

Health Service Board City & County of San Francisco

Rates & Benefits

Blue Shield of California Rate Stabilization Reserve Presentation

March 10, 2016

Blue Shield of California HMO 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 Blue Shield of California (BSC) Flex Funded HMO Plan.

Aon Rate Stabilization Calculation*

Stabilization reserve as of December 31, 2014 (carry forward)	\$8,970,155
Aon recommended increase to stabilization reserve (Net to be applied when determining the Stabilization Carry Forward—page 3)	\$6,491,000
Total carry forward stabilization reserve as of December 31, 2015	\$15,461,155
Stabilization policy requires 33% of reserve to be applied to the 2017 rates	\$5,153,718
Remaining carry forward in stabilization reserve for plan years 2018 and after	\$10,307,437

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

Blue Shield of California HMO Plan Year Reconciliation

January 2015 through December 2015 Plan Reconciliation Actual Versus Expected	Expected	Actual
1–Estimated Incurred Claims—includes capitation, pharmacy cost, and fee for service claims cost	\$260,300,000	\$267,393,000
IBNR Increase	—	\$(134,000)
Potential Claims Cost Payout	—	—
Total Claims Spend	\$260,300,000	\$267,259,000
2–Administration Expense		
Basic Retention	\$17,592,000	\$17,641,000
PCORI—Patient Centered Outcome Research Institute	\$83,000	\$83,000
Transitional Reinsurance	\$1,643,000	\$1,647,000
HIT—Health Insurance Tax	\$9,309,000	\$9,335,000
Expense Total Admin	\$28,627,000	\$28,706,000
3–Margin Embedded in Premium Equivalent	—	
4–Rx Rebates	\$(1,800,000)	\$(2,929,000)
5–Total Cost (1+2+3+4)	\$287,127,000	\$293,036,000
6–Total Contributions	\$278,283,000	\$278,500,000
7–Revenue Shortfall/(Gain)	\$8,844,000	\$14,536,000
8–Change in Contingency Reserve		\$799,000
9–Total Shortfall (7+8 Actual column)		\$15,335,000
10–Net to be Applied when Determining the Stabilization Carry Forward		\$6,491,000
11–Rate Spend Down		—
11–Aon Recommended Final Carry Forward		\$6,491,000

Blue Shield of California HMO Plan Year Reconciliation

Notes:

- 1—Estimated Incurred Claims including claim payments for medical, pharmacy, and capitation in January–December 2015.
- 2—Administration Expense—cost of administering January–December 2015 claims payments for medical and pharmacy including pooling and all health care reform fees. The PCORI Fee was not itemized in the 2013 renewal and the Transitional Reinsurance Fee and HIT did not take effect until 2014.
- 4—Rx Rebates—rebates from drug manufacturers for actives and early retirees.
- 6—Total Contributions—annual premium revenue collected.
- 7—Revenue Shortfall—difference in cost versus premium revenue collected.
- 8—Contingency Reserve—explicit reserve held to cover excess losses.
- 9—Expected minus shortfall result add to existing stabilization reserve and amortized over three years.
- 10—Based on HSS funding policy full amount is to be added to stabilization reserve.

Recommendation

Per the Self-Funded Plans' Stabilization Policy, which requires amortizing the loss of \$15,461,155 (total carry forward stabilization reserve as of December 31, 2015—page 2) over a 3-year rate period, Aon recommends adding \$5,153,718 across all rating tiers for the 2017 Blue Shield of California HMO Plan.