

July 20, 2018

SJVIA Board Meeting: Consultant’s Report on Reserve Accumulation

In accordance with the direction received at the May 4, 2018 SJVIA Board meeting, Keenan has prepared a process to fund the IBNR and Stabilization reserves and repay the loans to the County of Tulare and to the County of Fresno.

The Board gave direction to:

- Fund the IBNR Reserve and the Stabilization Reserve prior to funding the loan repayment.
- The loan repayment is to be funded on a dollar-for-dollar basis (for each dollar repaid to one County \$1 must be repaid to the other County).
- Time duration to accomplish all three funding elements was to remain flexible so that the Board can evaluate any rate load on the overall renewal requirement impact on the SJVIA members.

To review, Keenan’s most recent reserve estimates and loan repayment with interest are as follows:

Funding Requirements	Loan Repayment	Required IBNR	Required Stabilization	Total
County of Fresno	\$ 8,344,333	\$ 3,464,122	\$ 3,945,125	\$ 15,753,579
County of Tulare	\$ 753,260	\$ 2,160,198	\$ 1,904,457	\$ 4,817,915
City of Marysville	\$ 66,377	\$ 78,903	\$ 75,548	\$ 220,829
Total	\$ 9,163,970	\$ 5,703,223	\$ 5,925,130	\$ 20,792,323

The Proposed Approach

Keenan recommends an approach that allows SJVIA the opportunity to review and provide direction twice per year to accomplish the funding objectives.

Review at Renewal

As part of the renewal process, Keenan will prepare a variety of scenarios of rate loads for reserve funding so that the SJVIA Board can evaluate different levels of surcharges required for renewal action.

Review upon close of the Calendar Year

The SJVIA tracks plan experience on a calendar year basis. By taking a look at the performance of the plan year, the SJVIA Board can make decisions on surplus allocation among the three funding elements.

For 2018, Keenan has identified three areas for reserve build-up:

- Plan experience,
- Kaiser reserve, and
- Delta Dental PSR.

The SJVIA Board made significant changes to the SJVIA medical plans for 2018. Most importantly changing the Anthem HMO to the Anthem EPO. With these changes the anticipated savings were projected conservatively. Should the actual plan experience perform better than projected, a funding reserve would be developed that could be used to fund reserves. Over the first five months of 2018, a \$3,393,538 reserve surplus has been developed over the experience.

In the 2018 renewal, Kaiser offered a -4.8% rate decrease. The SJVIA determined to hold the 2017 rates at 0.0% for 2018 and reserve the difference, which is estimated to be \$1,155,952 for 2018.

Delta Dental reported the ending position (12/31/17) for its Premium Stabilization Reserve (PSR) at \$1,018,586. The PSR is excess premium paid to Delta Dental. Since the dental plans are fully insured, the monies are considered Delta Dental's. Keenan received the 3/31/18 reserve update which shows a beginning balance of \$1,118,346.

As part of the 2018 renewal, Keenan negotiated a premium holiday and a 2.0% buy-down of the renewal from the PSR. The premium holiday was given to the SJVIA in January 2018, for \$362,752. The SJVIA still collected the premium from the two Counties for January, but did not remit the premium to Delta Dental. Instead, Delta Dental took the \$362,752 in premium from the PSR. This action transferred the \$362,752 from the PSR to the SJVIA reserves.

Additionally, Delta Dental requested a 2.0% renewal increase for 2018 which the SJVIA Board approved. Delta Dental agreed to fund the 2.0% from the PSR. The SJVIA is collecting the 2.0% increase from both Counties and passing on 0.0% to Delta Dental. Delta Dental is funding the 2.0% from the PSR. Through May 31, 2018, the 2.0% represents \$36,945. Keenan estimates the 2018 total will be approximately \$88,672. This action will transfer \$88,672 from the PSR to the SJVIA reserves over the 2018 plan year.

The combined total Delta Dental PSR reserve which will be transferred to the SJVIA reserves for 2018 will be approximately \$451,424. This will leave a Delta Dental PSR reserve of \$656,922. The reserve balance is subject to plan experience and premium remitted throughout the balance of the year.

Keenan negotiated with Delta Dental to allow the PSR monies to be returned to the SJVIA if the SJVIA were to self-fund the dental plan for 2019. The PSR would be used to pay claims under the self-funded plan. Additionally, Delta Dental would apply any excess IBNR reserves (reserves after the run-out claims were paid) to pay claims under the self-funded plan.

Subject to the SJVIA's Auditor validation, and based on the 1) projected Kaiser reserve (\$1,155,952), 2) the PSR transfer through reserve transfer and self-funding the dental (\$1,118,346), and 3) any reserve accumulation over the plan year from plan experience (\$3,393,538 through May 2018), the SJVIA would potentially have \$5,667,836 in reserves for 2019 that could be used to offset the a portion of the loan repayment, or partially fund the IBNR reserve, and/or Stabilization reserve buildup.

Funding Model Progress													
	January	February	March	April	May	June	July	August	September	October	November	December	Total
2018													
Funding from Rate Surcharge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from Plan Experience	\$ 1,555,773	\$ 1,515,531	\$ (593,285)	\$ 644,661	\$ 270,858	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,393,538
Funding from Other Means													
Kaiser Rate Surcharge	\$ 96,329	\$ 96,329	\$ 96,329	\$ 96,329	\$ 96,329	\$ 96,329	\$ 96,329	\$ 96,329	\$ 96,329	\$ 96,329	\$ 96,329	\$ 96,329	\$ 1,155,952
Delta Dental Premium Holiday	\$ 362,752	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 362,752
Delta Dental 2% Rate Subsidy	\$ 7,389	\$ 7,389	\$ 7,389	\$ 7,389	\$ 7,389	\$ 7,389	\$ 7,389	\$ 7,389	\$ 7,389	\$ 7,389	\$ 7,389	\$ 7,389	\$ 88,672
2018 Available Funding	\$ 2,022,244	\$ 1,619,250	\$ (489,566)	\$ 748,380	\$ 374,577	\$ 103,719	\$ 103,719	\$ 103,719	\$ 103,719	\$ 103,719	\$ 103,719	\$ 103,719	\$ 5,000,914
2019													
Funding from Rate Surcharge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from Plan Experience	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from Other Means													
Kaiser Rate Surcharge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Delta Dental PSR Transfer	\$ 330,526	\$ 220,351	\$ 110,175	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 661,052
2019 Available Funding	\$ 330,526	\$ 220,351	\$ 110,175	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 661,052
2020													
Funding from Rate Surcharge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from Plan Experience	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from Other Means													
Kaiser Rate Surcharge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Delta Dental PSR Transfer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2020 Available Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2021													
Funding from Rate Surcharge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from Plan Experience	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from Other Means													
Kaiser Rate Surcharge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Delta Dental PSR Transfer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2021 Available Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2022													
Funding from Rate Surcharge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from Plan Experience	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from Other Means													
Kaiser Rate Surcharge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Delta Dental PSR Transfer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2022 Available Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2023													
Funding from Rate Surcharge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from Plan Experience	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from Other Means													
Kaiser Rate Surcharge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Delta Dental PSR Transfer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2023 Available Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

We look forward to discussing the funding policy with the SJVIA Board.

SJVIA Reconciliation Report		County of Fresno	County of Tulare	All Other	Total
2010-2017	Prem	\$408,293,681	\$167,541,558	\$ 93,184,806	\$669,020,045
	Total Cost	\$418,765,781	\$167,000,442	\$ 95,594,121	\$681,360,343
	\$ Difference	\$ (10,472,100)	\$ 541,116	\$ (2,409,315)	\$ (12,340,298)
	Loss Ratio	102.6%	99.7%	102.6%	101.8%
Adjustments to the Plan Performance					
2010-2017	HMO YEA	\$ 2,895,972	\$ 68,315	\$ 133,749	\$ 3,098,036
	RX Rebates	\$ 1,242,665	\$ 671,170	\$ 96,410	\$ 2,010,245
	SubTotal	\$ 4,138,637	\$ 739,485	\$ 230,159	\$ 5,108,281
	\$ Difference	\$ (6,333,463)	\$ 1,280,601	\$ (2,179,156)	\$ (7,232,017)
	AO Reallocation	\$ (1,268,457)	\$ (858,315)	\$ (52,384)	\$ (2,179,156)
	Total Cost	\$ (7,601,919)	\$ 422,286	\$ (52,384)	\$ (7,232,017)