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**Meeting Location:
Fresno County Employees' Retirement
Association Board Chambers
1111 H Street
Fresno, CA 93721
February 6, 2015 9:00 AM**

AGENDA DATE: February 6, 2015

ITEM NUMBER: 12

SUBJECT: Adopt Recommended Minimum Size Requirement for New SJVIA Participating Entities (A)

REQUEST(S): That the Board adopt recommended minimum size requirements for New SJVIA Participating entities

DESCRIPTION:

The Board of Directors of the SJVIA requested staff and Gallagher Benefit Services to review and provide recommendations on minimum group size considerations for entities seeking coverage under the SJVIA plans.

Background

On November 5, 2010, your Board approved Member Underwriting Guidelines and the SJVIA Growth Implementation and Marketing Plan. These documents provide the framework for the prudent growth of the SJVIA which will facilitate fixed cost reductions and pricing stability over time. Since that time, the SJVIA has added 19 new entities. Three additional member groups are committed for a 7/1/2015 start date.

Early marketing efforts and subsequent growth was concentrated in the Central San Joaquin Valley Risk Management Authority (CSJVRMA). Efforts to bring all member groups in to the SJVIA as one entity were not successful but the SJVIA did issue proposals to several individual entities within the CSJVRMA. Subsequently, 15 member groups of the CSJVRMA joined the SJVIA. These member groups range in size from 15 to 395 employees.

Current underwriting guidelines set the minimum group size for consideration to the SJVIA at 15 employee lives. Underwriting methodology provides for an anticipated claims adjustment for groups with less than 2,000 lives in order to offset the potential for large claims variance. Additionally, new member entity

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groups (non-founding members) are charged an additional fee Per Member Per Month (PMPM) to help offset the acquisition costs associated with on-boarding these new groups.

2015 Growth

The following entities have joined or will be joining the SJVIA in 2015:

Entity	Employees	Effective Date
City of Hanford	194 employees	1/1/2015
City of Oakdale	69 employees	1/1/2015
City of Hughson	15 employees	1/1/2015
City of Clovis	395 employees	1/1/2015
City of Modesto	978 employees	1/1/2015
SJVAPCD	276 employees	2/1/2015
Sutter County	875 employees	7/1/2015
Sutter Superior Courts	51 employees	7/1/2015
City of Marysville	50 employees	7/1/2015

The above new group activity represents approximately \$120,000 in increased revenue to the SJVIA in administration fees in 2015.

Direction from SJVIA Staff / Considerations

The staff of the SJVIA, in anticipation of this Agenda Item, recently asked Gallagher Benefit Services (GBS) to conduct a study with the intent of quantifying the costs associated with marketing, on-boarding, servicing and renewing new member entities. The goal of this study was to:

1. Validate the existing Marketing and Underwriting Guidelines
2. Offer new suggestions (including updated guidelines) for greater efficiencies

Further, it is the intent of the SJVIA to have potential new entities pay the necessary costs so the SJVIA is not in a position of subsidizing these new group entities.

Findings

GBS has quantified the costs associated with on-boarding a new entity at approximately \$7,500. The procedures associated with this cost include, but are not limited to, the following:

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Before Joining the SJVIA

- Preparation of Illustrative proposal
- Underwriting Committee review and issuing of proposal
- Presenting proposal to potential new member
- Board meeting prep related to release of proposal

After Joining the SJVIA

- Carrier implementation
- Staff Education and Support
- Open Enrollment Meetings
- Employee Communication
- Assisting with Financial Processes

Methodology

Upon direction, GBS sought to offer guidance according to the following criteria:

- Minimum Group Size
- Variable Administration Fee – based on group size

Minimum Group Size

GBS reviewed several internal resources as well as reaching out to vendor partners in the fully-insured marketplace to develop a strategy relative to minimum group size. One parameter for determining appropriate size for future marketing efforts ties in with the group size guidelines for the Affordable Care Act (ACA). For purposes of the Employer Mandate, the ACA requires employers with more than 50 full-time employees to provide coverage.

The rating methodology for fully-insured carriers also changes dramatically once a group covers 50 employees. Employers with less than 50 employees are usually rated based on the age and location of each employee. Groups with over 50 employees pay a composite premium with all single employees paying the same rate (as well as each employee plus dependents paying the same rate). The rating methodology for the SJVIA utilizes the composite rating structure and does not have the capacity for age-banding of rates.

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Variable Administration Fee

The SJVIA includes an administration fee for all member entities. The founding members (County of Fresno and County of Tulare) currently pay a fee of \$2.00 per employee per month (PEPM). This fee is collected on a monthly basis and has been used to offset the administration costs associated with the internal running of the plan. New, non-founding members are charged the standard \$2.00 fee plus an additional \$2.00 PEPM. Since the cost of the staff work necessary for a new entity to become actively enrolled in the SJVIA has been calculated at \$7,500, it is obvious that some smaller entities are not paying into this administration fee an amount equal to their acquisition costs. In an effort to recapture that cost, the SJVIA should include that cost into the initial rate build-up during the proposal process. Illustrative Non-Founding Administration Fees, based on the group size should be:

Group Size	Non- Founding Member Fee	Amount Collected
50 – 100	\$8.25 - 16.50	\$10,000
100 – 200	\$4.25 - 8.25	\$10,000
200 – 500	\$2.00 – 4.25	\$10,000
500+	\$2.00	\$10,000

The above suggested Non-Founding Member Fees are similar to the acquisition fees charged by fully insured carriers for groups of differing size. Additionally, the suggested fees continue the SJVIA’s commitment to lower overall fixed costs. With the addition of the suggested fees, the fixed costs for these new entities will continue to be less than the 15% maximum allowable under the Affordable Care Act.

Recommendations

Staff recommends that the SJVIA adopt a minimum group size of 50 employees for all future marketing efforts to new entities.

Further, in order to recapture costs associated with on-boarding new entities, the SJVIA should charge a fee of at least \$10,000 annually for each new group. This fee can be included in the rate build-up as a PEPM Non-Founding Fee (see schedule above) and will be transparent to the new entity.

Adoption of the recommended minimum group size and variable administration fee will serve two purposes. First, it will produce a more stable pool of member entities due to reducing the fluctuations inherent in smaller populations.

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Second, it will make each entity “self-sufficient” in recouping the startup costs associated with on-boarding new groups.

The minimum size and recommended fee structure would be implemented on a “go forwards” basis for new entities that have not yet committed to join the SJVIA.

FISCAL IMPACT/FINANCING:

Final rating of prospective groups will include the variable member fee listed above. Renewal calculation and budgets will be adjusted to reflect the new member fees.

ADMINISTRATIVE SIGN-OFF:



Rhonda Sjostrom
SJVIA Manager



Paul Nerland
SJVIA Assistant Manager