



David E. Turner, FSA

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March 14, 2018

Ms. Christine Kerns  
Alliant Insurance  
100 Pine St., 11<sup>th</sup> Floor  
San Francisco, CA 94111

Dear Christine:

**Re: Monterey Peninsula College**

We have completed an analysis of the self-funded reserves for Monterey Peninsula College. Our analysis included the following items:

- IBNR estimates for medical and Rx, using claim lag reports and completion factor methodology
- Recommended claim fluctuation margin based on 70%-95% confidence levels that claims will not exceed self-funded “premium” plus margin in any given year.

#### **Analysis of IBNR Reserves**

Reserves for IBNR claims reflect the liability for claims incurred but not yet paid due to normal billing, submission, and processing delays. In the event of self-funded plan termination, this IBNR liability would be funded by the plan and would be covered by funds set aside during pre-termination operations. Estimated IBNR reserves for MPC, including a 14.5% load for administrative costs that may be necessary to retain a TPA to adjudicate runout claims in the event of program termination, are as follows:

<b>As of 2/28/18</b>	<b>Medical</b>	<b>Rx</b>	<b>Total</b>
IBNR	\$699,965	\$96,902	\$796,866
Percent of Paid Claims	18.0%	5.8%	n/a

Our analysis uses completion factor methodology. This approach applies completion factors (the estimated percentage of claims incurred and paid after 1 month, 2 months, 3 months, etc.), developed over the most recent 6 months of data, to claim lag data to calculate estimated incurred claims for each month during the prior year. This is a standard actuarial methodology that is well known throughout the health and welfare industry.

Please see the chart below for a comparison of completion factors between the last two actuarial reports:

Incurred and Paid Timing	Completion Factor As of April 2016		Completion Factor As of Feb. 2018	
	Medical	RX	Medical	RX
1 Month	7.4%	51.1%	5.3%	52.0%
2 Month	67.9%	100.0%	45.8%	100.0%
3 Months	82.8%	100.0%	71.1%	100.0%
4 Months	87.4%	100.0%	84.2%	100.0%
5 Months	93.0%	100.0%	93.7%	100.0%
6 Months	97.1%	100.0%	99.4%	100.0%

It appears that medical and Rx IBNR as of 2/2018 are higher than our last actuarial report due to higher claims in 2017/18. Further, the claim payment pattern is slower. At 18.0% of paid claims, the medical IBNR is higher than normal range of about 12%-16% (i.e., 1½-2 months) of annual claims. Rx IBNR is also slightly higher than normal ranges.

### Medical Plan Claim Fluctuation Margin

All self-funded plans should maintain some claim fluctuation margin in the event that claims plus expenses exceed premium for a given year. Margin anticipates random claim fluctuation and is calculated based on simulation and modeling. The following chart provides estimated margin figures for various confidence levels that claims plus expenses would not exceed premium plus margin at the following levels:

Confidence Level	70%	80%	90%	95%
Claim Fluctuation Margin	\$724,122	\$905,152	\$1,086,183	\$1,206,870

### Financial Summary

The following illustrates the funding status of the program and a net surplus/deficit calculation.

	FINANCIAL SUMMARY
Latest Available Fund Balance 2/28/2018	\$2,626,171
Estimated Med/Rx IBNR	\$796,866
95% Margin	\$1,206,870
<b>Surplus/(Deficit)</b>	<b>\$622,435</b>

**Limitations**

This report recognizes that Monterey Peninsula College offers a self-funded health plan and may set premium rates wholly or in part based on the findings in this report. It also recognizes that health plan costs are subject to random fluctuation, variation, and unpredictability due to factors that are out of our control and may or may not be addressed in our analysis. Therefore, Turner Consulting and Actuarial LLC bears no responsibility, financial or otherwise, for the Monterey Peninsula College's decision to maintain a self-funded plan and the potential financial results of such plan as a result of variation from the assumptions used in this report.

We are available to discuss this report at your convenience.

Sincerely,

*David E. Turner*

David E. Turner, FSA  
Manager  
TURNER CONSULTING AND ACTUARIAL, LLC