

San Joaquin Valley Insurance Authority

BOARD OF DIRECTORS

SUSAN B. ANDERSON

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MIKE ENNIS

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PETE VANDER POEL

Meeting Location:
Tulare County Employee Retirement
Association Board Chambers
136 N. Akers Street
Visalia, CA 93291
May 6, 2011
9:00 AM

AGENDA DATE: May 6, 2011

ITEM NUMBER: 8

SUBJECT: Shared Risk Model – Renewal Rating Methodology

REQUEST(S): That the Board give direction regarding a methodology where renewal rates are determined by pooling the experience of all member entities.

DESCRIPTION:

The San Joaquin Valley Insurance Authority (SJVIA) currently develops medical rates by analyzing the claims experience of each member entity on a stand-alone basis. Plans included are the HMO and PPO for the County of Fresno and PPO for the County of Tulare. Claims for the PPO are then projected and medical inflationary trend factors are applied to determine an overall cost projection for the following Plan Year. While the fixed costs of the SJVIA program (administrative costs, reinsurance, etc) are pooled, the primary driver of the overall plan costs, the member claims, are not pooled. The SJVIA's initial rates in 2010 and current rates in 2011 were developed on a stand-alone basis. As illustrated in the Claims Summary Report (Agenda Item Number 6), member claims represents an average of 91% of the SJVIA's total cost.

Overall program rate stabilization as well as a "smoothing" of future rate actions can be achieved when entities' pool their experience and underwrite renewals utilizing a shared-risk approach. Under this shared-risk approach, each member entity is evaluated in order to determine their claims experience in relation to the overall claims experience of the SJVIA. Once this evaluation is complete, adjustments will be made to further decrease or increase the premium rate from what the program renewal requires. This renewal rating methodology is designed so that, over time, entities are insulated from larger than average changes in rates. It also ensures that over several years, rates for members with claims costs significantly better or worse than the Authority's average will increase a little more or a little less than the manual rates. This methodology guarantees fairness in rate development and encourages long-term participation in the Program.

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Gallagher Benefit Services (GBS) has reviewed several alternatives for pooling all entities costs including:

- Pool PPO Only (retain HMO)
- Terminate HMO and pool entire risk (replace HMO with EPO/PPO)
- Pooling of Fixed Costs Components Only (Status Quo for SJVIA)
- Pure Pooling
- Shared-Risk

GBS has reported that the Shared-Risk approach will, over time, produce the rate stabilization and smoothing of potential spikes due to excessive utilization that is desirable to the Authority. Gallagher's brief report to SJVIA staff is incorporated as an exhibit with this agenda item. Furthermore, GBS proposes that a Shared-Risk methodology guarantees fairness in rate development and encourages long-term participation in the program.

Staff recommends that your Board give direction to staff on pooling strategy in order to better plan for the future, analyze the benefits of other entities joining the SJVIA and take full advantage of the numbers enrolled through the SJVIA. Staff will be working with GBS on plan options for the SJVIA for Plan Year 2012 beginning this month. For this reason, direction is needed to determine if the SJVIA will pool risk and if so, which methodology would be adopted.

FISCAL IMPACT/FINANCING:

Pooling risk within the SJVIA may impact the method in which both the SJVIA and the County of Fresno and County of Tulare record financial statements. Currently, the SJVIA is classified as a "pass-through entity" pursuant to Governmental Accounting Standards Board Statement (GASB) 10. If the SJVIA were to move to a shared risk model, the Auditor-Treasurer will report on possible impact to financial statements and risk.

ADMINISTRATIVE SIGN-OFF:



Paul Nerland
SJVIA Manager



Rhonda Sjostrom
Interim Assistant SJVIA Manager

**BEFORE THE BOARD OF DIRECTORS
SAN JOAQUIN VALLEY INSURANCE
AUTHORITY**

IN THE MATTER OF Shared Risk Model – Renewal Rating Methodology

RESOLUTION NO. _____
AGREEMENT NO. _____

UPON MOTION OF DIRECTOR _____, SECONDED BY DIRECTOR _____
_____, THE FOLLOWING WAS ADOPTED BY THE BOARD OF DIRECTORS, AT AN
OFFICIAL MEETING HELD _____, BY THE FOLLOWING VOTE:

AYES:
NOES:
ABSTAIN:
ABSENT:

ATTEST:

BY: _____

* * * * *

That the Board gave direction regarding a methodology where renewal rates are determined by pooling the experience of all member entities.