

San Francisco Health Service System Health Service Board

Rates & Benefits

Review and Approve June 30, 2022, Incurred But Not Reported (IBNR) Reserve and Contingency Reserve Amounts for Self-Funded and Flex-Funded Health Plans

January 12, 2023

Background – Three Reserves for SFHSS Self-Funded/Flex-Funded Plans

Today's Discussion Focuses on First Two – IBNR and Contingency

- 1) Incurred But Not Reported (IBNR):** Actuarial estimate of the unpaid 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 annually as of June 30 (last day of fiscal year)** for SFHSS plans (e.g., as of June 30, 2022, for this reserve cycle).
- 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 annually as of June 30 (last day of fiscal year)** for SFHSS plans (e.g., as of June 30, 2022, for this reserve cycle).
- 3) Stabilization:** Annual determination of the financial gain or loss for the self-funded/flex-funded plans; **calculated annually as of December 31 (last day of plan year)** for SFHSS plans (e.g., as of December 31, 2022, for the upcoming Rates and Benefits cycle – recommended amounts will be reviewed with the HSB in March-April 2023).

Today's Discussion – IBNR and Contingency Reserves

As noted on the prior page, the Health Service Board (HSB) has three distinct health plan reserve policies – and as such maintains three distinct reserves on each self-funded and flex-funded medical/prescription drug and dental plan (e.g., health plan). Reserves are held by San Francisco Health Service System (SFHSS) as of June 30, 2022, on these health plans:

- Flex-funded non-Medicare medical/Rx HMO plans administered by Blue Shield of California (BSC) (Access+ and Trio) for active employees and early retirees;
- Flex-funded non-Medicare medical/Rx HMO plan administered by Health Net (CanopyCare) for active employees and early retirees (*new plan in 2022*);
- Self-funded non-Medicare medical/Rx PPO plan administered by BSC for active employees and early retirees (and UnitedHealthcare—UHC—for non-Medicare “split family” retiree covered lives where at least one family member is covered in the UHC Medicare Advantage MAPD plan) ; and
- Self-funded dental PPO plan administered by Delta Dental of California (Delta Dental) for active employees.

Today's Discussion – IBNR and Contingency Reserves

The HSB Reserve Policies are captured in the sfhss.org website within the Governance Policies and Terms of Reference document (dated February 2019) available at this link:

<https://sfhss.org/sites/default/files/2020-07/Final%20Updated%20Governance%20Policies%20and%20Terms%20of%20Reference%20as%20of%202-26-19.pdf>

The Reserve Policy numbers and descriptions are:

- 210 – Contingency Reserve Policy and Methodology
- 211 – Self-Funded Plans' Stabilization Policy
- 212 – IBNR Reserve Policy and Methodology

This presentation requests HSB approval today for Incurred But Not Reported (IBNR) and Contingency reserve amounts calculated as of June 30, 2022, for the SFHSS health plans listed above.

IBNR Reserves as of June 30, 2022

Recommended IBNR reserves, and change from prior levels, are:

Self-Funded/Flex-Funded Plan	Population Covered	Incurred But Not Reported (IBNR) Reserves			
		As of June 30, 2021	As of June 30, 2022	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Flex-Funded Non-Medicare HMO Plans Administered by BSC (Access+ and Trio)	Active Employees, Early Retirees	\$20,992,032	\$24,851,247	\$3,859,215	18.4%
Flex-Funded Non-Medicare HMO Plan Administered by Health Net (CanopyCare)	Active Employees, Early Retirees	n/a	\$28,701	\$28,701	(new in 2022)
Self-Funded Non-Medicare PPO Plan Administered by BSC/UHC	Active Employees, Early Retirees	\$4,088,760	\$4,794,276	\$705,516	17.3%
Self-Funded Dental PPO Plan Administered by Delta Dental	Active Employees	\$3,027,348	\$2,930,515	(\$96,833)	(3.2%)
All SFHSS Self-Funded/Flex-Funded Plans as of June 30, 2022		\$28,108,140	\$32,604,739	\$4,496,599	16.0%

The IBNR reserves for the plans listed above are currently fully funded. IBNR reserve figures for SFHSS flex-funded and self-funded health plans will be reset as of June 30, 2023, after the close of the current fiscal year.

A combination of higher recent claim levels observed during 2022 along with slower claim processing speeds by carriers in 2022 relative to prior years led to the recommended increases in medical plan reserves outlined above.

NOTE: upon auditor inquiry in Fall 2022, Aon discovered unmapped UHC claim activity for early retirees during 2022 that if incorporated into the reserve calculation performed in August 2022 would have increased the IBNR for Non-Medicare PPO early retiree component by \$1.16M.

Contingency Reserves as of June 30, 2022

Recommended Contingency reserves, and change from prior levels, are:

Self-Funded/Flex-Funded Plan	Population Covered	Contingency Reserves			
		As of June 30, 2021	As of June 30, 2022	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Flex-Funded Non-Medicare HMO Plans Administered by BSC (Access+ and Trio)	Active Employees, Early Retirees	\$13,774,152	\$14,595,784	\$821,632	6.0%
Flex-Funded Non-Medicare HMO Plan Administered by Health Net (CanopyCare)	Active Employees, Early Retirees	n/a	\$179,721	\$179,721	(new in 2022)
Self-Funded Non-Medicare PPO Plan Administered by BSC/UHC	Active Employees, Early Retirees	\$7,608,082	\$7,988,603	\$380,521	5.0%
Self-Funded Dental PPO Plan Administered by Delta Dental	Active Employees	\$2,145,095	\$2,126,350	(\$18,745)	(0.9%)
All SFHSS Self-Funded/Flex-Funded Plans as of June 30, 2022		\$23,527,329	\$24,890,458	\$1,363,129	5.8%

The Contingency reserves for the plans listed above are currently fully funded. Contingency reserve figures for SFHSS flex-funded and self-funded health plans will be reset as of June 30, 2023, after the close of the current fiscal year.

Today's Recommendation

It is recommended that the Health Service Board (HSB) approve the Incurred But Not Reported (IBNR) and Contingency reserve amounts as of June 30, 2022, as presented in this material for the following SFHSS self-funded and flex-funded health plans:

- Flex-funded non-Medicare medical/Rx HMO plans administered by Blue Shield of California (BSC) (Access+ and Trio) for active employees and early retirees;
- Flex-funded non-Medicare medical/Rx HMO plan administered by Health Net (CanopyCare) for active employees and early retirees (*new plan in 2022*);
- Self-funded non-Medicare medical/Rx PPO plan administered by BSC for active employees and early retirees (and UnitedHealthcare—UHC—for non-Medicare “split family” retiree covered lives where at least one family member is covered in the UHC Medicare Advantage MAPD plan) ; and
- Self-funded dental PPO plan administered by Delta Dental of California (Delta Dental) for active employees.

Changes in Contingency reserves will be a component of December 31, 2022, Stabilization reserve calculations in early 2023.