

August 27, 2021

SJVIA Board Meeting: Consultant’s Report – Establishing a Policy for Margin Accumulation and Stabilization Reserve

Over the past five years the SJVIA has worked diligently to ensure the JPA is in a strong financial position. At the July 23, 2021 SJVIA Board meeting the auditor’s office shared the following information:

SJVIA Debt Obligations & Cash Positions	IBNR Reserves	2-Month Stabilization Reserve	COF & COT Loans & Int. Payable	Total
7/23/2021				
Current Debt Obligations	\$ 7,099,300	\$12,120,904	\$ 9,733,261	\$28,953,465
Debt Obligations Met?				
Current Cash Position	YES	YES	YES	\$32,159,096
Debt Obligations Met?				
Cash Projection, 6/30/2021	YES	YES	YES	\$34,984,579

Given the financial position of the SJVIA at the July SJVIA Board meeting, the SJVIA Board requested renewal options be shown that reduce rates by lessening the margin requirements and reserve accumulation. This report will provide SJVIA Staff recommendations on establishing reserve and margin accumulation policies.

Margin versus Stabilization Reserve

Margin needs to be added to rates to account for adverse claim fluctuation. If an adequate Stabilization Reserve is not established, margin must be built into the rates to fund these fluctuations. The SJVIA has established a two-month stabilization reserve. Based on claims data through June 30, 2021 the following chart illustrates the most current view of stabilization levels.

Coverage	Rolling 12 Months of Paid Claims					
	Medical	RX	Stop Loss	RX Rebates	Dental	Total
06.30.21	\$ 52,737,939	\$ 20,109,796	\$ 788,599	\$ 2,723,800	\$ 4,044,622	\$ 73,379,958
Months	Stabilization Reserve					
	1-Month	2-Months	3-Months	4-Months	5-Months	6-Months
06.30.21	\$ 6,114,997	\$ 12,229,993	\$ 18,344,990	\$ 24,459,986	\$ 30,574,983	\$ 36,689,979

SJVIA Staff recommends the SJVIA Board establish a standard that a three-month Stabilization Reserve be calculated and fully reserved at each renewal. Any shortfall will require a margin accumulation to be included in the rates to return to the three-month stabilization reserve standard.

Based on the SJVIA's cash position as June 30, 2021 and projected increases in that cash position in the last six months of the year, SJVIA will have a fully funded IBNR at \$7,281,020, be able to repay the loan at \$9,733,261, have a three-month Stabilization Reserve of \$18,344,990, and an excess margin fund as the chart below illustrates.

SJVIA Debt Obligations and Cash Position	Auditor's Report	Update
IBNR Reserve - Update	\$7,099,300	\$7,281,020
Loan Repayment	\$9,733,261	\$9,733,261
<u>Stabilization Reserve 2 mo. vs 3 mo.</u>	<u>\$12,120,904</u>	<u>\$18,344,990</u>
Funding Requirement	\$28,953,465	\$35,359,271
Cash Projection as of 6/30/2021	\$34,984,579	\$34,984,579
<u>Cash Accumulation 7/1-12/31/2021</u>	<u>\$3,728,257</u>	<u>\$3,728,257</u>
Total Accumulation by 12/31/2021	\$38,712,836	\$38,712,836
\$ Difference	\$9,759,371	\$3,353,565