

# San Francisco Health Service Board

## City Plan PPO Rate Stabilization Reserve Presentation

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# City Plan PPO Rate Stabilization

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## Funding Policy

The Health Service Board (HSB) approved Funding Policy requires an annual determination of the financial gain or loss for the self-funded plans. This difference between the expected versus actual plan cost is added to the existing stabilization reserve and amortized over a three-year rating period. This includes the City Plan PPO that is administered by UnitedHealthcare (UHC).

## Aon Rate Stabilization Calculation

Stabilization reserve as of December 31, 2014 (surplus carry forward)	(\$11,783,000)
Aon recommended decrease to the surplus in reserve	<u>\$404,000</u>
Total carry forward stabilization reserve as of December 31, 2015	(\$11,379,000)
Calculated amount per amortization policy to apply to 2017 rates (33% of stabilization reserve)	<b>(\$3,793,000)</b>
Remaining carry forward in stabilization reserve for plan year 2018	(\$7,586,000)

*Note: Please see appendix for last year's recommended stabilization amount*

# City Plan PPO Plan Year Reconciliation

## City and County of San Francisco

### January 2015 through December 2015 Plan Reconciliation Actual Versus Expected

	Expected	Actual
1 Estimated Incurred Claims Including Vision and EGWP Premium	\$51,642,000	\$48,875,000
2 Administrative Expense	\$2,611,000	\$2,356,000
Affordable Care Act (ACA) Expense (PCORI and Transitional Reinsurance)	\$100,000	\$128,000
Total Expense	\$2,711,000	\$2,484,000
3 Rx Rebates (Less Than Expected)	(\$755,000)	(\$580,000)
4 Total Cost ((1) + (2) + (3))	\$53,598,000	\$50,779,000
5 Total Contributions	\$46,167,000	\$42,763,000
6 Revenue Shortfall / (Surplus)	\$7,431,000.00	\$8,016,000.00
7 Change In Contingency Reserve (Decrease To Reserve)		(\$181,000.00)
8 Total Deficit ((Actual 6) + (Actual 7))		\$7,835,000.00
9 Net To Be Applied When Determining The Stabilization Carry Forward ((Actual 8) – (Expected 6))		\$404,000.00
10 Aon Recommended		\$404,000.00

# City Plan PPO Plan Year Reconciliation (continued)

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## Notes:

- 1 Claim payments for medical, pharmacy and vision services incurred between January 2015 and December 2015
- 2 Cost of administering January 2015 – December 2015 claims payments for medical, pharmacy and vision benefits
- 3 Rebates from drug manufacturers for the active and early retiree populations
- 5 Annual premium revenue collected
- 6 Difference in cost versus premium revenue collected (budgeted a \$7,431,000 deficit for January 2015 – December 2015)
- 7 A contingency reserve is an explicit reserve held to cover excess losses  
*Change equals the difference of the June 2015 reserve and the June 2014 reserve, or \$5,179,916 minus \$5,361,346*
- 9 Actual results minus expected results  
*This amount is added to existing stabilization reserve and amortized over three years*
- 10 Based on HSS funding policy  
*This full amount is to be added to stabilization reserve*

## Recommendation

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Aon recommends amortizing \$3,793,000 across all rating tiers for the City Plan PPO according to the Funding Policy.

Please note that the carry forward balance of \$17,183,000 minus the one-time buydown approved at the May 14, 2015 HSB meeting of \$5,400,000 will be applied to rates (both active and early retiree) for 2016 leaving the December 31, 2014 carry forward balance at \$11,783,000.

# Appendix

# City Plan PPO Rate Stabilization

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Below is the stabilization calculation as presented by Aon to the HSB in February 2014:

## Aon Rate Stabilization Calculation

Stabilization reserve as of December 31, 2012 (surplus carry forward)	(\$4,729,000)
Aon recommended decrease to stabilization reserve	(\$17,563,000)
Total carry forward stabilization reserve as of December 31, 2013	(\$22,292,000)
Calculated amount per amortization policy to apply to 2015 rates (33% of stabilization reserve)	<b>(\$7,431,000)</b>
Remaining carry forward in stabilization reserve for plan year 2016	(\$14,861,000)

# City Plan PPO Rate Stabilization

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Below is the stabilization calculation as presented by Aon to the HSB in May 2015:

## Aon Rate Stabilization Calculation

Stabilization reserve as of December 31, 2013 (surplus carry forward)	(\$14,861,000)
Aon recommended increase to the surplus in reserve	(\$10,913,000)
Total carry forward stabilization reserve as of December 31, 2014	(\$25,774,000)
Calculated amount per amortization policy to apply to 2016 rates (33% of stabilization reserve)	<b>(\$8,591,000)</b>
Remaining carry forward in stabilization reserve for plan year 2016	(\$17,183,000)