



BOARD OF DIRECTORS

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**Meeting Location:
Fresno County Employees' Retirement
Association Board Chambers
1111 H Street
Fresno, CA 93721
September 2, 2016 10:00 AM**

AGENDA DATE: September 2, 2016

ITEM NUMBER: 6

SUBJECT: Approve Anthem HMO and Self-Insured PPO Health Plan Renewal Rate Increases for Plan Year 2017, which may include Returning to a Fixed Cost Sharing Model Only, and Rating Founding Members Separately from All Other Entities (A)

REQUEST(S): That the Board select and approve a rate renewal option for Anthem HMO and Self-Insured PPO Plan renewal rate increases for Plan Year 2017

DESCRIPTION:

Your Board gave direction at the July 14, 2016 SJVIA Board Meeting to explore all options and consider the best long-term strategy that would provide for the recovery and long-term stability of the SJVIA and Participating Entities. A number of steps were taken that were foundational to the renewal and based on this direction.

1. Beginning Reserve: The beginning reserve was calculated by staff and verified by the SJVIA Auditor-Treasurer based on the actual cash position of the SJVIA as of July 31, 2016 of **\$903,802**. It should be noted that this includes credit for the Anthem Blue Cross Minimum Premium Advance Deposit in the amount of \$1.25M. The advance deposit is with Anthem Blue Cross and is for the purpose of paying claims runout should the SJVIA terminate the HMO plan and is not available to the SJVIA until plan termination or dissolution of the SJVIA...
2. Trend: In addition to reviewing the Gallagher Analytics trend, the County of Fresno and Tulare consultants (Keenan & Alliant) provided trends. Additional trends were reviewed and are provided on Attachment II. The assumed trend for Plan Year 2017 renewal is **6.2%** for medical benefits and **11.5%** for pharmacy benefits.

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3. Claims Experience Period: As your Board directed at the July SJVIA Board meeting, Gallagher reviewed 12, 18, and 24 months of data and determined that using the most recent 12 months of claims produces the most conservative renewal outcome. The renewal rates include **12** months of claims experience through June 2016.

Staff and Gallagher carefully reviewed the claims experience for both the HMO and the PPO plans, in addition to the fixed costs associated with each plan. Increasing the stop loss threshold to both the HMO and the PPO was also reviewed. The HMO is currently at \$400K and the PPO is set at \$450K. Increasing either of 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. Currently the HMO includes approximately 45% of the enrollment under the health plans (excluding Kaiser).

Baseline Rate Renewal (Without Reserve Restoration or Loan Repayment)

- **HMO** = Fixed costs for the HMO are increasing by 1% and overall the HMO increase is projected to require an increase of **15.65%** on a stand-alone basis.
- **PPO** = Fixed costs for the PPO are decreasing by 2.5% largely as a result of the ACA fees being reduced/phased out. Taking these factors into consideration the PPO is projected to require an increase of **19.67%** on a stand-alone basis.
- **Overall Blended** = With no plan changes, fully blending the renewal between the PPO and HMO would result in a **17.69%** increase to both plans. Please note that these increases do not take into consideration reserve adjustments or loan repayments.

There are two new components of the rates that would be added *on top* of the renewal.

- ✓ Restoration of Reserve: This component of the rate will rebuild the reserve to the level approved by your Board. This may be achieved next year or smoothed over several years. Actuarially, Gallagher recommends the reserve necessary for the SJVIA to pay Incurred But Not Reported (IBNR) claims liability is 8.5% of anticipated claims for medical and 4% of anticipated claims for prescription. For Plan year 2016, your Board approved setting the reserve rates to be held within the SJVIA at 14% of expected claims for medical and 5% of expected claims for prescription. Additionally, the Anthem HMO plan requires a minimum claims deposit,

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held at Anthem, of \$1.25M. The deposit is calculated based on the SJVIA membership currently participating in the plan.

- ✓ Repayment of Loans: The loans to County of Fresno (\$2M) and County of Tulare (\$2M) must be repaid no later than December 2017 pursuant to the loan agreement with each entity. County of Fresno has loaned \$2M and it is anticipated that the remaining \$2M from County of Tulare may be needed before the end of the Plan Year. Attachment III to this item demonstrates the effect to the renewal (over a period of 1, 2, 3, 4 or 5 years) for the repayment of the loan(s) as well as incremental adjustments to reserves.

Blending Options

The SJVIA was initially formed sharing only fixed costs for the first two years (2010-2011). Beginning in 2012, the SJVIA began to fully blend/pool the rates and share risk. This arrangement has been in place from 2012-2015. In Plan year 2016, your Board approved partial blending between the HMO and PPO. Options to consider as part of the 2017 rate action are:

1. Blending HMO and PPO plans at a 17.69% increase
2. Separate Rate Action for HMO and PPO plans
3. Separate Rate Action for each plan design
4. Returning to a fixed cost sharing model only (rate founding members separate from all other entities; see Attachment IV)

Experience Modification Factor

SJVIA Underwriting Guidelines currently include a provision for Participating Entities whose experience exceed the pooled rate to be adjusted to a maximum of 10% above the pooled rate. For your Board's reference, attached is a listing of Participating Entities and whether they would be above or below the pooled rate (Attachment V).

It is recommended that the Board consider adjusting this process in the future by also giving credit for experience that is much better than the pool. Philosophically, the SJVIA has valued active wellness and disease management efforts for Participating Entities but have no rating mechanism to recognize the fruits of those efforts. It is recommended that the experience modification factor be limited to a 10% corridor on either side of the pooled rate.

Plan Design Considerations

Plan design was also closely reviewed as part of this process. Plans offered by entity and options to offset increased cost will be presented to each entity for consideration. For example, your Board had asked about the impact of

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modifying copays for prescription coverage and the illustration is included for reference in Attachment VI.

Additionally, a dual-choice Anthem HMO scenario has been considered and is referenced in Attachment VII. Your Board's approval is required to add this as an option for SJVIA.

Kaiser Rates & Adverse Selection Considerations

As referenced in [Item 14 on the July 14, 2016 Board meeting](#) and in the [Aon report](#) on March 18, 2016, the impact of potential adverse selection must be considered as part of the SJVIA rates. The SJVIA experienced this migration the last two years as over 400 participants migrated each year from the HMO to Kaiser or other plans. As stated in the Aon report, migration from the Anthem HMO to the Kaiser HMO resulted in relatively good risk leaving the Anthem HMO. This change in the risk composition of the self-funded plan would need to be adjusted for. Otherwise favorable past experience (which includes the good risk that migrated to Kaiser) would be used as the cost basis for the future (which post-migration has a relatively worse set of risk). Item 7 on today's agenda is directly related to this consideration and Board direction is required. Staff recommends approving rates that take potential adverse selection into account by adjusting or by strategically partnering with Kaiser to offer plan/rates that eliminate the adverse selection concerns but provide a win/win for both organizations in the long-term.

FISCAL IMPACT/FINANCING:

The fiscal impact to the SJVIA is contingent upon Board action of renewal increases including loan repayment and reserve adjustments. Budget and final rates will be adjusted based on the action taken.

ADMINISTRATIVE SIGN-OFF:



Paul Nerland
SJVIA Manager



Rhonda Sjoström
SJVIA Assistant Manager