

August 8, 2016

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

Dear Diana:

**Re: Monterey Peninsula College – Updated 8/8/16**

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 5/31/16</b>	<b>Medical</b>	<b>Rx</b>	<b>Total</b>
IBNR	\$611,623	\$68,303	\$679,926
Percent of Paid Claims	15.1%	4.1%	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:

<b>Incurred and Paid Timing</b>	<b>Completion Factor As of Mar. 2015</b>		<b>Completion Factor As of April. 2016</b>	
	<b>Medical</b>	<b>RX</b>	<b>Medical</b>	<b>RX</b>
1 Month	3.5%	53.0%	7.4%	51.1%
2 Month	62.1%	100.0%	67.9%	100.0%
3 Months	89.8%	100.0%	82.8%	100.0%
4 Months	92.8%	100.0%	87.4%	100.0%
5 Months	94.7%	100.0%	93.0%	100.0%
6 Months	95.0%	100.0%	97.1%	100.0%

It appears that medical IBNR as of 4/2016 is higher than our last actuarial report due to higher claims in 2015/16. By contrast, the Rx IBNR is slightly lower due to lower claims in 2015/16. At 15.1% of paid claims, the medical IBNR is within the normal range of about 12%-16% (i.e., 1½-2 months) of annual claims, which appropriately reflects modern claim processing technology and methods. Rx IBNR is also within 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:

<b>Confidence Level</b>	<b>70%</b>	<b>80%</b>	<b>90%</b>	<b>95%</b>
Claim Fluctuation Margin	\$749,910	\$937,388	\$1,124,866	\$1,249,851

#### **Financial Summary**

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

	<b>FINANCIAL SUMMARY</b>
Latest Available Fund Balance 5/1/2015	\$3,489,812
Estimated Med/Rx IBNR	\$679,926
95% Margin	\$1,249,851
<b>Surplus/(Deficit)</b>	<b>\$1,560,035</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, FSA  
Manager  
TURNER CONSULTING AND ACTUARIAL, LLC