

December 15, 2017

## SJVIA Board Meeting: Consultants Report on Loan Repayment

In accordance with the direction received at the October 27, 2017 SJVIA Board meeting, Keenan has prepared a schedule to equally fund over time the loan repayment to the County of Tulare (\$4,000,000) and the loan repayment to the County of Fresno (\$5,000,000), the SJVIA required IBNR reserve, and the SJVIA Claims Stabilization Reserve.

In preparing the loan repayment schedule consideration was given to deficit levels, IBNR requirements, and stabilization reserve projections for each entity.

While the SJVIA will build reserves in 2018 via the Kaiser coverage of approximately \$1 million, reserve accumulation in the self-funded medical program has not been designated for loan repayment. The 2018 rates include reserve accumulation for the change in IBNR claim reserve requirements and a 3.0% margin for claim stability.

Keenan recommends that the loan repayment, and reserve accumulations to fund the IBNR and stabilization reserve commence January 1, 2019 and be implemented over a three-year period through December 31, 2022. The following table summarizes the total dollars required:

36 Month Repayment Schedule	Loan Repayment	Required IBNR	Required Stabilization	Total
County of Fresno	\$ 7,599,693	3,464,122	\$ 3,945,125	\$ 15,008,940
County of Tulare	\$ 957,014	2,160,198	\$ 1,904,457	\$ 5,021,669
<u>City of Marysville</u>	<u>\$ 443,293</u>	<u>78,903</u>	<u>\$ 75,548</u>	<u>\$ 597,744</u>
<b>Total</b>	<b>\$ 9,000,000</b>	<b>\$ 5,703,223</b>	<b>\$ 5,925,130</b>	<b>\$ 20,628,353</b>
County of Fresno	\$ 50.64	\$ 23.08	\$ 26.29	\$ 100.01
County of Tulare	\$ 9.42	\$ 21.27	\$ 18.75	\$ 49.44
<u>City of Marysville</u>	<u>\$ 241.45</u>	<u>\$ 42.98</u>	<u>\$ 41.15</u>	<u>\$ 325.58</u>
<b>Total PEPM</b>	<b>\$ 35.51</b>	<b>\$ 22.50</b>	<b>\$ 23.38</b>	<b>\$ 81.39</b>
<b>Illustrative Adjustment to the adopted 2018 Rates</b>				
County of Fresno	4.7%	2.1%	2.4%	9.3%
County of Tulare	1.2%	2.8%	2.4%	6.4%
City of Marysville	13.7%	2.4%	2.3%	18.5%

Please note that the IBNR and stabilization reserve will change as plan experience and actual enrollment are realized. Keenan recommends an update to this repayment schedule every six

months. Additionally, Keenan recommends the updates occur based off plan experience through June and December. The June update will allow any adjustments to be worked into the renewal. The December update will allow us to measure variance from the projected target.

If the 36 Month Repayment Schedule is utilized, the additional PEPM cost to the adopted 2018 rates would be 9.3% for the County of Fresno, 6.4% for the County of Tulare, and 18.5% for the City of Marysville.

As an Alternative, Keenan has also provided 48 month and 60 month repayment options.

<b>48 and 60 Month Repayment Schedule Options</b>	<b>Loan Repayment</b>	<b>Required IBNR</b>	<b>Required Stabilization</b>	<b>Total</b>
<b><u>48 month option</u></b>				
<b>County of Fresno</b>	\$ 37.98	\$ 17.31	\$ 19.71	\$ 75.00
<b>County of Tulare</b>	\$ 7.07	\$ 15.95	\$ 14.06	\$ 37.08
<b>City of Marysville</b>	\$ 181.08	\$ 32.23	\$ 30.86	\$ 244.17
<b>Total PEPM</b>	\$ 26.63	\$ 16.88	\$ 17.53	\$ 61.04
<b>Illustrative Adjustment to the adopted 2018 Rates</b>				
<b>County of Fresno</b>	3.5%	1.6%	1.8%	7.0%
<b>County of Tulare</b>	0.9%	2.1%	1.8%	4.8%
<b>City of Marysville</b>	10.3%	1.8%	1.8%	13.9%
<b><u>60 month option</u></b>				
<b>County of Fresno</b>	\$ 30.38	\$ 13.85	\$ 15.77	\$ 60.00
<b>County of Tulare</b>	\$ 5.65	\$ 12.76	\$ 11.25	\$ 29.66
<b>City of Marysville</b>	\$ 144.87	\$ 25.79	\$ 24.69	\$ 195.35
<b>Total PEPM</b>	\$ 21.30	\$ 13.50	\$ 14.03	\$ 48.83
<b>Illustrative Adjustment to the adopted 2018 Rates</b>				
<b>County of Fresno</b>	2.8%	1.3%	1.5%	5.6%
<b>County of Tulare</b>	0.7%	1.7%	1.5%	3.8%
<b>City of Marysville</b>	8.2%	1.5%	1.4%	11.1%

If the 48 Month Repayment Schedule is utilized, the additional PEPM cost to the adopted 2018 rates would be 7.0% for the County of Fresno, 4.8% for the County of Tulare, and 13.9% for the City of Marysville.

If the 36 Month Repayment Schedule is utilized, the additional PEPM cost to the adopted 2018 rates would be 5.6% for the County of Fresno, 3.8% for the County of Tulare, and 11.1% for the City of Marysville.

It is observed that the City of Marysville calculation is based not only on its experience but also all those entities that have belonged to the SJVIA but have since terminated coverage. The Board may want to consider a more equitable approach for the City of Marysville.

Please note, this repayment schedule does not include the IBNR reserve runout claims that will be realized for the City of Ceres and City of Waterford starting January 1, 2018. The IBNR runout is projected to be \$635,889 (which includes 15% margin).

### Update of SJVIA Deficit Position

Keenan reported at the October 27, 2017 SJVIA Board meeting an update on the deficit accumulation which is summarized in the table below.

SJVIA	County of Fresno	County of Tulare	All Other Group	County of Sutter *	Termed Groups **	Total
<b>Change in Position</b>						
12/31/16 Position	\$ (16,635,716)	\$ (2,844,712)		(\$3,496,872)		\$ (22,977,300)
08/31/17 Position	\$ (14,574,746)	\$ (1,538,999)		(\$814,976)		\$ (16,928,721)
Difference	\$ 2,060,970	\$ 1,305,713		\$2,681,896		\$ 6,048,579

The updated position was based on reserve requirement adjustments and premiums received versus expenses realized. It did not include any funds returned to the SJVIA such as the annual year end accounting for the Anthem HMO. Keenan has reviewed the Anthem HMO year end accountings and applied the refunds (\$3,098,036) to the deficit accumulation based on HMO premium remitted.

HMO Premium	County of Fresno	County of Tulare	All Other Group	Total	
2010	\$42,181,416	\$0	\$0	\$42,181,416	
2011	\$44,955,847	\$0	\$0	\$44,955,847	
2012	\$42,211,773	\$0	\$0	\$42,211,773	
2013	\$44,965,190	\$2,098,473	\$1,953,493	\$49,017,156	
2014	\$47,770,525	\$2,573,539	\$3,266,436	\$53,610,500	
2015	\$43,026,208	\$3,126,648	\$8,001,879	\$54,154,735	
<u>2016</u>	<u>\$41,546,898</u>	<u>\$3,171,595</u>	<u>\$8,808,223</u>	<u>\$53,526,716</u>	
Total	\$306,657,857	\$10,970,255	\$22,030,031	\$339,658,143	

Based on the percentage of HMO premium received each year from each entity the HMO YEA refund was allocated based on the percentage of premium remitted as illustrated in the following table.

% of Premium	County of Fresno	County of Tulare	All Other Group	Total	Year End Accounting
2010	100.0%	0.0%	0.0%	100.0%	\$738,339
2011	100.0%	0.0%	0.0%	100.0%	\$1,037,516
2012	100.0%	0.0%	0.0%	100.0%	\$6,873
2013	91.7%	4.3%	4.0%	100.0%	\$239,029
2014	89.1%	4.8%	6.1%	100.0%	\$483,563
2015	79.5%	5.8%	14.8%	100.0%	\$165,264
<u>2016</u>	<u>77.6%</u>	<u>5.9%</u>	<u>16.5%</u>	<u>100.0%</u>	<u>\$427,451</u>
Total	90.3%	3.2%	6.5%	100.0%	\$3,098,036

This resulted in the following distribution by dollars:

Allocation of HMO YEA	County of Fresno	County of Tulare	All Other Group	Total	
2010	\$738,339	\$0	\$0	\$738,339	
2011	\$1,037,516	\$0	\$0	\$1,037,516	
2012	\$6,873	\$0	\$0	\$6,873	
2013	\$219,269	\$10,233	\$9,526	\$239,029	
2014	\$430,887	\$23,213	\$29,463	\$483,563	
2015	\$131,303	\$9,542	\$24,419	\$165,264	
<u>2016</u>	<u>\$331,783</u>	<u>\$25,328</u>	<u>\$70,340</u>	<u>\$427,451</u>	
Total	\$2,895,972	\$68,315	\$133,749	\$3,098,036	

Applying the allocation above resulted in the following adjustment to the deficit accumulation:

Adjusted Change	County of Fresno	County of Tulare	All Other Group	Total
08/31/17 Position	\$ 14,574,746	\$ 1,538,999	\$ 814,976	\$16,928,721
<u>Allocation of HMO YEA</u>	<u>(\$2,895,972)</u>	<u>(\$68,315)</u>	<u>(\$133,749)</u>	<u>(\$3,098,036)</u>
Adjusted Balance	\$ 11,678,774	\$ 1,470,684	\$ 681,227	\$13,830,685

### Repayment Methodology

The \$9 million loan repayment schedule was developed based on the adjusted deficit position calculated.

Loan Repayment Allocation	Deficit Position	% of Deficit	Loan Repayment	Enrollment	36 Month Repayment
County of Fresno	\$ 11,678,774	84.4%	\$ 7,599,693	4,169	\$ 50.64
County of Tulare	\$ 1,470,684	10.6%	\$ 957,014	2,821	\$ 9.42
City of Marysville	\$ 681,227	4.9%	\$ 443,293	51	\$ 241.45
Total	\$ 13,830,685	100.0%	\$ 9,000,000	7,041	\$ 35.51

The funding of the IBNR reserve was calculated based on applying the required IBNR reserve to enrollment and funding over 36 months.

Projected IBNR (12/31/18)	Required IBNR	Enrollment	36 Month Repayment
County of Fresno	\$ 3,464,122	4,169	\$ 23.08
County of Tulare	\$ 2,160,198	2,821	\$ 21.27
City of Marysville	\$ 78,903	51	\$ 42.98
Total	\$ 5,703,223	7,041	\$ 22.50

Ideally a 3-month stabilization reserve is accumulated over time and should be a goal for the SJVIA. However, over the 36-month repayment period, Keenan recommends the SJVIA target a one month stabilization reserve.

Stabilization Reserve	Projected Claims PEPM	Enrollment	1 Month	3 Month	6 Month
County of Fresno	\$ 946.30	4,169	\$ 3,945,125	\$ 11,835,374	\$ 23,670,748
County of Tulare	\$ 675.10	2,821	\$ 1,904,457	\$ 5,713,371	\$ 11,426,743
City of Marysville	\$ 1,481.34	51	\$ 75,548	\$ 226,645	\$ 453,290
Total	\$ 858.69	7,041	\$ 5,925,130	\$ 17,775,390	\$ 35,550,781

The following table illustrates the development of a one month reserve.

Projected Stabilization	Required Stabilization	Enrollment	36 Month Repayment
County of Fresno	\$ 3,945,125	4,169	\$ 26.29
County of Tulare	\$ 1,904,457	2,821	\$ 18.75
City of Marysville	\$ 75,548	51	\$ 41.15
Total	\$ 5,925,130	7,041	\$ 23.38