



SJVIA

Strategic Observations

February 29, 2016

General Observations

In addition to the actuarial analysis we completed, we would also like to offer some observations and commentary based on our experience consulting for other large self-funded public sector risk pools and public entities.

Growth Strategy

We recommend that SJVIA consider establishing objective growth goals and targets for the coming years. As part of that growth strategy, SJVIA may wish to place a temporary moratorium on adding new members until the Pool is stable; has accumulated sufficient reserves; and, has implemented other changes they chose to adopt. Further, SJVIA may want to consider establishing underwriting policies regarding underwriting entities with valid historical claims experience and those without claims experience.

Checks and Balances

The addition of new members can have a profound impact on the Pool's financial position, especially those new members that don't come with claims experience. It is recommended that the Pool consider adding a second layer of analysis when underwriting a new member. For example, if you are relying on your consultant to conduct underwriting and provide a recommendation regarding admission of prospective members, consider training someone in one of your finance departments to be able to review and validate the consultant's recommendation.

Consultant Incentives

SJVIA compensates their consultant on a "per employee per month" basis or PEPM. For small entities, it is not uncommon to pay a consultant on a PEPM basis. However as groups get larger, a fixed fee is generally established as opposed to a PEPM. A PEPM fee arrangement creates an incentive for the consultant to increase the number of employees participating in the Pool. Conversely, if the pool decreases in size then the consultant's fees would decrease. This incentive could be useful if the Pool is aggressively trying to grow. But, it can also create a situation where the consultant's desire to increase the population of the Pool may not be aligned with the Pool's goals and strategic direction creating a potential conflict of interest. Also, as the Pool's underwriter, there is motivation to provide a competitive annual renewal to existing members as an incentive to stay in the Pool which may also create an inherent conflict of interest.

We recommend compensating your consultant on a flat fee basis. One method of establishing a fee-basis is to convert the current PEPM to a flat fee (PEPM x # of employees). Consider re-evaluating the consultant's compensation annually to account for any major growth (or decline in enrollment).

In addition to converting the consultant's compensation to a flat fee, consider requiring the consultant to place a portion of their fee "at risk" which would be linked directly to performance objectives established mutually by the pool and consultant.

Employer Contribution Strategy

Our report indicates that there appears to be migration of better risk employees from the Anthem self-funded plan to the Kaiser plan. Unchecked migration can create a death spiral of the Anthem plan. Aon Hewitt recommends that SJVIA review its policies pertaining to member entities contributions strategies.

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