



BOARD OF DIRECTORS

ANDREAS BORGEAS

MIKE ENNIS

BUDDY MENDES

BRIAN PACHECO

DEBORAH A. POCHIGIAN

PETE VANDER POEL

J. STEVEN WORTHLEY

**Meeting Location:
Tulare County Employees' Retirement
Association Board Chambers
136 N Akers St
Visalia, CA 93291
August 28, 2015 9:00 AM**

AGENDA DATE: August 28, 2015

ITEM NUMBER: 12

SUBJECT: Approve HMO and Self-Insured PPO Health Plan
Renewal Rate Change for the 2016 Plan Year (A)

REQUEST(S): That the Board select and approve a rate renewal
option for health plans through Anthem Blue Cross
and Blue Shield/Health Now for the 2016 Plan Year

DESCRIPTION:

The renewal projections for the 2016 plan year have been updated from the previous information presented at the July Board meeting. The updated data includes claims experience through June 2015. Staff has been working with the Gallagher consulting team and their regional underwriters to carefully review the claims experience for both the HMO and the PPO plans, and the fixed costs associated with each plan. For the past several years, the SJVIA renewal has been uniform across all plans, both HMO and PPO, and excess reserves have been used to offset a portion of the renewal increases (see attached chart – SJVIA Blended Rate History).

The HMO and PPO plans are experiencing different utilization patterns this year. While the PPO plan is performing better than expected, the HMO claims are higher than expected causing the required rate increase to be higher. Excluding Kaiser, the HMO population as of June 30, 2015 was approximately 53% of the enrollment under the health plans (See attached charts - SJVIA Current Membership, and Participating Entities and Benefits Offered). Fixed costs for the HMO are increasing by 7% and overall the HMO increase is projected to require an increase of 16.90% on a stand-alone basis. The PPO fixed costs are decreasing by 7.23% as a result of the administrative services RFP and a reduction of the larger of the two ACA fees, (transitional reinsurance). In addition to this reduction, claims for the PPO continue to be favorable. Taking all factors into consideration, the PPO is projected to require an increase of 0.85% on a stand-alone basis. With no plan changes, fully

AGENDA: San Joaquin Valley Insurance Authority

DATE: August 28, 2015

blending the renewal between the PPO and HMO (as has been done the past two years) would result in a 9.96% increase to both plans.

As part of the preparation for this meeting, different scenarios were reviewed to mitigate the increases. These include:

1. Increasing the pooling points to both the HMO and the PPO. The HMO is currently at \$400K and the PPO is set at \$450K. Increasing either or both of these levels results in a small decrease in the premium paid for this protection, but the offset does add claims exposure to the plan. Several options were considered for each plan and none provided significant enough savings to offset the additional risk.
2. Using the SJVIA Underwriting Guidelines to review the loss ratios of Fresno and Tulare County, and City of Tulare. The guidelines call for a review at the second three year renewal. These three entities are the only ones who have been with SJVIA to meet the time period. A review was completed to determine if any adjustments to each entities "factors" used for rates was warranted. Based on the three year experience, slight adjustments could be made but would not offset or seriously impact the current proposed increases to the PPO or HMO plans per an analysis by Gallagher staff.

The above scenarios are not recommended for your consideration as a singular option to address the increases. Other options reviewed and provided for your consideration are included in the Attachment titled "Proposed Options".

In reviewing the plan experience for the past twelve months it became apparent to Gallagher staff there have been changes to the enrollment this year which indicated an 18 month claims average would provide for a more stable indication of claims experience. For instance, the HMO experienced a decrease of approximately 500 members at the County of Fresno as movement to the Kaiser HMO plan. Also, several entities were added January 1 to both the HMO and PPO plans, changing membership ratios and also creating claims lag in the early months of 2015. As a result, Gallagher's underwriting team recommends considering a claims lookback of 18 months as the basis of the underwriting projections for the new plan year for both PPO and HMO (as opposed to 12 months).

Your board approved setting the reserves rates to be held within the SJVIA at 16% of expected claims for medical and 5% of expected claims for prescription. These levels have been maintained with a small surplus. These reserve percentages are very conservative. Several variations of reserve levels are discussed below and outlined on pages 7 and 8 of the attachment. For

AGENDA: San Joaquin Valley Insurance Authority

DATE: August 28, 2015

historical purposes the SJVIA targeted a reserve level of 12.5% for medical and 5% for Rx through the 2012 renewal. For the 2013 renewal and forward, 16% medical and 5% Rx has been the level used in renewal calculations.

The reserve position of the SJVIA was also reviewed, and included in the considerations are the same renewal options with a reserve withholding set at 14% for medical and 5% for prescription. Actuarially, the calculated reserve requirement for the SJVIA is under 12% for medical. Adjusting the SJVIA reserve position to 14% medical and keeping the prescription at 5% results in a projected contingency reserve of \$1.1 Million. Using this contingency to adjust the required renewal for next year brings the projected pooled renewal to 8.9%. Additional options at this reserve level are included in the attachment on page 8.

Finally, the current HMO plan provides for a very high level of benefit. Several options were reviewed by Gallagher and Fresno County staff ranging from small changes to copays, to drastic increases in deductible and out of pocket limits. The most drastic of the options provided for a 4% savings to the HMO.

ADMINISTRATIVE SIGN-OFF:



Rhonda Sjoström
SJVIA Manager



Paul Nerland
SJVIA Assistant Manager