SUBJECT: OPM’s Letter of Credit System

The Federal regulations requiring the participation of experience-related health benefits plan in the letter of credit (LOC) program were published on December 23, 1988 in the Federal Register Vol. 53, No 247. In accordance with these regulations, every second and fourth Thursday of the month, premiums will be made available and payment advices will be issued.

As an experience-rated carrier, you will be utilizing the Office of Personnel Management’s (OPM) Letter-of-Credit (LOC) System to obtain your premium income. Attached is a copy of the LOC Procedures used via the Host Access Transformation System (HATS).

Each carrier must select and provide OPM information about the financial institution that will maintain its LOC. The vehicle for reporting the requisite information about the selected financial institution is the attached ACH Vendor/Miscellaneous Payment Enrollment Form (SF3881). Please be aware that the implementation of LOC depends on the timely and proper preparation and distribution of this form. The SF 3881 must be prepared in accordance with the attached instructions and must be returned to OPM for processing. Please note: This form must be signed by the Financial Institution and Carrier.

Attached is a copy of the “Guidelines for the Use of the Letter of Credit System by Carriers of Experience-rated FEHB Plans”, which describes OPM’s financial operations of your plan in the LOC environment. OPM requires the Carrier or underwriter to request the amount of drawdown by option. This will provide OPM with a clear audit trail for request-of-funds transactions.

Please direct general questions on any matter discussed in this letter to your respective Health Benefits Contract Specialist. Inquiries concerning technical or financial matters should be referred to Melanese Wynn of the Trust Funds Group at 202-606-4498.

Sincerely,

Kay T. Ely
Associate Director
for Human Resources Products and Services