

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 the balancing act of needing to meet their budget numbers, while attracting/retaining talented staff. This balance is especially true for public entities who are experiencing tight budgets, increased employee mobility, and the implementation of health care reform.

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

One option often discussed is group health insurance purchasing. Sometimes in the form of what is known as a cooperative or a consortium, group health insurance purchasing is a mechanism that can allow entities to join a larger risk pool than just their employees and dependents. These group purchasing plans have existed for decades in Wisconsin, but recently have come back in vogue after the passage of the Affordable Care Act (ACA).

Experts at M3 have been working with group purchasing entities for over two decades, and are experienced in determining if creating, or joining a purchasing group is a good fit for an employer. There are many good reasons to engage in a purchasing group, but those reasons need to meet the goals of the employer.

Below is an overview of the two types of health insurance purchasing groups available under Wisconsin law:

- **Cooperative:** 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 to only 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:** 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.

Consortiums by definition, are an informal group, rather than a legal entity. This allows for greater flexibility than a cooperative, however, it does limit the appeal to insurance carriers due to the lack of a formal structure

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



PROS: There can be some truly positive outputs of creating/joining a purchasing group, including:

- **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:** A larger risk pool tends to create greater stability in claims data. This stabilization of expenses often creates lower long-term costs.
- **Self-Governed:** A purchasing group set its own rules for membership and goals. This helps them to control the market, rather than allowing the market to control them.

CONS: With any arrangement, there can be a down-side to a group which isn't totally controlled by a single entity, such as:

- **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.

Consider the pros and cons when assessing the value of purchasing groups, as a successful group can present some unique opportunities. While the group may come together at the beginning to purchase more affordable health insurance coverage, at M3 we have seen 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 a successful purchasing group is vital to succeeding. You need to not only meet legal requirements, but set up an organizational structure, and negotiate with insurance carriers to meet your goals.

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About M3

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