



# SJVIA

San Joaquin Valley  
Insurance Authority

## BOARD OF DIRECTORS

SUSAN B. ANDERSON

JUDITH CASE

MIKE ENNIS

ALLEN ISHIDA

PHIL LARSON

DEBORAH POOCHIGIAN

PETE VANDER POEL

Meeting Location:  
Tulare County Employee Retirement  
Association Board Chambers  
136 N. Akers Street  
Visalia, CA 93291  
November 9, 2012  
9:00 AM

**AGENDA DATE:** November 9, 2012

**ITEM NUMBER** 12

**SUBJECT** SJVIA Growth and Savings Potential

**REQUEST(S):** That the Board receive and file information on SJVIA growth and savings potential.

### **DESCRIPTION:**

This report is based on questions from your Board as to potential savings through the growth of the SJVIA.

### **SJVIA – Advantages to Growth**

The SJVIA realizes many benefits from membership growth which can come in two distinct forms:

- First, growth is realized when new agencies join the JPA for medical plan coverage, as with the recent additional of the City of Tulare;
- Second, the JPA can grow by offering additional benefit programs (dental, vision, life, disability) to current and future SJVIA members, some of these are options currently under review.

Below we address each of these types of growth separately, as they have different impact on the current and future SJVIA plan offerings.

**AGENDA:** San Joaquin Valley Insurance Authority

**DATE:** November 9, 2012

## **Medical Plan Membership Growth**

Growth in the current medical plan offerings provides several specific advantages to the SJVIA member agencies. Some of these growth advantages have already been realized and others will be realized as the SJVIA continues to grow in the future. The key advantages to growth of the medical plan membership for the SJVIA are outlined below:

### **1. Improved Underwriting Risk**

The goal when developing renewal rates for the current SJVIA members, or rates for future members as they consider joining the SJVIA, is to develop rates that accurately represent the cost of the benefits offered through the SJVIA. This is completed by applying the approved underwriting model, developed by actuaries, to develop the expected claim costs using all the demographic and claims information available to the SJVIA.

While the model has proven very accurate, there will always be some level of variance between the projected and actual results under any plan. To cover this variance the rate projections include “margin”, a variable designed to cover any fluctuation in the actual versus expected claim costs. The larger and more diverse the group becomes, the more predictable the overall claims expense becomes, reducing the need to build “margin” into the rating calculations. For general rating purposes medical benefit pools generally need to have 20,000+ employees before all margin is removed from the rating calculation.

So membership growth provides a greater degree of predictability and stability in the rates from year to year; something that benefits all members in the SJVIA. The key to making this work long-term is remaining diligent in the application of the underwriting model to ensure that new members brought into the SJVIA are rated appropriately when they join. This allows the current and future SJVIA members to benefit from the overall growth, while also ensuring the current members are not hurt by the addition of new agencies.

One additional benefit of growth in managing the spread of risk, is that as the SJVIA grows, the overall program reserves also grow. With larger program reserves the Board is in a better position to manage cost increases from year to year, by using excess reserves to offset costs in years with higher increases. This is a practice used by CalPERS and many JPAs, but can only be done if the programs are growing and producing the required reserve amounts, something far more likely to happen with a larger risk pool.

**AGENDA:** San Joaquin Valley Insurance Authority

**DATE:** November 9, 2012

## **2. Reductions in Vendor's Fixed Costs**

One direct benefit from growth is reductions in the plan's fixed costs. This was part of the initial reason to form the SJVIA, both Fresno and Tulare Counties could benefit from reduced fixed cost factors under the contracted rates that were negotiated based on the size of the combined group. This has resulted in fixed costs under the SJVIA of less than 10% of total costs; something that would not be available to the participating agencies on a stand-alone basis. The fixed cost factors include the Anthem Blue Cross, HealthNow/Blue Shield, Chimenti, HighMark, US Script, Wellness, and Gallagher contracts.

As there is additional growth in the plans, the SJVIA is also in a better position to negotiate reductions, or the elimination of any fixed cost fee renewals. In some instances, as growth hits specific thresholds, there is even an opportunity to negotiate for additional fixed cost fee reductions.

## **3. Recover SJVIA Operating Expenses**

The SJVIA has internal operating costs for services (finance, legal, administration, & management) that have been provided by Fresno and Tulare County staff. This time has been partially paid for through the collection of a per-head SJVIA fee administration that is built into the rates. However, this fee does not cover all of the time spent by staff members at Fresno and Tulare Counties for the SJVIA program administration or retroactive start-up costs.

As there is additional growth in the plans, the internal administration work will not grow as significantly, allowing the per-employee fee collected by the SJVIA to better cover the internal plan administration services currently being delivered through County personnel. In this way the growth helps ensure that Fresno and Tulare County will be fully compensated for the staff time spent managing the SJVIA.

Over the longer term, additional growth and the additional SJVIA administration fees collected as a result of this growth will also allow the SJVIA to hire a permanent Executive Director and staff to manage the JPA, apart from the current County staff. While it may take some time to reach this level of growth, it is something the SJVIA can aim for as your membership increases.

**AGENDA:** San Joaquin Valley Insurance Authority

**DATE:** November 9, 2012

#### **4. Broader Plan Options / Flexibility**

The initial SJVIA medical plans were all offered through contracts and provider networks with Anthem Blue Cross. With the addition of the City of Tulare, the SJVIA was able to activate a second medical contract with Blue Shield/HealthNow. The ability to offer multiple medical plan options is only available with additional growth, as it is important to maintain a level of critical mass with all of the vendors.

Having more than one medical plan vendor provides the SJVIA an option to leverage negotiations around contract renewals that you do not have with only one vendor in place. It also allows the SJVIA to have more flexibility as you look to pursue other agencies for future growth. This may become more critical in the future, ensuring the SJVIA does not have “all eggs in one basket” with regard to the key medical plan providers.

#### **Offering Additional SJVIA Benefit Programs**

Growth in the number of benefit plans offered through the JPA will provide many of the same advantages outlined for growth in the medical plans above. This would include the offering of dental, vision, life and disability programs. Below we outline like key advantages of offering each of these types of programs under the JPA umbrella.

##### **1. Dental and Vision Coverage**

Dental and Vision coverage is generally self-funded within a JPA and does not represent a significant underwriting risk to the JPA. Many JPAs see this as an advantage to offer these programs to round out their benefit options and stabilize the more volatile medical benefit plans.

- Allow agencies the ability to share risk under a larger, more statistically credible risk pool.
- Ability to develop overall reserves on programs with more predictable cash-flow, smoothing out fluctuations in overall SJVIA reserve requirements.
- Allow agencies to reduce plan administrative costs.
- Provide an option to collect additional SJVIA administrative fees to offset current staff costs.
- Ability of the SJVIA to provide a broader range of the benefit solutions to member agencies.

**AGENDA:** San Joaquin Valley Insurance Authority

**DATE:** November 9, 2012

## **2. Life and Disability Coverage**

Life and Disability coverage is generally fully insured even within the JPA setting, so the advantages are slightly different.

- Shared claims experience under the JPA can allow groups to benefit from the stability of the larger group pool at renewal.
- Generally allow agencies to reduce costs based on premium volume rating factors that are directly tied to overall group size.
- Provide an option to collect additional SJVIA administrative fees to offset current staff costs.
- Ability of the SJVIA to provide a broader range of the benefit solutions to member agencies.

These additional programs effectively allow the SJVIA to spread its operating costs over a greater number of plans and at the same time give members and opportunity to reduce the costs to their agency on a stand-alone basis. This provides a win-win for both current and future members.

### **Risk of Pursuing Growth**

The downside risk to pursuing additional members in the SJVIA is really limited to a couple of manageable factors.

**First**, over time there may be a loss of control of the initial agencies. This would only happen if the Board was expanded or reconfigured to provide representation beyond the two founding agencies. Currently this is not an issue based on how the SJVIA agreements are structured to provide Board representation from only Fresno and Tulare Counties.

We only mention this point based on the fact that as other JPAs have grown they have also faced pressure to open up their Board to new member representatives as well.

**Second**, if the groups brought into the SJVIA are not properly screened and rated, they could hurt the overall integrity of the SJVIA pool. While this is a significant concern, we believe it is addressed in the development and application of a sound actuarial based underwriting model to ensure that new members are rated properly and “carry their weight” when joining the SJVIA.

### **Summary - SJVIA Growth**

**AGENDA:** San Joaquin Valley Insurance Authority

**DATE:** November 9, 2012

Based on the issues covered above, we believe it is in the best interest of all SJVIA members to continue to pursue additional growth in both the medical plans, as well as by introducing additional plan coverages as this becomes feasible.

We believe that properly managed growth will produce cost advantages to all SJVIA agencies, especially the founding JPA members, Fresno and Tulare Counties as they look to offset the cost of services provided to the JPA in these initial years of operation.

**FISCAL IMPACT/FINANCING:**

**None**

**ADMINISTRATIVE SIGN-OFF:**



---

Paul Nerland  
SJVIA Manager



---

Jeffrey Cardell  
Assistant SJVIA Manager

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

**IN THE MATTER OF** SJVIA Growth and Savings Potential

**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 received and filed information on SJVIA growth and savings potential.