



**BOARD OF DIRECTORS**

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**Meeting Location:  
Tulare County Employees' Retirement  
Association Board Chambers  
136 N Akers St  
Visalia, CA 93291  
April 29, 2016-10:00 AM**

**AGENDA DATE:** April 29, 2016

**ITEM NUMBER:** 11

**SUBJECT:** Receive Staff Recommendations Responding to SJVIA Cash Flow

**REQUEST(S):** That the Board receive staff recommendations and give direction

**DESCRIPTION:**

SJVIA staff have considered options and challenges in responding to the SJVIA cash flow situation. Staff considered information from both Gallagher Benefit Services and the [Aon Actuarial Review](#) and Strategic Recommendations presented at the March 2016 SJVIA Board meeting. Although there are many considerations, staff has identified the following recommendations and considerations that are the most time sensitive:

- 1. SJVIA Rate Adequacy for 2016** - The Aon report projected the costs in 2016 to run 2 to 3.5% over total budgeted premiums. This was estimated to be between \$2.2 and \$4.0 Million. This number almost matches the amounts discussed at the SJVIA Board meeting on November 6, 2015. However, Aon's report did not take into account Kaiser migration in 2016 that resulted in a net loss to the HMO of over 400 lives. Of most immediate concern is the access to the amount that it is already projected the SJVIA was underfunded in 2016. The County of Fresno authorized a loan of up to \$2 million of which \$1.5 million has been loaned. The other \$2 million conceptually agreed to from the County of Tulare has not yet been authorized. Staff is concerned that if that loan will not materialize, another source (loan, mid-year rate adjustment) will be needed as soon as possible to ensure SJVIA solvency.

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- 2. SJVIA Rate Stability/Volatility 2017** - Although the SJVIA may secure and use the loans already referenced, the loan from the County of Fresno, requires repayment by the end of plan year 2017. Based on these terms, the next renewal must include the current year's experience, rebuilding a reserve, and repaying the loan in full. This will certainly result in a large rate increase in plan year 2017. Staff recommends consideration of alternatives that would allow for a smoothing of these impacts over time but also work towards rebuilding the reserve, repaying any outstanding loans and ensuring the long-term financial stability of the SJVIA. Alternatives could include negotiation of a longer-term loan, or partnership with another health insurance pool.
- 3. SJVIA Excess Reserves Policy** - It is recommended that the SJVIA Board consider adopting a formal policy for reserves in excess of the IBNR. The policy may describe the amount considered conservative or healthy enough based on Actuarial studies and may allow for the contribution towards a "stabilization reserve" that would be the only reserve used for the stabilization of health premiums. The recommended policy would be created in partnership with the SJVIA consultant and adopted by your Board.
- 4. Consider SJVIA Response to Adverse Selection** - The strategic partnership that the SJVIA entered into with Kaiser has allowed for entities that use Kaiser to join and enjoy group rates through the JPA. However, the County of Fresno has seen migration of over 400 employees, each year for two years in a row. This migration is a direct result of both Kaiser's strategically lowered rates, the County's contribution strategy and no consideration for the impact of the potential migration in the current rates. This may be handled several ways, including a surcharge for Kaiser premiums, but the stability of the overall rates in the SJVIA should be a primary objective. It is recommended that staff work with the SJVIA consultant on potential strategies to be considered by your Board, including a review of fully-blended (fixed costs and PPO/HMO plans rated together), and a partial blended rate (sharing of fixed costs but separate ratings for each PPO and HMO plan, and Kaiser) or a combination.

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- 5. Consultant Compensation** - The SJVIA compensates the current consultant on a “per employee per month” (PEPM) fee. This creates, at minimum, the appearance of an incentive for new business joining the SJVIA. Staff recommends moving from a PEPM fee schedule to a flat fee arrangement with the SJVIA consultant. As this is a completely new model, and the SJVIA is in uncharted territory, it is recommended that the SJVIA obtain quotes for these services on a flat fee schedule.
- 6. SJVIA Growth** - Based on the continuing cash flow mitigation efforts, it is recommended that the Board place a moratorium on new growth only until the current issues have been addressed. It is expected that the SJVIA will revisit the underwriting guidelines in collaboration with the SJVIA consultant and recommend revisions that will restore stability, rebuild a healthy reserve and require building a contingent reserve that will handle extraordinary claim years as experienced in 2015 and 2016 to date.
- 7. SJVIA Long-Term Staff Needs** - As referenced in another item on today’s agenda, the SJVIA may consider a number of options with staffing. However, it is recommended that the SJVIA Board consider working towards a dedicated SJVIA Executive level position that would be dedicated to the JPA full-time. It is recognized that this could be contracted position as a County employee or an SJVIA employee and that this may be a long-term goal. However, staff recognizes the need for dedicated executive management of the SJVIA.
- 8. SJVIA Communication to Participating Entities** - It is recognized by staff that during the recent SJVIA cash flow issues, that there should be better communication with participating entities from the SJVIA itself; not just through the consultant. Lack of information creates a vacuum of false information rather than the facts themselves. Staff recommends sending, on behalf of the SJVIA, a brief update to Participating Entities about the current position of the SJVIA and the plan to ensure long-term stability of the JPA.

These recommendations do not stand alone and it is expected that there will be many more to come. However, these are the most immediate recommendations being brought to your Board for consideration and direction to staff.

**FISCAL IMPACT/FINANCING:**

None.

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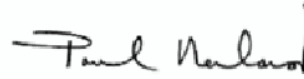
**DATE:** April 29, 2016

**ADMINISTRATIVE SIGN-OFF:**



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Rhonda Sjostrom  
SJVIA Manager



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Paul Nerland  
SJVIA Assistant Manager