

# Rate Relativity Equalization

Presentation to SF Health Service Board

February 11, 2016

# Examination of Early Retiree Rate Relativity

- Examined early retiree rate structure and learned that rate relativity is not equal across HSS membership.
- Rate relativity calculations for early retirees differ from all other HSS members: active members, 65+ members and all City Plan members.
- This contributes to the Kaiser and Blue Shield early retirees exceeding the federal excise tax threshold for 2018 and subsequent years.
- HSS's Rate relativity structure is inconsistent with industry standards and 10 county average counties

# Background

- HSS sets health insurance premium rates for three tiers of members in three plans (UHC NPPO = UHC City plan).
- Per the Charter, the City retiree premiums are calculated by subtracting the 10 county average and the actuarial difference from the full retiree premium and then applying the Prop E subsidy.
  - The Prop E subsidy multiplies the calculation above by 50%.
  - The actuarial difference is the amount between the premium cost for a retiree only, minus the premium cost of an employee only.
- The Charter language does not determine “rate relativity.”
- Rate relativity is a policy determination by the Health Service Board in consultation with the actuary.

- The overall premium cost for all members in each plan is negotiated by HSS with each insurer and divided into three tiers.
- When setting overall retiree premium rates the tiers are stratified: R only, R+1 and R+2. The relationship between these rates is called the “rate relativity.”
- Insurance industry practice is to have the R+1 equal to twice the premium of the R premium and the R+2 three times the R premium.
  - For example:  
R= \$1,000 R+1=\$2,000 and R+2=\$3,000 or 1:2:3
- This is consistent with California’s largest counties and Cal PERS.

- As a matter of long term practice, HSS consistently applied these standard “rate relativities” equally for all members.
- At some point these standard “rate relativities” were changed to only apply to all active members, 65+ members and all City Plan members.
- The “rate relativity” was changed for early retirees in Kaiser and Blue Shield.
- This change resulted in “rate relativities” for early retirees to the non standard “rate relativities” described below.
- Blue Shield: 1:1.45 :1.81, Kaiser 1: 1.5 : 1.91  
City Plan 1: 1.97: 2.84

## Current HSS rate relativities (rounded)

	ACTIVES			EARLY RETIREES			65+ RETIREES with Medicare		
	E only	E+1	E+2	R only	R+1	R+2	R only	R+ 1	R+2
Rate Relativities									
Blue Shield	1.00	2.00	2.82 (3)	1.00	1.45	1.81	1.00	1.99 (2)	2.99 (3)
Kaiser Permanente	1.00	2.00	2.82 (3)	1.00	1.50	1.91	1.00	1.99 (2)	2.99 (3)
City Plan	1.00	1.96 (2)	2.78 (3)	1.00	1.97 (2)	2.84 (3)	1.00	1.91 (2)	2.39

- Equalizing the rate relativities across all members will effect one third of the early retirees. (5689 total)
- This change will decrease the premium cost for R only members in Kaiser and Blue Shield, and lower the excise tax for 3304 members. It will increase the cost for early retirees for R+1 and R+2 in Kaiser and Blue Shield. It will have no effect on City Plan members.

Early Retirees	R	R+1	R+2	R+1 + R+2
Kaiser	1804	748	162	910
Blue Shield	1500	714	255	969
totals	3304	1462	417	1879

- HSS staff recommends that the HSB should establish equal rate relativities across the entire membership over a 3 year period.
- HSS staff recommends that the actuary prepare three sets of rates. 1) status quo, 2) equalizing early retiree rate relativity, 3) spreading equalization over 3 years.

# APPENDIX 1

## HSS AON Nov 12, 2015 presentation on Excise Tax

### No Blending of Pre-Medicare Retirees and Medicare Retirees

- The combined results of our projection are as follows:

		Estimated Excise Tax by Year			Year Crossing Threshold		
Group	Enrollment	2018	2019	2020	Single	Family	
Blue Shield of California	Active	15,831	\$0	\$30,000	\$1,232,000	2019	2023
	Pre-Medicare Retiree	2,614	\$8,828,000	\$10,111,000	\$11,573,000	2018	2018
	Medicare Retiree	5,854	\$0	\$0	\$0	2043	2053
Kaiser Permanente	Active	21,585	\$0	\$0	\$0	2031	2034
	Pre-Medicare Retiree	2,726	\$2,275,000	\$2,544,000	\$2,920,000	2018	2029
	Medicare Retiree	9,571	\$0	\$0	\$0	2051	2061
City Plan	Active	615	\$105,000	\$223,000	\$365,000	2018	2021
	Pre-Medicare Retiree	559	\$241,000	\$368,000	\$519,000	2018	2021
	Medicare Retiree	5,593	\$0	\$0	\$0	2040	2047
<b>Total</b>	<b>64,948</b>	<b>\$11,449,000</b>	<b>\$13,276,000</b>	<b>\$16,609,000</b>			

## Appendix 4

**Rate relativities comparison - Kaiser**

	Retiree	Retiree+1	Retiree+2
<b>San Francisco</b>	<b>1</b>	<b>1.5</b>	<b>1.9</b>
<b>Alameda</b>	<b>1</b>	<b>2.0</b>	<b>2.8</b>
<b>CALPERS</b>	<b>1</b>	<b>2.0</b>	<b>2.6</b>
<b>Fresno*</b>	<b>1</b>	<b>1.8</b>	<b>2.3</b>
<b>Orange</b>	<b>1</b>	<b>2.0</b>	<b>2.9</b>
<b>Riverside</b>	<b>1</b>	<b>2.0</b>	<b>2.6</b>
<b>Sacramento</b>	<b>1</b>	<b>2.0</b>	<b>2.8</b>
<b>San Bernardino</b>	<b>1</b>	<b>2.0</b>	<b>2.8</b>
<b>San Diego</b>	<b>1</b>	<b>2.0</b>	<b>3.0</b>
<b>Santa Clara</b>	<b>1</b>	<b>2.0</b>	<b>2.8</b>

Note: Contra Costa and Los Angeles counties only have Retiree and Retiree + Family rates

\*Only 5 Kaiser plans in Fresno County (2.5 percent of plans)

## Appendix 5

## Rate relativities comparison - HMO

	Retiree	Retiree+1	Retiree+2
<b>San Francisco</b>	<b>1</b>	<b>1.4</b>	<b>1.8</b>
Alameda	1	2.0	2.8
CALPERS	1	2.0	2.6
Fresno	1	1.6	2.9
Los Angeles	1	1.8	2.1
Orange	1	2.0	2.9
Riverside	1	2.0	2.6
Sacramento	1	2.0	2.8
San Bernardino	1	2.1	2.9
San Diego	1	2.0	3.0
Santa Clara	1	1.9	2.9

Note: Contra Costa County only has Retiree and Retiree + Family rates