Introduction

This report outlines the proposed underwriting guidelines and risk share model to be utilized by the SJVIA for the 2018 self-funded renewals. It is the intent that this methodology be utilized going forward for annual renewals. It is also noted that some underwriting components will require annual review and updates. While the SJVIA may want to consider adding other renewal factors as the wellness program develops and implements incentives for wellness participation and surcharges for non-participation in the wellness program or tobacco usage.

Preliminary Renewal and Final Renewal Development

It is proposed that the preliminary renewal be developed based on plan experience (premiums, paid claims and enrollment) through May of the current year and include the previous twelve month period. The preliminary renewal will be presented to the SJVIA board as an information item no later than July 15. The intent of the preliminary renewal will be to give the SJVIA Board an indication as to the renewal impact and receive direction from the Board as the renewal is finalized.

The final renewal will be presented no later than August 31 and be updated with plan experience through June or July (if available by August 15th).

Underwriting Methodology

The Overall Renewal Requirement

Keenan will first develop the overall renewal requirement for Total Medical, the HMO (or proposed EPO), the PPO, and the High Deductible Health Plan (HDHP) PPO. Using the overall renewal requirements as a basis, separate renewal action and rates will be determined for each participating entity based on the credibility of each entities plan experience.

Credibility

Credibility is based on the size of a group and is used to determine what percentage of the group's plan experience should be used to determine its rates. The percentage credibility of the experience is then blended with the pooled experience or manual rate to determine the proposed renewal rate.

For the five entities that make up the SJVIA, Keenan recommends the following credibility factors:

- County of Fresno 100% credibility
- County of Tulare 100% credibility
- City of Ceres 0% credibility (100% pooled rate)
- City of Marysville 0% credibility (100% pooled rate)
- City of Waterford 0% credibility (100% pooled rate)

This means that the plan experience for the two Counties will be considered 100% credible, while the plan experience for the three Cities (All Other) will be considered not credible and will renew as part of the overall renewal.

Underwriting Methodology

The following chart illustrates the underwriting methodology which will be used for the HMO (or EPO), PPO, HDHP PPO and Total Medical/RX.

	Type of Coverage		HMO(or EPO), PPO, HDHP PPO, or Total Medical		
	Line of Coverage	Calculation	Medical	RX	Total
A	Paid Claims				
B	Large Claim Adj.				
C	Adj. Paid Claims	A-B			
D	Pooled Claim Risk Adj.				
E	Adj. Paid Claims	C-D			
F	Beginning IBNR				
G	Ending IBNR				
H	Change in IBNR	G-F			
I	Incurred Claims	E+H			
J	Total Covered Employees				
K	Incurred Claims PEPM	I/J			
L	Months of Trend				
M	Trend				
N	Trend Factor	(1+M)^(L/12)			
O	Projected Claims	K*N			
P	Plan Design Adjustment				
Q	Selection Adjustment				
R	Margin				
S	Adj. Projected Claims	O*P*Q*(1+R)			
T	Credibility				
U	Pooled (Manual) Claim Basis				
V	Final Projected Claims	(S*T)+(U*(1-T))			
W	Fixed Cost PEPM				
X	Specific Stop Loss				
Y	Aggregate Stop Loss				
Z	Risk Share Pool Charge	(D/J)*N*(1+R)			
AA	Anthem Network/Admin.				
AB	JPA Admin				
AC	Benefits Admin. System				
AD	COBRA/Retiree Admin.				
AE	Consulting (Keenan)				
AF	Other Program Fees				
AG	Total Fixed Cost	Sum(X:AF)			
AH	Required Premium PEPM	V+AG			
AI	Current Premium PEPM				
AJ	Percentage Rate Adjustment	A/AI-1			
AK	Current/Projected Enrollment				
AL	Annual Dollar Difference	(AH-AI)*AK*12			

Notes:
PEPM - per employee per month
Other Program Fees include: Wellness, SJVIA Non-Founding Member Fee, PCORI/Transitional Reinsurance and Capitation fee (for HMO only).

A - Paid Claims

The most recent 12 months of paid claims (known as the experience period) will be used for the preliminary renewal and final renewal. It is anticipated that the preliminary renewal will be based on data through May, while the final renewal will be based on data through June or possibly July (if available in time for the final renewal board meeting).

B - Large Claim Adjustment

All paid claims by claimants in excess of the projected specific reinsurance level (current level $450,000) will be accumulated and deducted from the paid claim total. This accounts for the value in C Adj. Paid Claims.

D – Pooled Claim Risk Adjustment

A pooled claim risk adjustment will be implemented for all groups with credibility above 0%. For 2018 this means the County of Tulare and the County of Fresno will have a risk share adjustment. All others will not. The risk share level is determined by enrollment. The proposed levels are as follows:

- County of Tulare, risk share level $200,000 to the proposed reinsurance level (currently $450,000)
- County of Fresno, risk share level $250,000 to the proposed reinsurance level (currently $450,000)

The risk share levels assume that the Anthem HMO is eliminated and replaced by the Anthem EPO. All paid claims by claimants in excess of the proposed risk share level and up to the projected specific reinsurance level (current level $450,000) will be accumulated and deducted from the paid claim total. This accounts for the value in E Adj. Paid Claims. This risk share model is new to the SJVIA and introduces a layer of risk share that will normalize renewals and outlines specifically how risk is shared among its members going forward.

H – Change in IBNR

IBNR (Incurred but not reported) claim reserve represents the dollar amount needed to pay run out claims. While the SJVIA had a fully funded IBNR reserve at one point, as claim experience exceeded premium collected, the IBNR reserve was depleted to pay ongoing claims. IBNR claims are realized as an entity terminates coverage from the SJVIA, or has a substantial migration from self-funded coverage to fully insured coverage (moving coverage to Kaiser as an example).

F-Beginning IBNR represents the IBNR reserve total as last recorded on December 31, of the previous year. G-Ending IBNR represents an IBNR adjustment for the end of the experience period. Typically the ending reserve is not actuarially certified (like the beginning reserve), but is typically adjusted for a change in headcount. The difference (G-F=H) is added to the adjusted paid claims (E) and the result is the incurred claim (I) amount over the experience period.

K - Incurred Claims per employee per month (PEPM)

By taking the incurred claim total (I) and dividing it by the total enrollment over the experience period the result is (K) Incurred claims pepm. Once claims have been placed into an incurred claim pepm, the process of projecting claims into the renewal period can begin.

O – Projected Claims

Projected claims are forecasted based on applying a trend factor (N). In order to apply a trend factor, the number of months of trend (L) needs to be calculated , and a trend (M) assumption must be made.

The number of months of trend is calculated by counting the number of months from the midpoint of the experience period to the midpoint of the projected period. For the preliminary renewal the experience period is June 1, 2016 through May 31, 2017. The midpoint is December 1, 2016. The projected period is January 1, 2018 through December 31, 2018. The midpoint is July 1, 2018. The number of months from December 1, 2016 to July 1, 2018 is 19 months. This means that 19 months of trend will be utilized to determine the trend factor.

Trend is the annual rate of inflation and utilization. Trend will be determined by reviewing two main data points:

- Keenan's most recent quarterly trend survey
- SJVIA's internal trend calculation. Keenan will look at the past 24 to 36 months of claim experience and develop cumulative annual paid claims on a pepm basis and run a regression analysis at the 90^{th} percentile. The result will give us specifically the internal trend of the SJVIA by coverage.

These two data points will be reviewed and may be blended to determine the trend used for the trend factor.

The trend factor is driven by the following formula:

(1+trend)^raised to the (number of months of trend/12)

The result is the trend factor which should be used to project claims from the experience period to the renewal period. The trend factor (N) is multiplied by the incurred claim pepm (K) to arrive at the projected paid claim pepm (O).

<u>S – Adjusted Projected Paid Claims PEPM</u>

The projected claim amount in (O) assumes no changes in the plan design (P), selection (Q), or margin (R). The projected paid claims pepm need to be adjusted for any changes in plan designs. For 2018 the valuation of moving from the HMO to the EPO would be valued here as well as the adjustment for changing PBM. If no plan changes were anticipated the plan design factor would be 1.000.

Additionally an adjustment for selection should be made if it is anticipated that there may be a migration from one plan to another. For example, there may be a migration from the PPO 250 to the EPO. This migration could adversely impact the plan. A selection load is therefore applied to account for the migration. If no migration were anticipated a factor of 1.000 would be applied.

When the regression analysis is done to determine internal trend, a margin calculation is also produced. Margin is applied to ensure a high level of confidence exists that the projected claims will not be exceeded by realized claim cost. Margin is expressed a percentage. The margin factor is 1.000 plus the percentage margin required.

Adjusted projected paid claims pepm is calculated as follows: (O)*(P)*(Q)*(R).

<u>V – Final Projected Claims PEPM</u>

Final projected claims pepm are realized when the credibility factor (T) is applied to the projected paid claims (S) and the pooled claim cost is applied to one minus the credibility factor. For 2018, (S) will equal (V), for both the County of Tulare and the County of Fresno since the credibility is 100%.

<u>AG - Total Fixed Costs PEPM</u>

With the final projected paid claims set, fixed costs need to be added to arrive at the total cost PEPM. Fixed costs are outlined in items X through AF. Most of these values will come from the SJVIA's vendor partners. The risk share pool charge is calculated based on the risk share exposure (D)/(J) total enrollment * trend factor (N) * (1+R) margin.

Keenan will also confirm with the SJVIA to ensure that the JPA fee reflects the appropriate amount to fund the JPA for the renewal year.

<u>AJ – Percentage Rate Adjustment</u>

The percentage rate adjustment is calculated based on total cost (AH) required premium, ((V) + (AG))/ divided by current premium (AI). Current Premium is calculated by taking the current monthly premium and dividing it by current monthly enrollment.

<u>AL – Annual Dollar Difference</u>

The annual dollar difference is calculated by taking the dollar difference in pepm between required premium (AH) and current premium (AI) times current enrollment (AK) times 12.

Overall Renewal Requirement versus Individual Entity Renewal Requirement

The methodology will be followed for both the overall renewal requirements and the individual entity requirements. Individual entity renewals will utilize the factors described in the renewal process. Keenan will ensure that the collective renewal totals of the individual entities will add up to the overall renewal requirement or make a final adjustment to equally adjust all entities.

Keenan recognizes that significant rate action was taken in the previous year. Keenan intends to show individual renewal rate action in comparison to present rates. Recommendations may be made to ensure greater parity between entities.

Keenan intends to be transparent in describing the renewal process, renewal rate requirement, and any potential projected reserve build ups. This will enable the SJVIA staff and the SJVIA Board to make informed decisions on rate setting and reserves.

Future Renewals

Keenan anticipates as the SJVIA develops its wellness and condition care program in the coming years that the renewal methodology will be expanded to adjust for incentives and surcharges as implemented.