San Joaquin Valley Insurance Authority (SJVIA) New Member Underwriting Methodology

Overview:

SJVIA is interested in expanding over time in order to benefit from stability and rate advantages typically associated with very large accounts. Accordingly, SJVIA will entertain requests from County, City and certain Special Districts or JPA's. Interested entities with a total of 15 employees and retirees will be eligible for consideration to participate in SJVIA. Typically groups that are <300 or in CalPERS will not have claims experience. Prospective members >300 will generally have claims experience available. The underwriting and proposal process outlined in this document was developed to assure that the addition of new member accounts will complement the growth goals of SJVIA.

The SJVIA growth goals are:

- Attract members that will contribute to the overall competitiveness, stability and welfare of the SJVIA and will be accepting of rates that have been developed according to normal and actuarially based underwriting standards
- Attract members that will not require excess administrative processes or compromise the general course of SJVIA
- Attract members that accepts the governance model of SJVIA
- Attract members that have moderate to low loss experience and/or rates that are in line with that of SJVIA and that is felt to contribute to the health of the risk pool
- Attract members that will look to the SJVIA in a "partnering" mind set.

General Underwriting Parameters:

The San Joaquin Valley Insurance Authority (SJVIA) is presently (as of 1/1/2012) a pooled shared-risk arrangement. The SJVIA is underwritten and renewed as a single risk pool using actuarially based underwriting standards

The claims experience of all member entities is pooled and risk is shared among all members. The fixed costs include Specific and Aggregate Stop Loss insurance that lays over the entire claims fund is also pooled rated.

Each entity joining the SJVIA commits to an initial 3 year term, or longer for members entering on a short plan year basis. During this initial 3 year or 3 year + term, members will receive annual renewal increase based on the collective experience of the SJVIA program.

Prospective members entering the SJVIA will be evaluated and initially rated using their own claims experience (if available), current plan rates, benefits, plan and/or participant demographics.

Entities without claims experience (typically groups less than 300 lives or those entities in CalPERS) will be evaluated using the same information; however, their proposed rates will be developed on a weighted basis using manual rates of SJVIA against an assumed claim percentage developed from the prospective member's current rates. All groups requesting proposals to consider SJVIA will be subject to consideration by an Underwriting Committee with Final Approval given by the SJVIA Board. Proposals for the Minimum Premium HMO Plan will require a secondary approval by Anthem Blue Cross, as the plan is considered fully insured.

Standard Underwriting Guidelines for New Groups:

1. Participation minimum requires 75% of all eligible employees. Any conditions that may impact participation percentage significantly will be a consideration
2. All eligible active employees must be offered SJVIA medical options
    a. Exception being Kaiser, which can have no more than 50% of the enrollment
    b. Exception being collectively bargained groups not currently covered by the incumbent plan;
3. Employer contribution minimum is 75% of the employee premium;
4. Cobra participation is limited to 10%;
5. Early retiree population (pre-65) is limited to 20% of covered active employees.

Rating Process for Groups Seeking SJVIA Membership:

The proposal or declination process for new member consideration is outlined below:

1. Initial Evaluation: There will be an initial evaluation and preliminary underwriting phase for Prospective Entities interested in joining the SJVIA performed by the Consultant, Gallagher Benefit Services (GBS), on behalf of the SJVIA Underwriting Committee. Initially detailed data is collected including but not limited to age, gender, dependent status, numbers of dependents, etc. In addition, rates, claims history and plan design information for all lines of coverage is gathered that will be used to develop a proposal for the interested entity. [Note: If inquiries come direct to Board Members or members of the Underwriting Committee from interested entities, they will be referred to GBS for the initial underwriting evaluation and recommendation.] GBS will provide a written summary overview of each prospective account to the SJVIA underwriting committee

2. Underwriting Committee (UC): The underwriting committee will consist initially of the Manager and Assistant Manager of SJVIA. They will review the summary provided by the consultant including pro and con considerations of the prospective member. This will be accompanied by a completed Prospective Member Checklist and Questionnaire outlining pertinent data about the group. If the underwriting committee elects to reject a prospect, they will advise GBS who will advise the group accordingly. The UC will advise GBS when approval is given to develop a proposal and the proposal process will begin. Similar information will be provided to Anthem Blue Cross for HMO bid approval.

3. Proposal Process: The basic underwriting process was begun during the Initial Evaluation. When a decision is made by the UC to offer a proposal to join the SJVIA, the formal rating

process will commence. Upon advise from the UC, GBS will begin the process and will complete the following:

a. Review to confirm all required data is obtained:

   i. Current and renewal rates (if available) for all plans being considered.

   ii. Claims experience (if available) for all plans being considered by month with corresponding enrollment data. <u>Require a minimum of twelve months of recent claims history on any prospect above 300 lives if fully insured (with notable exceptions such as CalPERS participants), and for all prospect sizes that are self-insured. This assumes 300 lives in a specific plan (e.g. PPO or HMO). If not provided, consider decline to quote action</u>.

   iii. Detailed descriptions of in-force benefits for all plans being considered

   iv. Large medical claims information including prognosis of on-going claims

   v. Census of all plan participants indicating dependent status, gender, age, employment status, etc.

   vi. Other pertinent information about the plan

b. Develop Cost Projections:

   i. Run census to determine age/sex factor and compare to SJVIA

   ii. Insert claims data into SJVIA rating worksheet to develop average claim amounts by line of coverage

      1. If claims data is not available, the assumption of 80% paid claims ratio to current or renewal premium will be used to determine estimated claims. For Cal PERS members, 90% paid claims ratio will be assumed. The client estimated claims amount will be given a credibility factor according to the size of the group in relation to the SJVIA pool and it will be weighted accordingly to develop the projected claim funding amounts

   iii. Project trended claims and apply adjustment factors such as age, gender, benefit change, etc. to the average claim amounts. Determine and adjust accordingly if proposal is on a short year basis (for account with July 1st effective dates) or a calendar year basis per SJVIA.

   iv. Add pooling fund adjustment for groups under 2,000 employees according to a graduated pooling scale

   v. Illustrate projected claims cost and a mature and immature basis to identify needed IBNR reserves

vi. Apply appropriate benefit relative value factors and adjust accordingly using the GBS HRM system.

vii. Apply SJVIA fixed cost components and projected plan anniversary adjustments if appropriate.

viii. Apply a new case assessment charge identified as “Administrative Implementation Fee”

c. Combine all information into a proposal format with:

i. Proposed rates in appropriate format. All proposals will illustrate the total rates in the appropriate format (e.g. Supercomposite, two step, three step, etc.). [The proposed rates will be developed from a combination of fixed costs (administration, stop loss, consulting, eligibility, etc.), projected claims and required reserves. All proposals will include an additional administrative implementation fee which will be determined by the Underwriting Committee and GBS. This additional fee will apply in the first year only.

ii. Appropriate declarations, disclaimers and list of assumptions

iii. Notation that SJVIA reserves the right to accept or decline the group following application for acceptance by the prospect account

iv. Copy of SJVIA bi-laws and governance information

v. Detail information concerning the renewal underwriting process

d. Underwriting Committee Approval to Release Proposal: When the proposal process is complete and a formal proposal has been prepared, the Consultant must resubmit to the UC for final approval for the release of the proposal to the prospective account.

e. New Business SJVIA Board Action:

i. The proposal once developed and approved for release by the UC, will be submitted to the interested group for consideration and acceptance

ii. If accepted, notice will be provided to the Consultant by the prospective account. The consultant will advise the Underwriting Committee, which in turn will present and secure acceptance by the SJVIA Board.

Renewal Rating Methodology:

Members Entering SJVIA *with* Claims Experience: Members who entered the SJVIA *with* claims experience will receive the pooled rate renewal for their 1st and 2nd renewals. The first three years of membership in SJVIA are defined as the Initial Entry Period (IEP) for groups entering with claims experience.

Members Entering SJVIA *<u>without</u>* Claims Experience: Members who entered the SJVIA *<u>without</u>* claims experience will receive the pooled rate renewal for their 1st renewal. The first two years of membership in SJVIA are defined as the IEP for groups entering without claims experience.

After completing the IEP, 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 completed, adjustments will be made to further modify the premium rate from the required SJVIA pooled renewal.

The SJVIA renewal rating methodology is designed so that, over time, entities are somewhat insulated from larger than average changes in rates. It also assures that members with claims experience significantly worse than the SJVIA pool average will realize rate adjustments commensurate with their performance. This method rewards members with good experience and provides an incentive for other members to implement cost control measures.

Each year, SJVIA will establish the overall program renewal for the upcoming plan year by aggregating the total plan claims, projecting trended claims, applying fixed costs, adjusting reserves and setting final rates as described above.

When a member entity has completed their IEP, several factors will be evaluated to apply a member specific adjustment in addition to the overall SJVIA plan renewal. Initially, the individual member's "variance" (defined below) must be identified. After the *variance* is calculated, an adjustment to the program renewal for each member is factored into their rate. This is known as an Experience Modification Factor (EMF) as defined below.

1. Loss Ratio Variance

   Each individual member's loss ratio variance is the difference between the loss ratio of the individual member and the loss ratio of the entire SJVIA. An individual entity can have a loss ratio *greater* or *lesser* than the pool.

   The overall pool's loss ratio is established by dividing the incurred claims (less any stop-loss reimbursements) by the total premiums collected. For example, if the total incurred claims are $70,000,000 and the total program premiums are $100,000,000 then the overall loss ratio is 70%.

   Next, the individual member's loss ratio is established. The member's loss ratio is determined by dividing the member's paid claims by the premiums paid. Paid claims for each entity will include an adjustment for large claims. The adjustment limits specific claim losses for the member in excess of their large claim pooling point. Large claim pooling points as defined below are tiered according to group size. This ensures that smaller members are not unduly penalized due to any specific large "shock" claim. The large claim pooling point tiers are as follows:

   - <50 employees = $25,000
   - > 50 and < 100 employees = $75,000

- >100 and < 400 employees = $125,000
- >400 and < 1,000 employees = $200,000
- >1,000 and < 2,000 employees = $300,000
- >2,000 employees = $450,000

Concerning New Member Pooling amounts:

For prospective new member quotes, the entry period stop loss insurance will be will be quoted anticipating special eligible claim definitions. The SJVIA stop loss year is the calendar year. Therefore, groups entering on any month other than January 1st will require either a short stop loss policy plan year or an extended stop loss policy plan year. For example, a member group with a July 1st entry date would be given an incurred in 6 months and paid in 9 months contract. Also, groups entering on or between July 1st and December 1st will be provided a reduced specific stop loss attachment point by the stop loss carrier of $275,000, rather than the SJVIA stop loss attachment point of $450,000. Groups entering in any other month will be subject to the SJVIA attachment point of $450,000. A chart indicating the eligible stop loss claim definition for the new member's short or extended plan year is provided below:

Month	**Claim Definition**	**Commitment**	**SL Deductible**
January 1	Incurred 12 / Paid 15	3 yr commitment	$450,000
February 1	Incurred 11 / Paid 14	2 yr 11 month commitment	$450,000
March 1	Incurred 10 / Paid 13	2 yr 10 month commitment	$450,000
April 1	Incurred 9 / Paid 12	2 yr 9 month commitment	$450,000
May 1	Incurred 8 / Paid 11	2 yr 8 month commitment	$450,000
June 1	Incurred 7 / Paid 10	3 yr 7 month commitment	$450,000
July 1	Incurred 6 / Paid 9	3 yr 6 month commitment	$275,000
August 1	Incurred 5 / Paid 8	3 yr 5 month commitment	$275,000
September 1	Incurred 4 / Paid 7	3 yr 4 month commitment	$275,000
October 1	Incurred 15 / Paid 18	3 yr 3 month commitment	$450,000
November 1	Incurred 14 / Paid 17	3 yr 2 month commitment	$450,000
December 1	Incurred 13 / Paid 16	3 yr 1 month commitment	$450,000

For members groups with more than 400 employees at renewal, three years of claims experience are weighted 30% for the first year and second year and 40% for the most recent year to develop the weighted loss ratio. This insures the most accurate method to project future claims. It further reflects the impact of cost management efforts implemented during the experience period.

For member groups with less than 400 employees at renewal, claims experience will be weighted at 33.33% per year.

2. Credibility Factor

A credibility factor is developed to provide a measure of reliability associated with each member's experience as compared to the pool. As the size of the member's enrolled population increases so does the Credibility Factor. Each member's experience in excess of 1000 or more employees will be considered 100% credible with a minimum of 12 months of recent claims experience. Groups between 500 and 1000 employees will be given a credibility factor of 75%. Groups between 250 and 500 employees will be considered 50% credible. Groups between 50 and 250 will be considered 25% credible and groups under 50 employees will have 0% credibility.

Once the Loss Ratio Variance and Credibility Factors have been determined, each member's rate adjustment percentage will be determined by applying an Experience Modification Factor (EMF).

3. Experience Modification Factor

The Experience Modification Factor is derived for each member by dividing the member's Credibility Adjusted Loss Ratio by the pooled loss ratio and subtracting 1.00. The Credibility Adjusted Loss Ratio is defined as the sum of the following two components:

- The weighted average loss ratio as defined above multiplied by the credibility factor applicable to the member based on the number of employees, and
- The pooled loss ratio multiplied by a factor of (1.00 minus the credibility factor).

If the Experience Modification Factor is less than 0, the member's renewal increase will equal the pooled increase. If the Experience Modification Factor is greater than 0, the member's increase will equal the sum of the pooled increase and the Experience Modification Factor not to exceed a 10% adjustment over the pooled increase.