

SAN FRANCISCO HEALTH SERVICE SYSTEM

Health Service Board

IBNR Reserve Policy and Methodology

Policy Objectives

Given the fact that there is a lag between the time period when a medical service is rendered to the time that a claim is fully settled in payment, it is prudent for a self-funded plan to set aside funds for an IBNR (Incurred But Not Reported) Reserve. An IBNR reserve, otherwise known as an operating reserve, is an estimate of the unpaid claims liability for run-out claims. In order to accurately project the self-funded plan's outstanding claims liability, the HSB's actuary will estimate the cost of claims rendered but not yet paid based on past experience.

Policy History

The Board adopted this policy on March 12, 2008, amended it on March 14, 2013, and amended it again on February 13, 2014.

Review

The Board shall review this policy at least every three years.

IBNR Reserve Policy

This policy standardizes the **IBNR Reserve** setting methodology for the Health Service System's (HSS) self-funded health plans. The IBNR Reserve policy is specific to the self-funded plans for which HSS maintains reserves, i.e. the following plans:

The Self-Funded PPO City Plan
The Self-Funded Employee PPO Dental Plan
The Flex-Funded/Self-Funded HMO Plan(s) (non-capitated costs)

The methods specified in this document will be applied for IBNR Reserve estimation as of June 30th of each year at the end of each fiscal year.

Definitions

IBNR Reserve: Reserve(s) calculated to pay for the outstanding liability of estimated run-out claim costs that have been incurred before a given date but have not paid as of the given date.

Developmental Method: the method by which the IBNR liability is estimated based on claim run-out patterns which are assumed to remain stable over time.

Projection Method: the IBNR liability estimate produced by the Developmental Method is adjusted for months where data is considered non-credible using the Projection Method based on the change in costs per exposure unit over time. The IBNR liability is further

adjusted to reflect actuarial assumptions related to a number of factors/contingencies which could impact reserve adequacy. Such factors/contingencies include: change in claim payment cycles, plan design, insurance carriers, large dollar claims, emerging claim trends, provider contract changes, seasonality, and other factors.

IBNR Reserve Methodology

The reserves at the end of each plan year will equate to the sum of the estimated future cost of incurred but not reported claims (**IBNR**) as of that date and the estimated cost of administering these claims.

The IBNR reserves will be based on the historical claims experience of each plan. An actuarial analysis of this experience will be completed to develop factors that are applied to paid claims data to estimate the potential run-out of these claims post-fiscal-year-end. Where plan specific claims data is deemed less than fully credible, additional normative claims data can be utilized to supplement the analysis performed.

HSB's actuarial consultant firm applies the Developmental Method and the Projection Method to set the IBNR Reserve(s).

The estimated cost of administering the run-out claims will reflect the terms and conditions of the plan administrator responsible for settling the relevant plan's claims.

The actuarial consultant firm presents IBNR Reserve recommendations and supporting analysis to the HS Board for approval.