Contra Costa County Schools Insurance Group

What's Going on with JPAs in CA?

Just because you're called a JPA doesn't mean you're the same.

All JPAs are not equal. CCCSIG is a member-owned, member-driven agency. Our goal will always be what is best for our members. We are accredited with excellence and have very high standards for claims administration and reserving (using Self Insured Plan (SIP) reserving guidelines).

There are other not-for-profit JPAs, but they are not like CCCSIG because their operating principles can differ greatly. Some of these agencies promise rate decreases for a certain number of years (which means they can't be using their actuarial study to set their rates) and don't follow the SIP reserving guidelines (they actually calculate the future medical liabilities based on the claimant's life expectancy, then arbitrarily discount this amount by as much as half for all claims). These types of random operating principles are dangerous and can lead to massive underfunding.

Other JPAs that are administered or controlled by profit-based vendors (brokers, Third Party Administrators (TPAs), etc.) often have an inherent problem: the vendors' incentives are not aligned with what is in the best interest of the JPA members. The boards of such organizations must rely on these same vendors for the expert advice the board needs to make policy decisions, and therefore the opportunity for conflicts of interest are many.

What's best for you may not be best for them.

As an example, there have been instances where a broker will not present or recommend excess quotes from companies that don't pay a high enough commission, the source of the broker's income. The board and member agencies may not be aware that certain options can save them money in placing this coverage, because the broker does not disclose the options, in order to maximize profits.

If the vendor gets paid as a claims administrator, the more claims they handle, the more money they make. The longer the claims stay open, the more money they make. If the vendor is the administrator, often paid as a percent of contributions to the JPA, the more payroll that is covered, the more profit they make. And, if the vendor plays all of these roles, the best interests of the members can be quickly lost in the complexities of running an insurance-like enterprise.

This situation has been recognized by regulators throughout the country. The National Council of Insurance Commissioners (NCIC) has developed model acts around administrators of self-insurance groups that explicitly call for a separation of functions, to help avoid opacity and conflicts of interest.

Who's on the hook?

When a profit-based vendor is relied upon to manage an agency, it's important to note who's on the hook if things go poorly. As an example, looking at the last paragraph to see that a profit-based vendor makes more money when a pool grows, the vendor knows that a lower rate will attract more members. If they set that rate too low, so that the future liabilities will not be covered by the premiums and the interest they've earned, the members are the ones on the hook to pay the additional funds through assessments. The vendor will have no liability whatsoever, so they are not penalized for doing it wrong, they are actually rewarded through greater earnings. This is obviously a conflict of interest.

I can give you $1.50 Workers' Comp rate for the next 10 years!

This may be an extreme example, but the fact is with a tail of 30 years or more, it is possible for a Workers' Comp program to get away with an unrealistic rate for a substantial period of time. If you look at the payout pattern for the ultimate costs of a policy year, it can take 7-8 years or more to pay out 75% of the ultimate cost. So if the agency has only collected 75% of the premiums they should have collected, it will take well over 10 years for the problems to show up, because each of the subsequent years will be only part way down the payout pattern, so there will not be a shortage of funds for a long time (there will be even more funds if the program is growing, hiding the problems even longer).

The problem comes when this program matures, particularly if they stop growing or start shrinking. This will be when it becomes evident that there aren't enough funds to cover the liabilities that are owed. So now that the program knows it has been setting its rate too low, it will have to raise the current rate 33% to the $2.00 it should have always been. On top of this it will need to start collecting the funds to make up for what it should have been collecting over the last 10+ years through an assessment. If we assume it will assess over the next 10 years for the 10 years it under collected, that would be another 33% raise over the original rate to $2.50. So a public agency's rate has grown from $1.50 to $2.50 in one years' time, a 67% increase for that budget line item. There is one other component that was not figured into this calculation, and that is because these funds were supposed to be earning interest since day 1, the lost interest earnings will mean that the claims liabilities will be higher because you can't discount them as much.

If I am the profit-based vendor administering this program, and I averaged $300,000 a year in profit, I would walk away with $3,000,000 after 10 years and have no liability for any portion of the underfunded program, it will all rest with the public agency members.

Where is the CAJPA market headed?

JPAs began forming in CA in the early 1970's. As in any new industry, many different agencies were able to grab a portion of the overall market. Now that the industry has reached a point of maturity, with 150+ JPAs doing business in CA, it is reasonable to assume that as in other industries, the market will begin to consolidate. We believe it is important for those JPAs that are truly member-owned & member-driven to position themselves for the next generation. We also believe that multi-faceted agencies, offering some diversification of products and services, will be better-positioned to survive and thrive.