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SJVIA Board Meeting: Consultant's Report on Loan Repayment

In accordance with the direction received at the December 15, 2017 SJVIA Board meeting, Keenan has updated the 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. The updates include:

- Applying the impact of the SJVIA plan experience through December 31, 2017;
- Reducing the deficit position by the prescription drug rebates, audit returns, and other adjustments; and
- Smoothing the impact of the "All Other Group" over the County of Fresno, County of Tulare, and the City of Marysville.

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. Please note that in the actuarial certified IBNR report a 15% margin is recommended. This differs from the 2018 renewal which included 3.0% margin.

Keenan recommends that the loan repayment, and reserve accumulations to fund the IBNR and stabilization reserve commence no earlier than 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	\$ 8,195,028	3,464,122	\$ 3,945,125	\$ 15,604,275
County of Tulare	\$ 739,782	2,160,198	\$ 1,904,457	\$ 4,804,437
City of Marysville	\$ 65,190	78,903	\$ 75,548	\$ 219,641
Total	\$ 9,000,000	\$ 5,703,223	\$ 5,925,130	\$ 20,628,353
County of Fresno	\$ 54.60	\$ 23.08	\$ 26.29	\$ 103.97
County of Tulare	\$ 7.28	\$ 21.27	\$ 18.75	\$ 47.30
City of Marysville	\$ 35.51	\$ 42.98	\$ 41.15	\$ 119.64
Total PEPM	\$ 35.51	\$ 22.50	\$ 23.38	\$ 81.39
Illustrative Adjustment to the adopted 2018 Rates				
County of Fresno	5.1%	2.1%	2.4%	9.7%
County of Tulare	0.9%	2.8%	2.4%	6.1%
City of Marysville	2.0%	2.4%	2.3%	6.8%

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 9.7% for the County of Fresno, 6.1% for the County of Tulare, and 6.8% for the City of Marysville.

It is observed that the City of Marysville calculation is no longer based on the All Other Group deficit position but rather the average cost to all three entities.

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).

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

48 and 60 Month Repayment Schedule Options	Loan Repayment	Required IBNR	Required Stabilization	Total
48 month option				
County of Fresno	\$ 40.95	\$ 17.31	\$ 19.71	\$ 77.97
County of Tulare	\$ 5.46	\$ 15.95	\$ 14.06	\$ 35.47
City of Marysville	<u>\$ 26.63</u>	<u>\$ 32.23</u>	<u>\$ 30.86</u>	<u>\$ 89.72</u>
Total PEPM	\$ 26.63	\$ 16.88	\$ 17.53	\$ 61.04
Illustrative Adjustment to the adopted 2018 Rates				
County of Fresno	3.8%	1.6%	1.8%	7.3%
County of Tulare	0.7%	2.1%	1.8%	4.6%
City of Marysville	1.5%	1.8%	1.8%	5.1%
60 month option				
County of Fresno	\$ 32.76	\$ 13.85	\$ 15.77	\$ 62.38
County of Tulare	\$ 4.37	\$ 12.76	\$ 11.25	\$ 28.38
City of Marysville	<u>\$ 21.30</u>	<u>\$ 25.79</u>	<u>\$ 24.69</u>	<u>\$ 71.78</u>
Total PEPM	\$ 21.30	\$ 13.50	\$ 14.03	\$ 48.83
Illustrative Adjustment to the adopted 2018 Rates				
County of Fresno	3.1%	1.3%	1.5%	5.8%
County of Tulare	0.6%	1.7%	1.5%	3.7%
City of Marysville	1.2%	1.5%	1.4%	4.1%

If the 48 Month Repayment Schedule is utilized, the additional PEPM cost to the adopted 2018 rates would be 7.3% for the County of Fresno, 4.6% for the County of Tulare, and 5.1% for the City of Marysville.

If the 60 Month Repayment Schedule is utilized, the additional PEPM cost to the adopted 2018 rates would be 5.8% for the County of Fresno, 3.6% for the County of Tulare, and 4.1% for the City of Marysville.

It is observed that the City of Marysville calculation is no longer based on the All Other Group deficit position but rather the average cost to all three entities.

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 December 15, 2017 SJVIA Board meeting an update on the deficit accumulation which is summarized in the table below.

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
Allocation of HMO YEA	<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

The position was based on reserve requirement adjustments and premiums received versus expenses realized and was adjusted for the SJVIA annual year end accounting for the Anthem HMO. Please note that the 2017 year-end accounting for the Anthem HMO will occur in 2018 and allow a further adjustment to the deficit position.

Based on data through December 31, 2017, the chart has been updated to:

Adjusted Change for HMO YEA	County of Fresno	County of Tulare	All Other Group	Total
12/31/17 Position	\$ 13,700,480	\$ 1,466,646	\$ 811,646	\$15,978,772
Allocation of HMO YEA	<u>(\$2,895,972)</u>	<u>(\$68,315)</u>	<u>(\$133,749)</u>	<u>(\$3,098,036)</u>
Adjusted Balance	\$ 10,804,508	\$ 1,398,331	\$ 677,897	\$12,880,736

SJVIA Staff requested Keenan include the prescription drug rebates, audit recoveries and other adjustments to the deficit position. The SJVIA staff provided the following recovery report.

Date Rc'd	Vendor	Check #	Amount	Description
7/2/2013	Catamaran	0256053	\$ 495.26	made out to SJVIA for a refund for funds held after the claim runout period is closed.
10/2/2013	Catamaran	000892	\$ 6,201.15	Pay to SJVIA Invoice #P0000137508
10/2/2013	Catamaran	000933	\$ 62,069.75	Pay to SJVIA Invoice #P0000137549
10/25/2013	Catamaran	001361	\$ 87,946.50	Pay to SJVIA Invoice #P0000139891
12/6/2013	Catamaran	0304816	\$ 6,337.82	Made out to SJVIA
12/23/2013	Catamaran	001907	\$ 6,077.60	Pay to SJVIA Invoice #P0000146053
1/13/2014	Catamaran	002315	\$ 177,786.00	Pay to SJVIA Invoice #P0000148390
7/9/2014	Centene (US Script)	312194	\$ 464,961.43	US Script Generic Rx reimbursement check
5/21/2015	Centene (US Script)	341858	\$ 61,649.38	Prescription Reimbursement for performance guarantees and contract pricing for 2014 plan year
5/21/2015	Centene (US Script)	345180	\$ 6,250.00	Prescription Reimbursement for performance guarantees and contract pricing for 2014 plan year
9/28/2015	Centene (US Script)	363544	\$ 61,817.45	Prescription Reimbursement for performance guarantees and contract pricing for 2015 plan year
5/31/2016	Centene (US Script)	115748	\$ 5,000.00	Performance Guarantees for Contract# 9584
08/02/2016	Centene (US Script)	127514	\$ 30,123.20	2016 Q2 Phr Audit Recoveries
10/04/2016	Centene (US Script)	135938	\$ 17,137.71	2016 Q3 Phr Audit Recoveries
06/20/2017	Centene (US Script)	181744	\$ 513,721.35	Rebate payments Collected through 3/31/2017
06/30/2017	Centene (US Script)	185212	\$ 19,501.76	2017 Q2 Phr Audit Recoveries
09/13/2017	Centene (US Script)	196712	\$ 235,806.85	2017 Q3 Phr Audit Recoveries
11/21/2107	Centene (US Script)	208154	\$ 15.00	Refund for pharmacy claims initially processed incorrectly
12/14/2017	Centene (US Script)	211551	\$ 247,346.10	2017 Q4 Phr Audit Recoveries
Total			\$2,010,244.31	Total

These amounts were applied based on the year paid. An allocation to each entity was made based on the percent of paid claims or premium the annual Rx amount represented in a given year. Based on the percentages developed, the annual amounts were distributed by entity as shown in the following table.

% of Premium / Claim Cost	County of Fresno	County of Tulare	All Other Group	Total	Dollars Reported
2010	0.0%	0.0%	0.0%	0.0%	\$0
2011	0.0%	0.0%	0.0%	0.0%	\$0
2012	0.0%	0.0%	0.0%	0.0%	\$0
2013	70.5%	25.3%	4.2%	100.0%	\$ 169,128
2014	65.5%	24.9%	9.6%	100.0%	\$ 642,747
2015	63.7%	34.1%	2.2%	100.0%	\$ 129,717
2016	59.6%	38.3%	2.1%	100.0%	\$ 52,261
<u>2017</u>	<u>57.9%</u>	<u>39.7%</u>	<u>2.3%</u>	<u>100.0%</u>	<u>\$ 1,016,391</u>
Total					\$2,010,244

This resulted in the following distribution by dollars:

RX Rebates, Audits and Adjustments	County of Fresno	County of Tulare	All Other Group	Total	
2010	\$0	\$0	\$0	\$0	
2011	\$0	\$0	\$0	\$0	
2012	\$0	\$0	\$0	\$0	
2013	\$119,192	\$42,856	\$7,080	\$169,128	
2014	\$421,053	\$160,103	\$61,591	\$642,747	
2015	\$82,654	\$44,241	\$2,822	\$129,717	
2016	\$31,140	\$20,008	\$1,112	\$52,261	
<u>2017</u>	<u>\$588,626</u>	<u>\$403,962</u>	<u>\$23,803</u>	<u>\$1,016,391</u>	
Total	\$1,242,665	\$671,170	\$96,410	\$2,010,244	

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
12/31/17 Adjusted Position	\$10,804,508	\$1,398,331	\$ 677,897	\$12,880,736
<u>Allocation of RX rebates, Audits, Adj.</u>	<u>(\$1,242,665)</u>	<u>(\$671,170)</u>	<u>(\$96,410)</u>	<u>(\$2,010,244)</u>
Adjusted Balance	\$ 9,561,844	\$ 727,161	\$ 581,488	\$10,870,492

Repayment Methodology

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

Loan Repayment Allocation Update	Deficit Position	% of Deficit	Loan Repayment	Enrollment	36 Month Repayment
County of Fresno	\$ (9,561,844)	88.0%	\$ 7,916,531	4,169	\$ 52.75
County of Tulare	\$ (727,161)	6.7%	\$ 602,038	2,821	\$ 5.93
City of Marysville	(\$581,488)	5.3%	\$ 481,431	51	\$ 262.22
Total PEPM	\$(10,870,492)	100.0%	\$ 9,000,000	7,041	\$ 35.51

Per SJVIA Board direction, the City of Marysville loan repayment was adjusted to reflect their proportionate share, as opposed to the All Other Group accumulation. See the chart below for the revised loan repayment.

Loan Repayment Allocation All Other Adjustment		Loan Repayment	Enrollment	36 Month Repayment
County of Fresno		\$ 8,195,028	4,169	\$ 54.60
County of Tulare		\$ 739,782	2,821	\$ 7.28
City of Marysville		\$ 65,190	51	\$ 35.51
Total PEPM		\$ 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