

San Francisco Health Service System Health Service Board

Rates & Benefits

Review Delta Dental of California (Delta Dental) Self-Funded Active Employee PPO Plan 2021 Claims & Utilization Experience and Approve One-Time Suspension of the Stabilization Policy and Approve the Use of One-Half of the Stabilization Reserve Surplus as of December 31, 2021

March 10, 2022

Delta Dental Active Employee PPO Plan

Rate Stabilization Reserve — Recommendation

Today's Recommended Approval Actions

- 1) Suspend the HSB-approved Self-Funded Plans' Stabilization Policy (Stabilization Policy) on a one-time basis for the Delta Dental active employee PPO plan; and
- 2) Approve use of **one-half** of the December 31, 2021 stabilization reserve **Surplus**, or \$5,309,000 (one-half of \$10,618,000), to be applied towards buy-down across all rating tiers for the Delta Dental active employee PPO plan for plan year 2023.

The remaining Surplus carry forward balance for plan year 2024 and beyond is \$5,308,000.

This presentation will explain the derivation of this result and recommendation.

Today's dental presentation and recommendations are for active employees. The 2023 retiree dental plan renewals and experience information will be presented to the Health Service Board (HSB) at the April 14, 2022 meeting.

Delta Dental Active Employee PPO Plan

Rate Stabilization Reserve — Introduction

Stabilization Policy — General Background

The Health Service Board's (HSB's) Self-Funded Plans' Stabilization Policy requires an annual determination of the financial gain or loss for San Francisco Health Service System (SFHSS) self-funded / flex-funded plans. The Stabilization Policy states for each plan, the difference between the expected plan cost and actual claim/fee cost for a plan year is added to the existing stabilization reserve and amortized over a three-year rating period.

Today's Presentation Focus — Delta Dental Active Employee PPO Plan

This presentation focuses on the recommended adjustment to the Delta Dental of California (Delta Dental) self-funded active employee PPO plan rate stabilization reserve to reflect impact of calendar year 2021 claim and fee experience. That experience is contained in this presentation.

All other dental plans offered to SFHSS active employees and retirees are fully insured. Thus, the only dental plan where the Stabilization Policy applies is the active employee dental PPO plan.

Delta Dental Active Employee PPO Plan

Rate Stabilization Reserve — Recommendation Summary

Recommended Buy-Down for 2023 Rating — One-Half of Available Reserve

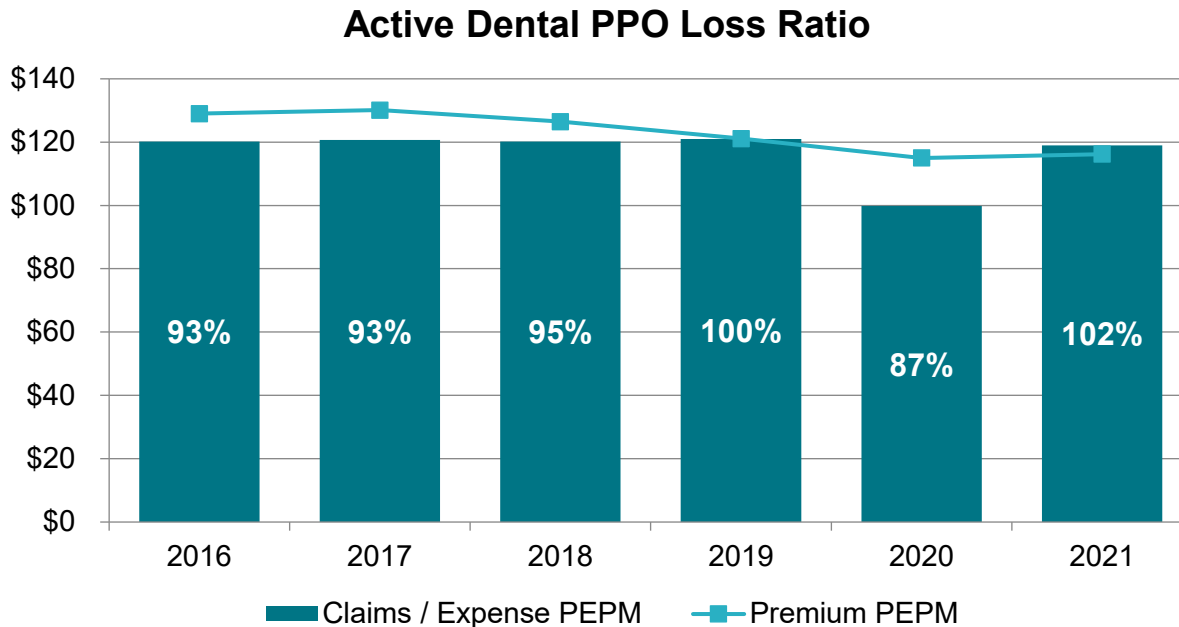
Active employee dental PPO plan claim experience ended the year favorably relative to premiums. As a result, it is recommended to the HSB that a higher level of rate stabilization reserve buy-down be applied to 2023 active employee dental PPO rating than the “per policy” one-third allocation, as a fiscally responsible approach to reduce the rate stabilization reserve balance. This will require the HSB to suspend the Self-Funded Plans’ Stabilization Policy for Delta Dental Active Employee PPO plan for this cycle’s approval. This is consistent with recent year actions taken on the rate stabilization reserve for this plan given recent favorable experience.

Today’s recommendation is to apply a buy-down of 2023 rates in the amount of one-half of the available stabilization reserve, or \$5,309,000. This action would preserve a remaining carryforward balance in rate stabilization reserve of \$5,308,000 for use in 2024 and beyond rating. The recommended \$5,309,000 buy-down figure for 2023 rating compares to the \$12,229,000 buy-down figure (two-thirds of December 31, 2020 stabilization surplus balance) utilized in 2022 plan year rating.

Delta Dental Active Employee PPO Plan

2021 Claim/Fee Experience Summary

Claims in 2021 have returned to more typical levels after a substantially lower 2020 loss ratio for the active employee dental PPO plan (87%) due to COVID-19 pandemic claim suppression influences, especially in Q2-2020. Actual 2021 plan experience on a per employee per month (PEPM) basis was nearly identical to the claim/expense PEPM figures in years prior to 2020. In the chart below, the line represents PEPM premiums, and the bars represent actual PEPM claims/fees.



Return to about \$120 PEPM actual claim/fee cost for 2021 — after 2020 claim suppression

100% loss ratio (claims/expenses divided by premiums) is optimal — claims plus fees equaling premiums

Delta Dental Active Employee PPO Plan

2021 Claim/Fee Experience Summary

The COVID-19 Pandemic Impacted Dental Plan Utilization Significantly

In typical years, about 1 out of 3 covered lives do not have a dental cleaning. In 2020, given the pandemic, this grew to 43% of covered lives without a dental cleaning. In 2021, this reverted more to typical levels—36% of covered lives in 2021 did not have a dental cleaning.

The relative distribution of services among type of care has remained consistent year-to-year:

| Diagnostic & Preventive | Basic | Major |
|-----------------------------|--|--|
| <i>Cleanings and X-rays</i> | <i>Fillings, Oral Surgery, Root Canals</i> | <i>Crowns, Inlays, Implants, Dentures, Bridges</i> |
| 75% of services | 21% of services | 4% of services |

In 2021, 3% of total covered lives utilize orthodontic services—including 6% of children. This is similar to prior years.

Detailed month-by-month 2021 claim and headcount data for the Delta Dental Active Employee PPO Plan is contained in the Appendix.

Delta Dental Active Employee PPO Plan

Plan Design Variation by Type of Dentist Utilized

Three Benefit Levels — Member Costs are Lowest When Using PPO Dentists

| Plan Feature | PPO Dentists | Premier Dentists | Out-of-Network |
|---|--|--|--|
| Choice of Dentist | You may choose any licensed dentist. You will receive a higher level of benefit and lower out-of-pocket costs when using a Delta Dental PPO network dentist. | | |
| Annual Deductible | No deductible | | |
| Annual Plan Year Maximum | \$2,500 per person (excluding orthodontia) | | |
| Benefit Coverage Level Paid by the Plan | | | |
| Cleanings and Exams | 100% covered | 100% covered | 80% covered |
| X-rays | 100% covered | 100% covered | 80% covered |
| Nitrous Oxide/Non-IV Sedation | 90% covered | 80% covered | 60% covered |
| Extractions | 90% covered | 80% covered | 60% covered |
| Fillings | 90% covered | 80% covered | 60% covered |
| Crowns | 90% covered | 80% covered | 60% covered |
| Dentures, Pontics, and Bridges | 50% covered | 50% covered | 50% covered |
| Endodontic/Root Canals | 90% covered | 80% covered | 60% covered |
| Oral Surgery | 90% covered | 80% covered | 60% covered |
| Implants | 50% covered | 50% covered | 50% covered |
| Orthodontia | 50% covered to \$2,500 Lifetime Maximum | 50% covered to \$2,000 Lifetime Maximum | 50% covered to \$1,500 Lifetime Maximum |
| Night Guards | 80% covered (1x3year) | 80% covered (1x3year) | 80% covered (1x3year) |

NOTE: this exhibit contains plan summary information only. For a more detailed description of benefits and exclusions for each plan, please review the plan's Evidence of Coverage (EOC), available on sfhss.org

Delta Dental Active Employee PPO Plan

Plan Design Variation by Type of Dentist Utilized

Delta Dental Dentist Network Utilization — Three Benefit Levels

- Delta Dental has two levels of network dentists, based on level of plan discounts dentists are willing to accept
- Deepest discounts are for dentists in Delta Dental's PPO network
- Lesser discounts are for dentists in Delta Dental's Premier (2nd level) network
- No discounts are available for dentists choosing not to participate in either Delta Dental's PPO network or Delta Dental's Premier network
- Members receive the highest level of benefits by utilizing a Delta Dental PPO dentist, as exhibited on the previous page
- Though a higher level of member cost sharing for services is required for use of a Premier network dentist versus a PPO network dentist, benefits are higher for Premier dentist use than for use of a dentist not in any Delta Dental network
- Another key member benefit for using a Delta Dental network dentist (PPO network or Premier network) is no balance billing if service costs are high
- Balance billing can happen with use of an out-of-network dentist

Delta Dental Active Employee PPO Plan

Plan Design Variation by Type of Dentist Utilized

Delta Dental Dentist Network Utilization — Three Benefit Levels

- Members are encouraged to consider seeking Delta Dental PPO dentists for services
- Member coinsurance requirements will be less for many services when using a PPO dentist
- Overall service costs are generally less for PPO dentists given higher discounts for PPO network dentists versus Premier network dentists

SFHSS members can search for PPO network dentists (and Premier network dentists) at this weblink:

<https://www1.deltadentalins.com/group-sites/ccsf/find-a-dentist.html>

Weblink for SFHSS member Delta Dental group site:

<https://www1.deltadentalins.com/group-sites/ccsf.html>

Delta Dental Active Employee PPO Plan

Impact of Historical Experience on Rate Stabilization Reserve

| Rate Stabilization Reserve Surplus/(Deficit) as of December 31 | |
|--|--------------------|
| December 31, 2013 | Not Yet Applicable |
| December 31, 2014 | \$3,861,000 |
| December 31, 2015 | \$7,125,000 |
| December 31, 2016 | \$9,583,000 |
| December 31, 2017 | \$12,681,000 |
| December 31, 2018 | \$14,031,000 |
| December 31, 2019 | \$11,325,000 |
| December 31, 2020 | \$18,343,000 |
| December 31, 2021 | \$10,617,000 |
| Surplus/(Deficit) Amount Applied to Rating | |
| 2016 Plan Year | \$1,287,000 |
| 2017 Plan Year | \$2,375,000 |
| 2018 Plan Year | \$3,194,000 |
| 2019 Plan Year | \$4,227,000 |
| 2020 Plan Year | \$7,016,000 |
| 2021 Plan Year | \$5,663,000 |
| 2022 Plan Year | \$12,229,000 |
| Percentage Buy-Down Applied in Rating | |
| 2016 Plan Year | 2.8% |
| 2017 Plan Year | 5.0% |
| 2018 Plan Year | 6.5% |
| 2019 Plan Year | 8.4% |
| 2020 Plan Year | 13.8% |
| 2021 Plan Year | 11.3% |
| 2022 Plan Year | 24.5% |

Delta Dental Rate Stabilization reserve started in 2014 — significant surpluses have built up since, given the favorable plan experience documented earlier. This led to actuarial assumption changes in plan rating starting for the 2019 plan year.

HSB amortization decisions by rating year:

- **2016 – 2019:** One-third of new stabilization reserve per HSB Stabilization Policy
- **2020 – 2021:** One-half of new stabilization reserve
- **2022:** Two-thirds of new stabilization reserve

Delta Dental Active Employee PPO Plan

Rate Stabilization Reserve—Reconciliation Calculation*

During every Rates and Benefits cycle, the claims experience for the prior calendar year is evaluated. Based on 2021 claims experience, **\$4,503,000** should be added to the prior Delta Dental active employee PPO carry-forward rate stabilization reserve balance.

| Calendar Year 2021 Plan Reconciliation (Actual versus Expected) | Expected | Actual |
|---|--------------|----------------|
| 1 Total Projected Incurred Claims | \$48,243,000 | \$43,542,393 |
| 2 Administration Expense — Delta Dental Fees | \$1,772,000 | \$1,719,938 |
| 3 Total Cost (1+2) | \$50,015,000 | \$45,262,331 |
| 4 Total Contributions | \$44,352,000 | \$43,307,315 |
| 5 Revenue Shortfall/(Surplus) (3-4) | \$5,663,000 | \$1,955,016 |
| 6 Increase/(Decrease) in Contingency Reserve | | (\$795,175) |
| 7 Total Shortfall/(Surplus) (Actual column: 5+6) | | \$1,159,841 |
| 8 Adjustment to Stabilization Carry-Forward (Actual 7 – Expected 5): Aon Recommended Surplus to Add to December 31, 2020 Carry-Forward Stabilization Reserve to Calculate December 31, 2021 Amount (rounded to \$000) | | \$ (4,503,000) |

* See Appendix for descriptions of items listed above; expected column figures based on Aon rating calculations for 2021 plan year in Spring 2020; actual column figures provided by SFHSS Finance team.

Delta Dental Active Employee PPO Plan

Rate Stabilization Reserve — Calculation Detail

Rate Stabilization Reserve Calculation —Delta Dental Active Employee PPO Plan

| | |
|---|----------------------|
| Stabilization surplus balance as of December 31, 2020 | (\$18,343,000) |
| Offset surplus amount applied in 2022 rate buy-down (2/3 per HSB action) | (\$12,229,000) |
| Prior carry-forward stabilization surplus balance | (\$6,114,000) |
| Recommended increase to the surplus based on 2021 experience | (\$4,503,000) |
| Stabilization surplus balance as of December 31, 2021 | (\$10,617,000) |
| Calculated amount per recommendation to apply to 2023 rate buy-down (recommend 1/2 of stabilization surplus balance) | (\$5,309,000) |
| Updated carry-forward stabilization surplus for use after 2023 | (\$5,308,000) |

Delta Dental Active Employee PPO Plan

Rate Stabilization Reserve — Recommendation

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Appendix

- Reconciliation Calculation Notes
- 2021 Claim Experience

Reconciliation Calculation Notes (for page 13)

1. Estimated Incurred Claims including claim payments during January – December 2021.
2. Administration Expense — Calculated Delta Dental fees for administering January – December 2021 claims using \$4.62 per employee per month (PEPM).
4. Total Contributions — Annual premium revenue collected.
5. Revenue Shortfall/(Surplus) — Difference in cost versus premium revenue collected.
6. Contingency Reserve — Explicit reserve held to cover excess losses (amount presented in January 2022 HSB meeting).
8. Actual shortfall/(surplus) minus expected shortfall/(surplus) — Amount added too existing stabilization reserve per HSB Stabilization Policy and amortized over three years.

Delta Dental Active Employee PPO Plan

2021 Claim Experience

Actual claim experience in 2021 returned to expected levels after significant impact of COVID-19 pandemic related dental claim suppression in 2020.

| Month | EE Only | EE + 1 | EE + 2 | Total EEs | Total Depend. | Average Contract Size | EE Only Rate | EE+1 Rate | EE+2 Rate | Monthly Premiums | Admin. Fees | Actual Paid Claims | Paid Loss Ratio | Projected Incurred Claims | Incurred Loss Ratio |
|--------------------------|---------|--------|--------|---------------|---------------|-----------------------|--------------|-----------|-----------|---------------------|--------------------|---------------------|-----------------|---------------------------|---------------------|
| Jan-21 | 11,768 | 8,182 | 11,505 | 31,455 | 41,144 | 2.31 | \$57.63 | \$121.02 | \$172.89 | \$3,657,475 | \$145,322 | \$3,504,943 | 100% | \$3,715,868 | 106% |
| Feb-21 | 11,732 | 8,161 | 11,478 | 31,371 | 41,058 | 2.31 | \$57.63 | \$121.02 | \$172.89 | \$3,648,191 | \$144,934 | \$3,630,794 | 103% | \$3,482,561 | 99% |
| Mar-21 | 11,751 | 8,131 | 11,477 | 31,359 | 41,011 | 2.31 | \$57.63 | \$121.02 | \$172.89 | \$3,645,482 | \$144,879 | \$3,692,457 | 105% | \$4,047,118 | 115% |
| Apr-21 | 11,741 | 8,127 | 11,457 | 31,325 | 40,940 | 2.31 | \$57.63 | \$121.02 | \$172.89 | \$3,640,964 | \$144,722 | \$4,166,064 | 118% | \$3,468,004 | 99% |
| May-21 | 11,753 | 8,088 | 11,436 | 31,277 | 40,834 | 2.31 | \$57.63 | \$121.02 | \$172.89 | \$3,633,305 | \$144,500 | \$3,222,068 | 93% | \$3,243,958 | 93% |
| Jun-21 | 11,737 | 8,051 | 11,408 | 31,196 | 40,719 | 2.31 | \$57.63 | \$121.02 | \$172.89 | \$3,623,064 | \$144,126 | \$3,258,562 | 94% | \$3,897,798 | 112% |
| Jul-21 | 11,636 | 7,891 | 11,341 | 30,868 | 40,382 | 2.31 | \$57.63 | \$121.02 | \$172.89 | \$3,586,297 | \$142,610 | \$4,095,804 | 118% | \$3,427,843 | 100% |
| Aug-21 | 11,627 | 7,902 | 11,341 | 30,870 | 40,406 | 2.31 | \$57.63 | \$121.02 | \$172.89 | \$3,587,110 | \$142,619 | \$3,163,847 | 92% | \$3,425,877 | 99% |
| Sep-21 | 11,572 | 7,884 | 11,333 | 30,789 | 40,341 | 2.31 | \$57.63 | \$121.02 | \$172.89 | \$3,580,378 | \$142,245 | \$3,715,550 | 108% | \$3,129,480 | 91% |
| Oct-21 | 11,553 | 7,873 | 11,335 | 30,761 | 40,325 | 2.31 | \$57.63 | \$121.02 | \$172.89 | \$3,578,298 | \$142,116 | \$3,051,543 | 89% | \$3,256,390 | 95% |
| Nov-21 | 11,549 | 7,833 | 11,307 | 30,689 | 40,195 | 2.31 | \$57.63 | \$121.02 | \$172.89 | \$3,568,386 | \$141,783 | \$2,951,992 | 87% | \$3,138,437 | 92% |
| Dec-21 | 11,529 | 7,797 | 11,263 | 30,589 | 40,020 | 2.31 | \$57.63 | \$121.02 | \$172.89 | \$3,555,269 | \$141,321 | \$3,756,751 | 110% | \$4,374,123 | 127% |
| Total/Averages | | | | 31,046 | 40,615 | 2.31 | | | | \$43,304,220 | \$1,721,176 | \$42,210,375 | 101% | \$42,607,456 | 102% |
| Surplus/(Deficit) | | | | | | | | | | | | (\$627,332) | | (\$1,024,413) | |

NOTE: "Loss Ratio" = (claims + fees) divided by premiums

Data Source: Delta Dental of California year-end reporting for headcount, paid claims, and fees

