$
iii. Net gain or (loss) from operations	\$	\$	\$

Generally Accepted Accounting Principles

30. There is no GAAP guidance specifically addressing Administrative Services Only plans.

RELEVANT LITERATURE

Statutory Accounting

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
- *Issue Paper No. 4—Definition of Assets and Nonadmitted Assets*
- *Issue Paper No. 5—Definition of Liabilities, Loss Contingencies and Impairments of Assets*
- Accounting Practices and Procedures Manual for Life and Accident and Health Insurance Companies, Chapters 8, 13, 14, 17, 18, 20 and 22
- Accounting Practices and Procedures Manual for Property and Casualty Insurance Companies, Chapters 10, 13, 14, 17 and 19
- NAIC Annual Statement Instructions for Property and Casualty Companies
- NAIC Annual Statement Instructions for Life, Accident and Health Insurance Companies
- NAIC Annual Statement Instructions for Health Maintenance Organizations

Generally Accepted Accounting Principles

- None

State Regulations

- No additional guidance obtained from state statutes or regulations.

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