

# Assessing the Potential Value of a Cooperative or Consortium

## What Can A Purchasing Group Do For You?

Employers of all sizes and sectors consistently battle with a balancing act between needing to meet budget numbers and attracting/retaining talented staff. This balance is especially true for public entities experiencing tightening budgets, an increased need for employee mobility, and the implementation of health care reform.

In a market where attracting and retaining talented employees is at a premium, public entities need their benefit plans to be both high quality and financially sustainable. Employers should consistently review the market in search of options to help them achieve this goal.

One option often discussed is group health insurance purchasing. This mechanism allows entities to join a risk pool that is larger than just their employees and dependents. Although group purchasing plans have existed for decades in Wisconsin, they have recently come back into vogue with the passage of the Affordable Care Act (ACA).

M3 has been working with group purchasing entities for over twenty years. Our professionals are experienced in helping an employer determine if creating or joining a purchasing group is a good fit in meeting the unique goals their organization.

## The two types of health insurance purchasing groups currently available under Wisconsin law are:

- **COOPERATIVE:** This is a legal entity that is owned and operated by its members. The purpose of a cooperative is to purchase insurance on behalf of its members. Any and all benefits created by the cooperative are available only to the members of the group. By forming a cooperative, members are able to increase the size of their risk pool and, therefore, their leverage when negotiating contracts.

In Wisconsin, health insurance cooperatives are defined by [Wisconsin Statute 185.99](#). A cooperative created to purchase health insurance has very specific legal requirements, including membership, a board of directors, and approval from the Wisconsin Office of the Commissioner of Insurance.

- **CONSORTIUM:** This is an informal group of organizations who join together to purchase insurance. Like cooperatives, consortiums allow organizations to pool their risk. In theory, this provides groups greater leverage when negotiating contracts. As an informal group, rather than a legal entity a consortium has greater flexibility than a cooperative. However, the lack of a formal structure does limit their appeal to insurance carriers.

When considering a purchasing group, entities should recognize that cooperatives and consortiums are not “one size fits all” solutions. Rather organizations such research and understand the structure of each to make an informed decision as to whether or not such a purchasing group fits their needs.



## When assessing the value of purchasing groups for your organization, it's important to fully consider the pros and cons:

### PROS:

There are some truly positive outputs of creating or joining a purchasing group:

**MORE ATTRACTIVE:** By joining together, a purchasing group can offer carriers a larger risk pool. This can make a group more attractive to carriers and create greater leverage when negotiating than would be possible as an individual group.

**GREATER STABILITY:** Larger risk pools tend to create greater claims stability. This stabilization of expenses often creates lower long-term costs.

**SELF-GOVERNED:** A purchasing group sets its own rules for membership and goals. This helps them to control the market, rather than allowing the market to control them.

### CONS:

As with any arrangement, there can be a downside to a group not totally controlled by a single entity:

**COMMITMENT:** Generally speaking, a purchasing group requires a certain level of time and financial commitment. Unless a group is willing to enter such an arrangement for at least three years, a purchasing group may not be for them.

**SHARED GOALS:** Forming a purchasing group includes identifying partners who share your goals when purchasing insurance products. Identifying a product portfolio to meet the needs of all partners can be a challenge.

**CHANGE:** Entities can change greatly over time. For public entities this can be especially true with changing administrators and board members. The people in charge don't need to be the same over time, but the goals of the group do.

### PROS PLUS:

While a purchasing group may come together at the beginning to purchase more affordable health insurance coverage, we have seen successful groups identify other benefits outside of this basic goal. Examples include:

- **ENHANCED PROVIDER SUPPORT:** The additional leverage of the group could potentially lead to additional medical support from local carriers/providers for employees and/or students. Examples include on-site clinics and behavioral health offerings.
- **EXPANDED PURCHASING:** By leveraging additional Wisconsin statutes a purchasing group can expand its reach. A group which is deemed stable by carriers, may have enough leverage with carriers to use their group size to purchase additional insurance products (i.e. life, dental, etc.). This could lead to additional lines of insurance at reduced/stabilized pricing.

**TAKEAWAY:** Deciding whether to join, or create a purchasing group isn't a cut and dry decision. Such an arrangement would need to provide you with unique value for the commitment, and potential loss of complete autonomy. Working with an expert who has experience and a track record of setting up viable purchasing groups is vital to succeeding. You need to not only meet legal requirements, but also set up an organizational structure, and negotiate with insurance carriers to meet your goals.

*Jeff Ireland and Cindy Van Asten are M3 Account Executives who serve public sector clients throughout Wisconsin.*

### About M3

M3 Insurance offers insight, advice and strategies to help clients manage risk, purchase insurance and provide employee benefits. We are committed to being experts in both the products we represent and the industries we serve. Our people advance M3's competitive advantage in the marketplace, and our focus on community builds better places live and work. M3 is consistently ranked a top 100 broker in America.

