

STSIG Finance Committee Meeting

August 15, 2011

Shasta County Office of Education

Members Present: Adam Hillman, Phil Brown, David Flores, Gretchen Deichler, Robert Fellingner,

Members Absent: Robert Lowden

Staff: Mike Strech, Nancy Panks, Amy Cavalleri

Consultants: Mari Moore, Accountant. Paul Ford, Mercer. Bordan Darm, Mercer

I. Welcome and Introductions

Phil Brown called the meeting to order at 1:34. Robert Fellingner, new member from Redding School District, was introduced to the group. Approval of the previous minutes (1/7/11) was postponed until the next meeting due to a technical agenda issue.

II. Review of Preliminary Plan Performance by Program. Mike Strech reviewed preliminary numbers for the 2010-11 fiscal year.

a. Medical.

i. ERRP/Rx Recovery. Annual loss ratio for medical was 97.2%. We received a \$607,000 one-time recovery from Anthem and \$170,000 from ERRP. Combined total of approximately \$770,000 in recoveries for the year and positive performance in the amount of \$622,000 the STSIG Medical Plan ended the year with a \$1.4 million surplus, which fully funds IBNR for the first time (based upon unaudited financials). Phil pointed out that over half of net equity amount received was a one-time payment and cannot be counted on for future years. STSIG has \$179,000 in outstanding ERRP recoveries that are "pending", that will likely be booked on the next fiscal year if funds are still available.

Implementation audits were brought up for discussion. Phil asked Mike to provide costs and plan at next meeting for implementation audit and claims audit (in line with best practices recommended for accreditation). The audit will be for the medical aspect of the health plan as opposed to the RX which was recently moved over to Envision.

ii. Exiting District Impact: Fall River JUSD left the JPA 6/30/11 for Employee Benefits (they remain in the workers comp program). After the district left, Mercer looked back at experience and claims for the past 3 years and the loss ratio was 119%. This exiting district does not negatively affect the JPA finances, in fact Mercer estimates a positive financial impact as illustrated in the August 4th letter to the JPA. Due to what

appears to be a fully funded IBNR (unaudited) the exiting district is not responsible for IBNR/exit fees.

- iii. Stop Loss Experience. Loss ratio was 63%. Stop loss carrier increased premium approximately 25%, the rate was negotiated down from the original quote of 28%. If the stop loss experiences another good year, the JPA and Mercer will certainly be making the argument that a positive trend is in the works and rates should reflect the experience which we would attribute to the wellness effort and an overall better risk selection (the two districts that recently left had high loss ratios).

Bordan reviewed renewal letter dated August 4, 2011, explaining how the rate increase was estimated and how our rates now look with the benefit of having the final year end numbers. (Our rates are set 90 days prior to year-end). Rates were budgeted at 2% pursuant to our long-term stabilization goals and 9.5% based upon general renewal. It is anticipated that the 11.5% rate increase will increase the stabilization reserve by 2% (approx. \$420,000). However, based upon better than expected late year performance a revised anticipated reserve could be as high as 4.8% or \$970,000. Mike mentioned that ERRP monies are not considered in these calculations. 6/30/11 projections are based on claims experience that includes the recently exiting district. The impact of Healthcare Reform is largely unknown but Paul mentioned that all the plan changes related to Healthcare Reform were considered when setting rates for 2011-12. It is estimated that 150-200 overage dependents were added to STSIG plans as a result of healthcare reform.

- b. Dental. Mike reported that the Dental plan has experienced a great turn-around and added almost \$310,000 to the bottom line. Plan coverage was expanded for 2011-12 to include dental implants.
- c. Vision. Vision continues to perform well with ample surplus available. The plan currently carries an average balance of \$200,000. Vision tends to be predictable and easy to manage.
- d. New Worker's Compensation (2003-Present). Last year went better than expected, however unlike the other programs, the long term liabilities of comp make success difficult to measure for many years. Increasing medical costs are continuing to drive significant increases to w/c cost and claims. Budgeted amount for Admin increased significantly due to DIR decision that

“administrative costs” need to be accounted for separately as ALAE. A \$150,000 equity transfer from “new” to “old” was facilitated on June 30, 2011. Mike mentioned that IBNR is measured differently for workers’ compensation, again due to the long tail exposure, therefore – liability is measured in the form of confidence levels.

- e. Old Worker’s Compensation (1980-1995). This fund pays for continuing medical treatment for existing claims, primarily in the form of medication. A new Rx vendor for worker’s comp is being utilized to more aggressively handle long term heavy RX. Recent back surgery for one claimant depleted reserves and necessitated the recent equity transfer from the “new” account. Recent actuarial study rated “old” fund at 90% confidence level. Mike recommended annual actuarial studies on this book of business due to the unpredictability of the fund and relatively low reserves. Funding for this program can come from only two sources, excess recoveries and funding from the existing book (with pro-rata funding of district via cash for those not currently participating in the program such as Shasta College).

III. **Investment Policy/Options.** Our current NVB accounts are receiving .046% interest. After meeting with bank, they have agreed to a small increase in interest rate to the current level – prior rate was .025%. Mike asked for input from the group for keeping money at NVB or seeking alternate investment options (LAIF). The group did not feel the minimal increase in interest income was worth the logistics of moving money to LAIF.

The issue of the JPA loaning money to member districts at a higher rate of return was revisited. Current bylaws do not address the issue and last year the board affirmed at that time they were not interested in such an arrangement. Mike was asked if any districts had requested that the JPA consider an arrangement and to date there has not been a request. State and federal regulations will need to be reviewed but the group first suggested that the issue be run past Matson and Isom prior to regulatory of legal consideration. Mike will look into the matter and report back to the committee at the next meeting.

IV. **IBNR/Stabilization Goals.** Annual Review: Mike reviewed the IBNR/Stabilization Funding chart. Programs were underfunded in years past, and reasonable stabilization funds were identified for each book of business in November of 2009. Currently STSIG is fully funded on IBNR for all programs based upon year end unaudited financials. The goal of the Finance Committee was to have fully funded IBNR and Stabilization fund for

medical in 6 years. It was mentioned by several committee members that while we had a good year, we still have a lot of work to meet this goal. (Refer to chart) It was agreed that the current plan of action is acceptable and the JPA will continue to work toward the stabilization now that the IBNR is funded for the first time since going self insured in 2005.

- V. **Financial Impact of Possible Medical Plan Changes (Low Cost Option).** Mike informed the committee that the upcoming Board retreat will include a discussion of high deductible plans with possible HRA and/or HSA components. This type of change could affect revenue and impact our stabilization numbers due to the cost shifting back to members. A discussion followed of possible fiscal impacts of possible adverse selection. In anticipation of Healthcare Reform changes we may wish to vary options and move toward plan options that will be competitive and align well with HCR. This item will be discussed in detail at upcoming Board Retreat in September.

- VI. **Annual Audit.** During the week of Aug 29, 2011 Matsom & Isom will be on site conducting the annual audit. The Finance committee was reminded that they also serve as the audit committee.

- VII. **Other Issues.** None.

- VIII. **Adjourn.** Meeting was adjourned at 3:40pm