

# San Francisco Health Service System Health Service Board

## United Healthcare (UHC) City Plan PPO Rate Stabilization Reserve Presentation

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# Health Plan Reserve Prelude

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The Health Service Board (HSB) has three distinct health plan reserve policies, and as such maintains three distinct reserves on each self-funded/flex-funded health plan:

- (1) Incurred But Not Reported (IBNR): actuarial estimate of the unpaid claims liability for run-out claims where services were incurred on or before a given date, but those claims have not yet been paid as of that date; calculated as of June 30 each year for SFHSS plans
- (2) Contingency: statistically determined amount which protects against potential for funding estimate shortfalls which could occur when the actual claims incurred over a plan year would exceed projected claims when developing premium equivalents; calculated as of June 30 each year for SFHSS plans
- (3) Stabilization: annual determination of the financial gain or loss for the self-funded/flex-funded plans (see next page for further explanation); calculated as of December 31 each year for SFHSS plans

## Today's Discussion—City Plan Rate Stabilization Reserve

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The HSB's Self-Funded Plans' Stabilization Policy requires an annual determination of the financial gain or loss over a calendar year for each self-funded health plan. The difference between the expected and actual plan costs for the just-completed plan year is added to the existing stabilization reserve balance, and per policy is amortized over a three-year rating period.

# City Plan Rate Stabilization Reserve Summary

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In February 2017, the December 31, 2016 Stabilization Reserve recommendation was presented to the HSB. A total of \$4,529,000 was available for stabilizing rates.

In May 2017, the Board approved the using \$1,510,000 to buy down 2018 active and early retiree premiums. This action left \$3,019,000 in the reserve.

In June 2017, the Board approved using this additional \$3,019,000 to buy down active premiums. As such the entire December 2016 reserve was applied to the 2018 rate leaving no funding for 2019 and beyond.

At the beginning of every Rates and Benefits cycle, the claims experience for the prior calendar year is evaluated. Based on the 2017 claims experience, \$1,661,000 is available for stabilizing rates for 2019 and beyond. The calculation will be discussed in this presentation.

# City Plan PPO Plan Year Reconciliation

San Francisco Health Service System January 2017 - December 2017 Plan Reconciliation, Actual v Expected		Expected	Actual
1	Estimated Incurred Claims Including Vision Premium	\$26,413,000	\$35,736,000
2	Administrative Expense	\$649,000	\$789,000
	Affordable Care Act (ACA) Expense (PCORI and TRF)	\$4,000	\$69,000
	Total Expense	\$653,000	\$858,000
3	Rx Rebates	(\$654,000)	(\$894,000)
4	Total Cost ((1) + (2) + (3))	\$26,412,000	\$35,700,000
5	Total Contributions	\$18,826,000	\$29,636,000
6	Revenue Shortfall / (Surplus)	\$7,586,000	\$6,064,000
7	Change In Contingency Reserve (Decrease To Reserve)		(\$139,000)
8	Total Deficit ((Actual 6) + (Actual 7))		\$5,925,000
9	Net To Be Applied When Determining The Stabilization Carry Forward ((Expected 6) – (Actual 8))		\$1,661,000
10	Aon Recommended Increase / (Decrease) to December 31, 2016 Stabilization Reserve to Calculate December 31, 2017 Amount		\$1,661,000

# City Plan PPO Plan Year Reconciliation (continued)

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## Notes on Specific Exhibit Items:

- 1 Claim payments for medical, pharmacy and vision services incurred between January 1, 2017 and December 31, 2017
- 2 Cost of administering January 2017 – December 2017 claims payments for medical, pharmacy and vision benefits. For the ACA elements, both columns include Patient Centered Outcomes Research Institute (PCORI) fees for ongoing UHC City Plan active employees and early retirees. In addition, actuals paid in 2017 include PCORI fees incurred during 2016 / paid in 2017 for UHC Medicare retirees as well as Transitional Reinsurance Fees (TRF) incurred in 2016 / paid in 2017 for all City Plan members. The TRF program fee requirement terminated at the end of 2016.
- 3 Pharmacy rebates from drug manufacturers

# City Plan PPO Plan Year Reconciliation (continued)

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## Notes on Specific Exhibit Items (continued):

5 Annual premium revenue collected

6 Difference in cost versus premium revenue collected (budgeted deficit of \$7,586,000 for January 2017 – December 2017)

7 A contingency reserve is an explicit reserve held to cover excess losses

*Change equals the difference of the June 30, 2017 reserve and the June 30, 2016 reserve, or \$5,555,678 minus \$5,694,340.*

9 Difference between expected results and actual results

*This amount is added to existing stabilization reserve and amortized over three years*

10 Based on SFHSS funding policy

*This full amount is to be added to stabilization reserve*

# Aon Recommendation

## Rate Stabilization Reserve Calculation—City Plan

Stabilization reserve as of December 31, 2016 (surplus carry forward)	\$4,529,000
Aon recommended increase to the reserve based on 2017 experience	\$1,661,000
Stabilization reserve as of December 31, 2017 (surplus carry forward)	\$6,190,000
Less amount applied in 2018 subsidy per policy	(\$1,510,000)
Less increment overtly applied to active employees in 2018 subsidy	(\$3,019,000)
Estimated value of stabilization reserve as of December 31, 2018	\$1,661,000
Calculated amount per amortization policy to apply to 2019 rates (33% of stabilization reserve)	\$554,000
Remaining carry forward in stabilization reserve after 2019	\$1,107,000

Aon recommends per the requirements of Health Service Board approved claims stabilization policy that the amount of \$554,000 be amortized across all rating tiers for the City Plan PPO for plan year 2019. The remaining carry forward balance for plan year 2020 and beyond is \$1,107,000.

# Appendix

# City Plan Rate Stabilization Reserve

Presented at June 21, 2016 Meeting

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- At the February 11, 2016 Health Service Board (HSB) meeting, the Board was presented with the UnitedHealthcare (UHC) rate stabilization reserve calculation.
- At that time there was a total surplus carry forward of \$11,379,000
- Based on the Health Service System's Self-Funded Plan's Stabilization Policy, one-third (1/3) of any surplus or deficit is applied to the following year's rate projections and the two subsequent years.
- On February 11, 2016, the HSB approved that \$3,793,000 (or one-third of \$11,379,000) will be applied to the 2017 rate projections leaving a surplus carry forward balance of \$7,586,000 to be applied in future years.
- At the June 21, 2016 HSB meeting, the Board elected an additional buy down the 2017 UHC rates of \$3,793,000, leaving a carry forward surplus balance of \$3,793,000 (or \$7,586,000 – \$3,793,000) to apply into 2018-2019 plan year rating.

# City Plan Rate Stabilization Reserve

Presented at June 8, 2017 Meeting

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- At the February 9, 2017 HSB meeting, the Board was presented with the UnitedHealthcare (UHC) rate stabilization reserve calculation.
- At that time there was a total surplus carry forward of \$4,529,000.
- Based on the Health Service System's Self-Funded Plan's Stabilization Policy, one-third (1/3) of any surplus or deficit is applied to the following year's rate projections and the two subsequent years.
- On February 9, 2017, the HSB approved that \$1,510,000 (or one-third of \$4,529,000) will be applied to the 2018 rate projections leaving a surplus carry forward balance of \$3,019,000 to be applied in future years.
- At the June 8, 2017 HSB meeting, the Board elected an additional buy down the 2017 UHC rates of \$3,019,000 (applied to active employees), leaving no projected carry forward surplus balance to apply into 2019-2020 plan year rating.