

Health Service Board City & County of San Francisco

Rates & Benefits

Delta Dental of California Rate Stabilization Reserve Presentation

June 8, 2017

Delta Dental of California PPO Plans Rate Stabilization

The Health Service Board (HSB) approved Self-Funded Plans' Stabilization 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 policy applies to the Delta Dental of California (Delta Dental) PPO Plans

The Delta Dental stabilization balance increased in 2016:

- In 2016, the Dental PPO plans were scheduled to create a \$1.28M deficit (based on prior stabilization reserve release approved April 2015)
- In 2016 the Dental PPO Plans produced a surplus of \$3.5M due to favorable claims experience and a minor reduction in the contingency reserve
- The net result of this is a \$4.8M increase to the stabilization reserve balance, creating a carry forward stabilization reserve as of December 31, 2016 of \$9.6M
- Per the Self-Funded Plans' Stabilization Policy, Aon recommends that 33% (\$3.2M) be applied to the 2018 self-funded rates

Delta Dental of California Plan Year Reconciliation

Note: Numbers in parentheses “()” reflect a gain

January 2016 through December 2016 Plan Reconciliation—Actual Versus Expected	Expected	Actual
1 Estimated Incurred Dental Claims	\$44,325,810	\$41,599,931
2 Administration Expense	\$1,478,043	\$1,560,010
3 Total Cost ((1) + (2))	\$45,803,853	\$43,159,941
4 Total Contributions	\$44,516,996	\$46,604,126
5 Revenue Shortfall / (Surplus)	\$1,286,857	(\$3,444,185)
6 Increase in Contingency Reserve / Decrease to Stabilization Reserve		(\$102,024)
7 Total Surplus ((Actual 5) + (Actual 6))		(\$3,546,209)
Net To Be Applied When Determining the		
8 Stabilization Carry Forward ((Actual 7) – (Expected 5))		(\$4,833,066)
9 Aon Recommended		(\$4,833,066)

Delta Dental of California Plan Year Reconciliation

Notes:

- 1 Estimated Incurred Claims for January—December 2016 includes change in IBNR
- 2 Administration Expense—Cost of administering January – December 2016 claims payments PEPM: **\$4.35**
- 4 Total Contributions—Annual premium revenue collected.
- 5 Revenue Shortfall—Difference in cost versus premium revenue collected
- 6 Contingency Reserve—Explicit reserve held to cover excess losses
- 8 Actual results minus expected results. This amount is added to existing stabilization reserve and amortized over three years
- 9 Based on HSS funding policy. Full amount is to be added to stabilization reserve

Delta Dental of California Rate Stabilization

Continued from the previous page:

Aon Rate Stabilization Calculation *

Stabilization reserve as of December 31, 2015 (surplus carry forward)	(\$4,749,697)
Aon recommended increase to stabilization reserve	<u>(\$4,833,066)</u>
Total carry forward stabilization reserve as of December 31, 2016	(\$9,582,763)

Aon recommended amount applied to 2018 to reduce rates (33% of total stabilization reserve)	(\$3,194,254)
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Remaining surplus carry forward in stabilization reserve for plan year 2018	(\$6,388,509)
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*** Positive numbers reflect a loss and are added to the rates; negative numbers reflect a gain and are subtracted from the rates.**

Recommendation

Aon recommends that the HSB follow the Self-Funded Plans' Stabilization Policy and apply (\$3,194,254) to reduce the 2018 Self-Funded Premium Rates

Appendix 1 – Contingency Fund Status

The recommended Contingency Reserve as of June 30, 2016 is as follows:

Contingency Reserves				
Plan	June 30, 2015	June 30, 2016	\$ Change	% Change
UnitedHealthcare City Plan	\$5,179,916	\$5,694,340	\$514,424	10%
Delta Dental of California PPO Plan	\$3,736,413	\$3,634,389	-\$102,024	-3%
Blue Shield of California Plan	\$14,928,178	\$15,110,906	\$182,728	1%
TOTAL	\$23,844,507	\$24,439,635	\$595,128	2%

Appendix 2 – Contingency Fund Status (continued)

Continued from the previous page:

The City Plan, Blue Shield of California and Delta Dental of California IBNR reserves are currently fully funded.

The change in contingency reserve is added into the calculation of the Claims Stabilization.

These estimates will be reset as of June 30, 2017 after the close of the fiscal year.

Appendix 2 – Delta Dental of California Rate Stabilization

Self-Funded Plans' Stabilization Policy

The Health Service Board (HSB) approved Self-Funded Plans' Stabilization 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 Delta Dental of California Self-Funded PPO plan for actives

Appendix 2 – 2015 Delta Dental of California Rate Stabilization

Aon Rate Stabilization Calculation*

Stabilization reserve as of December 31, 2014	(\$2,573,715)
Aon recommended increase to stabilization reserve	(\$4,550,830)
Total carry forward stabilization reserve as of December 31, 2015	(\$7,124,545)
Stabilization policy requires 33% of reserve to be applied to the 2017 rates	(\$2,374,848)
Remaining surplus carry forward in stabilization reserve for plan year 2018 and after	(\$4,749,697)

*** Positive numbers reflect a loss and are added to the rates; negative numbers reflect a gain and are subtracted from the rates.**