

# Health Service Board City & County of San Francisco

## Underwriting Overview

The Science of Rate Setting

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Prepared by:  
Aon Hewitt | Consulting | Health & Benefits



# What is Underwriting?

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- Underwriting is the process of projecting an employer's future premium or claims and administration cost based on:
  - The current and historical utilization patterns and demographic make-up of participants
  - The design, provider network and cost-sharing structure of each benefit
  - The estimated cost for future products and services
- Underwriting is **NOT**:
  - An exact science
  - A guarantee of future costs or utilization
  - Able to predict the unpredictable

# Rate Components

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- Most Recent 12 Months of Paid Claims
- Incurred But Not Reported (IBNR) Reserve Adjustment
- Trend
- Margin
- Administration Expenses
- Healthcare Reform (ACA) Taxes and Fees

# Rate Components (continued)

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- Adjustments

- **Plan Design**—Accounts for plan design changes (typically calculated using data from multiple employers)

- **Demographic Changes**—Accounts for any significant changes in age / gender composition of the group

- **Network Change**—Accounts for new negotiated provider contract rates

- **Other**

- Pharmacy rebates

- Class action judgments

- COBRA, HIPAA administration

# Incurred But Not Reported (IBNR) Reserve Adjustment

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- Incurred But Not Reported - referred to as IBNR
- Used to pay “Run-out” following plan termination
  - “Run-out” are claims incurred before termination, but not paid until after termination due to “lag”
- “Lag” is the time period from when a claim is incurred to when a claim is paid—about 1–3 months, depending upon:
  - Sophistication of electronic submission by provider
  - Auto adjudicating capabilities of carrier/TPA
  - Point-of-service (e.g., drug card) processing of provider

# Incurred But Not Reported Claims Reserves

**Definition**—Claims incurred during the policy period, but not yet paid

December 2015



Claim Incurred

February 2016



Claim Paid

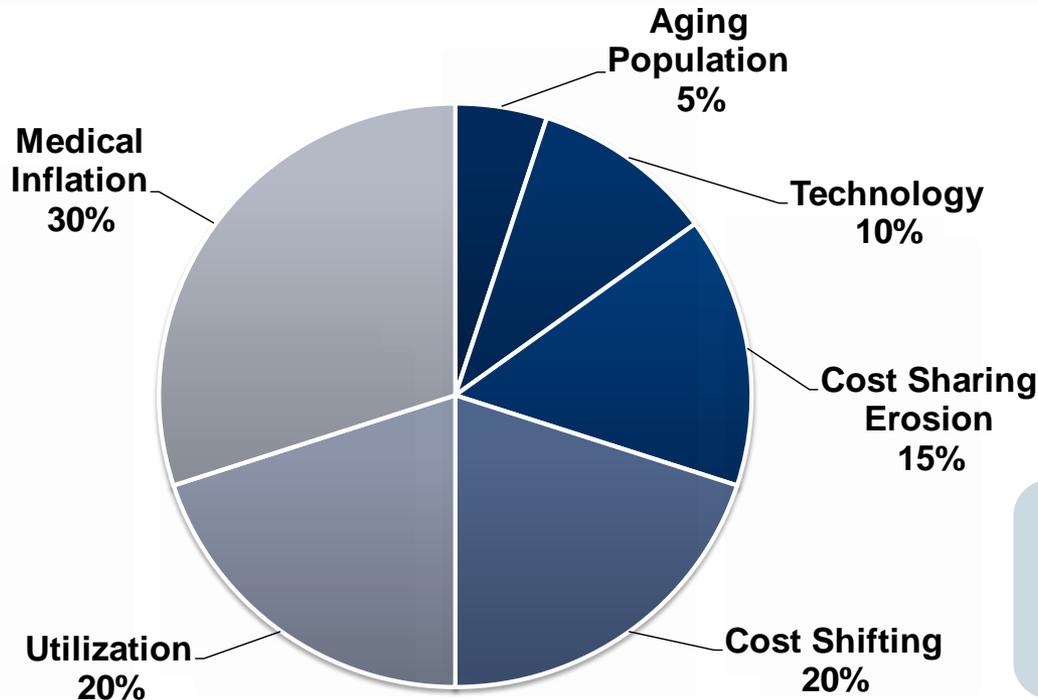
Claim Lag

Claim Lag (approximately 1.5—2.5 months of claims)

# Components of Health Care Trend

- Health care spending generally increases with age

- Increases in unit costs
- Increased prevalence of high cost diagnoses and treatment
- Increase in Rx costs
- Direct to consumer advertising
- Expanding waistlines



- Expensive new procedures and equipment (e.g., organ transplants, MRIs)
- Less invasive procedures with quicker recovery time increases demand

- Cost sharing erosion due to fixed \$ plan features (such as copays)

- Increased burden on private sector to absorb charges previously covered by Medicare, Medicaid, etc.
- The number of uninsured Americans leads to increased costs for those who can pay (private insurance)

# Margin

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- Designed to protect self-funded plans to account for variations due to claims fluctuation
- Generally the larger the population the more predictable the health care expense resulting in a lower margin

# Administration Expenses

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- Claim handling/processing charges
- Administration
  - Billing, actuarial, legal, legislative (taxes and fees), claim forms, banking fees, etc.
- Drafting/printing plan description information
- Utilization review
  - Pre-certification, concurrent review, large case management
- Network access fees
- Risk or profit added to the margin

# Health Care Reform Affordable Care Act (ACA)

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## Taxes and Fees

- Patient Centered Outcomes Research Institute Fee (PCORI)
- ACA Transitional Reinsurance Fee
- Health Insurance Tax
- Excise Tax (future)



# Health Care Reform (ACA) Taxes and Fees

- **What**—Patient Centered Outcomes Research Institute Fee (PCORI)
  - Funds the institutes research into the comparative effectiveness of medical treatments
- **Who**—Applies to self-insured and fully-insured plans (medical only)

For plan years ending after...	Fee per member per year (PMPY)
October 1, 2012	\$1.00 PMPY
October 1, 2013	\$2.00 PMPY
October 1, 2014	\$2.08 PMPY
October 1, 2015	\$2.17 PMPY
October 1, 2016	Estimated to be \$2.25 PMPY

**CCSF All Employers Estimated 2016 Cost = \$275,625**

# Health Care Reform (ACA) Taxes and Fees (continued)

- **What**—ACA Transitional Reinsurance Fee
  - Transitional reinsurance fee to provide funding to plan that enrolls highest cost individual; covers 80% of “large” claims costs between \$60,000 and \$250,000
    - Currently scheduled to sunset after 2016
- **Who**—Applies to self-insured and fully insured plans (medical only)

Year	Fee Per Member Per Month (PEPM)	CCSF All Employers Annual Estimated Cost
2014	\$5.25	\$5,493,056
2015	\$3.57	\$3,815,750
2016	\$2.31	\$2,407,763

# Health Care Reform (ACA) Taxes and Fees (continued)

## ■ **What**—Health Insurance Tax (HIT)

— Health insurance tax split among health insurance providers, fixed aggregate dollar amount each year assessed by the federal government. The HIT funds the expansion of Medicaid and exchanges.

Year	Federal HIT	Year	Federal HIT
2014	<b>\$8.0 billion</b>	2015/2016	<b>\$11.3 billion</b>
2017	<b>\$13.9 billion</b>	2018	<b>\$14.3 billion</b>

*\*Post-2018: HIT rises based on net premium growth*

## ■ **Who**—Applies to fully insured or flex-funded plans (based on a percentage of premium), including dental and vision

Year	CCSF All Employers Annual Estimated Cost
2014	<b>\$10,911,842</b>
2015	<b>\$14,203,854</b>
2016	<b>\$16,239,361</b>

# Health Care Reform (ACA) Taxes and Fees (continued)

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## ■ **What**—Excise Tax

- Beginning in 2018, levies a 40% nondeductible tax on the annual value of health plan costs for employees that exceed:
  - \$10,200 for single coverage, or
  - \$27,500 for family coverage
  - The threshold increases annually at the rate of inflation (CPI) + 1% in 2018 and 2019, and CPI thereafter

# How are Renewals Calculated?

Projecting Costs
Most Recent 12 Months of Paid Claims
+
IBNR Reserve Adjustment
<b>= Adjusted Incurred Claims</b>
+
Adjustments (Plan Design, Demographic Changes, Network Change, or Other)
+
Trend & Margin
<b>= New Projected Claims</b>
+
Administration Expenses and Health Care Reform (ACA) Tax and Fees
<b>= New Needed Premium</b>
New Adjusted Needed Premium ÷ Current Premium
<b>= Rate Change</b>

*Actual rate change could be higher or lower than “trend” based on current plan position*