



SJVIA

San Joaquin Valley
Insurance Authority

BOARD OF DIRECTORS

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JUDITH CASE MC NAIRY
MIKE ENNIS
PHIL LARSON
DEBORAH POCHIGIAN
PETE VANDER POEL
J. STEVEN WORTHLEY

Meeting Location:
Tulare County Employee Retirement
Association Board Chambers
136 N Akers St
Visalia, CA 93921
February 21, 2014
9:00 AM

AGENDA DATE: February 21, 2014

ITEM NUMBER: 8

SUBJECT: Actuarial review of self-insured healthcare plans as of June 30, 2012

REQUEST(S): That the Board receives the actuarial review of self-insured healthcare plans as of June 30, 2012

DESCRIPTION: Informational item. Please see attached report.

FISCAL IMPACT/FINANCING: None.

ADMINISTRATIVE SIGN-OFF:

Vicki Crow
SJVIA Auditor-Treasurer

**BEFORE THE BOARD OF DIRECTORS
SAN JOAQUIN VALLEY INSURANCE
AUTHORITY**

IN THE MATTER OF

**RESOLUTION NO. _____
AGREEMENT NO. _____**

UPON MOTION OF DIRECTOR _____, SECONDED BY
DIRECTOR _____, THE FOLLOWING WAS ADOPTED BY
THE BOARD OF DIRECTORS, AT AN OFFICIAL MEETING HELD _____
_____, BY THE FOLLOWING VOTE:

- AYES:
- NOES:
- ABSTAIN:
- ABSENT:

ATTEST:

BY: _____

* * * * *



November 1, 2013

Ms. Michele Mills
Senior Client Manager
Gallagher Benefit Services of California
45 E. River Park Place West, Suite 408
Fresno, CA 93720-1565

Re: San Joaquin Valley Insurance Authority ("SJVIA")
Actuarial review of self-insured healthcare plans as of June 30, 2012

Dear Ms. Mills:

This report presents the results of our actuarial review of SJVIA's self-insured medical and prescription drug plans as of June 30, 2012:

The results of our review are contained in Exhibit I-II, attached.

- Exhibit I contains projected plan costs for each of the 7 PPOs and the County of Fresno HMO, for the fiscal years ending June 30, 2012 through June 30, 2015, broken out by medical claims, prescription drug claims, and non-claims costs (including HMO capitation).
- Exhibit II contains projected Incurred but Not Reported (IBNR) reserves broken out in the same format as Exhibit I.

The balance of this report contains a detailed description of the methodology and actuarial assumptions we used to arrive at the numbers in the exhibits. Please note that we have excluded post-statement date plan experience, including that of agencies joining the pool on or after July 1, 2012. We have also excluded prescription drug claims paid by the County of Fresno prior to 2013; however, prescription drug claims paid under the County of Fresno High Deductible PPO were paid by SJVIA and have therefore been included. We appreciate the opportunity to be of service to SJVIA and Gallagher Benefit Services, and are available to answer any questions you may have concerning the information contained herein.

Sincerely,
DEMSEY, FILLIGER & ASSOCIATES

A handwritten signature in cursive script that reads 'T. Louis Filliger'.

T. Louis Filliger, FSA
Partner & Actuary

Assumed Trend Rates

Paid claims were analyzed over the period January, 2010 to June, 2012 to develop expected claim costs and trends. The following annual trends were applied to project claims and expenses for the period July, 2012 to June, 2015, using a rolling 24-month average. Because of the operation of the averaging method, comparison of plan costs and rates from one year to the next will not agree precisely with the trend rates.

Item	FY 2012-13	FY 2013-14	FY 2014-15
Medical Claims	12.0%	11.0%	10.0%
Rx Claims	8.0%	8.0%	8.0%
Administration	3.0%	3.0%	3.0%

Claim and Non-Claim (Administration) Reserves

Our recommended Incurred But Not Reported (IBNR) reserves are expressed as multiples of one average paid month of claims adjusted with trend to the statement date. The multiples are based on our analysis of recent SJVIA claim lag experience for self-insured medical claims, and recent industry experience for prescription drug claims. The use of a multiple with respect to the medical claim reserves is an expedient for discussion purposes only since the reserves were calculated using a direct method of applying completion factors to open incurred months as of June 30, 2012.

We developed the completion factors by determining the percentage of ultimate claims payable, by incurred month, for the 18 incurred months from January, 2010 through June, 2011. We assumed that all runout for June, 2011 incurrals had been paid by June 30, 2012.

We next calculated the projected ultimate paid medical claims for each of the twelve incurred months ending with June, 2012 and then subtracted all claims actually paid through June 30, 2012. The result is the basic medical IBNR reserve. The IBNR reserve for prescription drug claims was taken by multiplying the average monthly paid claims for the year ended June 30, 2012 by the multiple shown in the table below.

To determine the average number of lag months for projection of the IBNR reserves to 2013 through 2015, we divided the 2012 IBNR reserves by average monthly paid claims for the year ending June 30, 2012. The average number of months are shown in the following table.

Item	6/30/12	6/30/13	6/30/14	6/30/15
Medical Claims	1.15	1.15	1.15	1.15
Rx Claims	0.50	0.50	0.50	0.50
Administration	0.00	0.00	0.00	0.00

Claim and Non-Claim (Administration) Reserves (Continued)

The 0.50 factor for prescription drug claims is based on DF&A's experience with self-insured prescription drug plans in the Central Valley over the last 3-5 years. We attempted to develop a more precise factor based on SJVIA's own experience, but were unable to do so due to data limitations. We believe that the 0.50 factor is on the conservative side; that is, if SVJIA's own experience were used, the resulting factor would most likely be somewhat less than 0.50. We recommend that the effort be undertaken once again in future reports to obtain factors based on SVJIA's own prescription drug experience data.

Claims Fluctuation Reserves

The reserves shown in Exhibits II are based on our best estimate of claims runout. That is, if the reserves are set properly there is a 50% chance that the actual runout will be higher than the reserve and a 50% chance that it will be lower than the reserve. If SVJIA wishes to adopt an additional measure of conservatism, it may elect to hold a claims fluctuation reserve as described below.

We have developed reserving factors based on 85% and 98% confidence intervals. This may be interpreted as follows: If SJVIA holds the reserve for the 85% confidence interval (approximately 1 standard deviation above the mean), the probability of the actual runout exceeding the reserve will be 15% (100% less 85%). Similarly, if SJVIA holds the reserve for the 98% confidence interval (approximately 2 standard deviations above the mean), the probability of the actual runout exceeding the reserve will be 2%. The "standard deviation" referred to above is based on the fluctuations in the estimated IBNR reserve as it would have been calculated, by coverage, for each of the 12 months in the fiscal year ending June 30, 2012. Factors shown are expressed as a percentage of annual expected paid claims (excluding capitation). The higher the factor, the higher the average fluctuation around the mean for a given coverage.

Item	85% Level	98% Level
Medical Claims	2.92%	5.78%
Rx Claims	1.11%	2.21%

The recommended June 30, 2012 IBNR reserve of \$3,635,622 (Exhibit II) would be adjusted to \$4,871,312 at the 85% confidence level and \$6,082,876 at the 98% confidence level. DF&A does not offer a recommendation as to which of the three sets of reserves (unadjusted, adjusted to the 85% level, or adjusted to the 98% level) SJVIA should hold; that decision may be based in part on information which is outside the scope of this report. In our opinion, any of the three sets of reserves would be considered reasonable. Of the \$3,635,622 in total reserve as of June 30, 2012, \$3,586,094 is expected to be paid by June 30, 2013.

Actuarial Certification

The reserves set forth in this report are based on our actuarial review of the self-insured medical and prescription drug plans of San Joaquin Valley Insurance Authority, as of June 30, 2012.

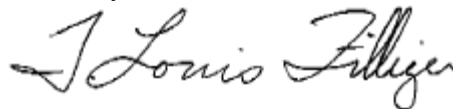
The review has been performed in accordance with generally accepted actuarial principles and practices. We made use of claims, premium, expense, and enrollment data, and copies of relevant sections of budget items and financial statements, provided to us by SJVIA and by Gallagher Benefit Services.

The assumptions used in performing the review, as summarized in this report, and the results based thereupon, represent our best estimate of the actuarial costs of the plan under the existing and proposed Actuarial Standards of Practice for measuring the liabilities associated with employer-provided health and welfare benefits and public entity risk pools.

Throughout the report, we have used unrounded numbers, because rounding and the reconciliation of the rounded results would add an additional, and in our opinion unnecessary, layer of complexity to the review process. By our publishing of unrounded results, no implication is made as to the degree of precision inherent in those results. Clients and their auditors should use their own judgment as to the desirability of rounding when transferring the results of this report to the clients' financial statements.

The undersigned actuary meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

Certified by:



T. Louis Filliger, FSA, EA, MAAA Date: 11/1/13
Partner & Actuary

SJVIA
Projected RESERVES:

Exhibit II

	-----IBNR Reserves-----			-----IBNR Reserves-----			-----IBNR Reserves-----			-----IBNR Reserves-----		
	<i>As of June 30, 2012</i>			<i>As of June 30, 2013</i>			<i>As of June 30, 2014</i>			<i>As of June 30, 2015</i>		
County of Tulare	Claims	Fixed Costs	Total	Claims	Fixed Costs	Total	Claims	Fixed Costs	Total	Claims	Fixed Costs	Total
CoT Med \$0 Deductible PPO	\$320,648	\$0	\$320,648	\$346,758	\$0	\$346,758	\$374,528	\$0	\$374,528	\$416,000	\$0	\$416,000
CoT Rx \$0 Deductible PPO	<u>37,544</u>	<u>0</u>	<u>37,544</u>	<u>41,604</u>	<u>0</u>	<u>41,604</u>	<u>44,522</u>	<u>0</u>	<u>44,522</u>	<u>48,281</u>	<u>0</u>	<u>48,281</u>
CoT \$0 Deductible PPO Total	\$358,192	\$0	\$358,192	\$388,362	\$0	\$388,362	\$419,050	\$0	\$419,050	\$464,281	\$0	\$464,281
CoT Med \$500 Deductible PPO	\$405,189	\$0	\$405,189	\$472,724	\$0	\$472,724	\$510,980	\$0	\$510,980	\$567,648	\$0	\$567,648
CoT Rx \$500 Deductible PPO	<u>72,105</u>	<u>0</u>	<u>72,105</u>	<u>77,180</u>	<u>0</u>	<u>77,180</u>	<u>83,250</u>	<u>0</u>	<u>83,250</u>	<u>90,092</u>	<u>0</u>	<u>90,092</u>
CoT \$500 Deductible PPO Total	\$477,294	\$0	\$477,294	\$549,904	\$0	\$549,904	\$594,230	\$0	\$594,230	\$657,740	\$0	\$657,740
CoT Med \$1,000 Deductible PPO	\$395,589	\$0	\$395,589	\$468,255	\$0	\$468,255	\$522,022	\$0	\$522,022	\$572,260	\$0	\$572,260
CoT Rx \$1,000 Deductible PPO	<u>88,216</u>	<u>0</u>	<u>88,216</u>	<u>93,959</u>	<u>0</u>	<u>93,959</u>	<u>101,708</u>	<u>0</u>	<u>101,708</u>	<u>109,895</u>	<u>0</u>	<u>109,895</u>
CoT \$1,000 Deductible PPO Total	\$483,805	\$0	\$483,805	\$562,214	\$0	\$562,214	\$623,730	\$0	\$623,730	\$682,155	\$0	\$682,155
CoT Med \$2,500 Deductible PPO	\$5,792	\$0	\$5,792	\$4,519	\$0	\$4,519	\$6,302	\$0	\$6,302	\$6,498	\$0	\$6,498
CoT Rx \$2,500 Deductible PPO	<u>1,286</u>	<u>0</u>	<u>1,286</u>	<u>1,281</u>	<u>0</u>	<u>1,281</u>	<u>1,535</u>	<u>0</u>	<u>1,535</u>	<u>1,619</u>	<u>0</u>	<u>1,619</u>
CoT \$2,500 Deductible PPO Total	\$7,078	\$0	\$7,078	\$5,800	\$0	\$5,800	\$7,837	\$0	\$7,837	\$8,117	\$0	\$8,117
CoT All Plans - Med	\$1,127,218	\$0	\$1,127,218	\$1,292,256	\$0	\$1,292,256	\$1,413,832	\$0	\$1,413,832	\$1,562,406	\$0	\$1,562,406
CoT All Plans - Rx	<u>199,151</u>	<u>0</u>	<u>199,151</u>	<u>214,024</u>	<u>0</u>	<u>214,024</u>	<u>231,015</u>	<u>0</u>	<u>231,015</u>	<u>249,887</u>	<u>0</u>	<u>249,887</u>
CoT All Plans - Total	\$1,326,369	\$0	\$1,326,369	\$1,506,280	\$0	\$1,506,280	\$1,644,847	\$0	\$1,644,847	\$1,812,293	\$0	\$1,812,293
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-----IBNR Reserves-----												
	Claims	Fixed Costs	Total	Claims	Fixed Costs	Total	Claims	Fixed Costs	Total	Claims	Fixed Costs	Total
County of Fresno												
CoF Med Active PPO	\$262,088	\$0	\$262,088	\$278,726	\$0	\$278,726	\$301,879	\$0	\$301,879	\$335,160	\$0	\$335,160
CoF Rx Active PPO	<u>0</u>	<u>0</u>	<u>0</u>	<u>39,016</u>	<u>0</u>	<u>39,016</u>	<u>41,757</u>	<u>0</u>	<u>41,757</u>	<u>44,939</u>	<u>0</u>	<u>44,939</u>
CoF Active PPO Total	\$262,088	\$0	\$262,088	\$317,742	\$0	\$317,742	\$343,636	\$0	\$343,636	\$380,099	\$0	\$380,099
CoF Med Active HDPPPO	\$69,260	\$0	\$69,260	\$80,617	\$0	\$80,617	\$89,221	\$0	\$89,221	\$98,335	\$0	\$98,335
CoF Rx Active HDPPPO	<u>8,625</u>	<u>0</u>	<u>8,625</u>	<u>20,603</u>	<u>0</u>	<u>20,603</u>	<u>10,595</u>	<u>0</u>	<u>10,595</u>	<u>11,609</u>	<u>0</u>	<u>11,609</u>
CoF Active HDPPPO Total	\$77,885	\$0	\$77,885	\$101,220	\$0	\$101,220	\$99,816	\$0	\$99,816	\$109,944	\$0	\$109,944
CoF Med Retiree HDPPPO	\$124,363	\$0	\$124,363	\$143,487	\$0	\$143,487	\$158,488	\$0	\$158,488	\$174,841	\$0	\$174,841
CoF Rx Retiree HDPPPO	<u>19,078</u>	<u>0</u>	<u>19,078</u>	<u>41,844</u>	<u>0</u>	<u>41,844</u>	<u>22,139</u>	<u>0</u>	<u>22,139</u>	<u>24,016</u>	<u>0</u>	<u>24,016</u>
CoF Retiree HDPPPO Total	\$143,441	\$0	\$143,441	\$185,331	\$0	\$185,331	\$180,627	\$0	\$180,627	\$198,857	\$0	\$198,857
CoF All PPOs - Med	\$455,711	\$0	\$455,711	\$502,830	\$0	\$502,830	\$549,588	\$0	\$549,588	\$608,336	\$0	\$608,336
CoF All PPOs - Rx	<u>27,703</u>	<u>0</u>	<u>27,703</u>	<u>101,463</u>	<u>0</u>	<u>101,463</u>	<u>74,491</u>	<u>0</u>	<u>74,491</u>	<u>80,564</u>	<u>0</u>	<u>80,564</u>
CoF All PPOs - Total	\$483,414	\$0	\$483,414	\$604,293	\$0	\$604,293	\$624,079	\$0	\$624,079	\$688,900	\$0	\$688,900
CoF Med HMO	\$1,825,839	\$0	\$1,825,839	\$1,900,713	\$0	\$1,900,713	\$2,115,217	\$0	\$2,115,217	\$2,326,547	\$0	\$2,326,547
CoF Rx HMO	<u>0</u>	<u>0</u>	<u>0</u>	<u>324,703</u>	<u>0</u>	<u>324,703</u>	<u>345,094</u>	<u>0</u>	<u>345,094</u>	<u>372,140</u>	<u>0</u>	<u>372,140</u>
CoF HMO Total	\$1,825,839	\$0	\$1,825,839	\$2,225,416	\$0	\$2,225,416	\$2,460,311	\$0	\$2,460,311	\$2,698,687	\$0	\$2,698,687
CoF All Plans - Med	\$2,281,550	\$0	\$2,281,550	\$2,403,543	\$0	\$2,403,543	\$2,664,805	\$0	\$2,664,805	\$2,934,883	\$0	\$2,934,883
CoF All Plans - Rx	<u>27,703</u>	<u>0</u>	<u>27,703</u>	<u>426,166</u>	<u>0</u>	<u>426,166</u>	<u>419,585</u>	<u>0</u>	<u>419,585</u>	<u>452,704</u>	<u>0</u>	<u>452,704</u>
CoF All Plans - Total	\$2,309,253	\$0	\$2,309,253	\$2,829,709	\$0	\$2,829,709	\$3,084,390	\$0	\$3,084,390	\$3,387,587	\$0	\$3,387,587
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-----IBNR Reserves-----												
	Claims	Fixed Costs	Total	Claims	Fixed Costs	Total	Claims	Fixed Costs	Total	Claims	Fixed Costs	Total
Grand Totals for Pool*												
Total Medical Reserves	\$3,408,768	\$0	\$3,408,768	\$3,695,799	\$0	\$3,695,799	\$4,078,637	\$0	\$4,078,637	\$4,497,289	\$0	\$4,497,289
Total Rx Reserves	<u>226,854</u>	<u>0</u>	<u>226,854</u>	<u>640,190</u>	<u>0</u>	<u>640,190</u>	<u>650,600</u>	<u>0</u>	<u>650,600</u>	<u>702,591</u>	<u>0</u>	<u>702,591</u>
Total Medical + Rx Reserves	\$3,635,622	\$0	\$3,635,622	\$4,335,989	\$0	\$4,335,989	\$4,729,237	\$0	\$4,729,237	\$5,199,880	\$0	\$5,199,880

*Excluding agencies joining after June 30, 2012