

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

Today's Discussion Focuses on Third Below—Stabilization

- (1) Incurred But Not Reported (IBNR):** actuarial estimate of the unpaid claim 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, 2020 for most recent 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, 2020 for most recent 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, 2020 for today's review of the Blue Shield of California (BSC) Flex Funded HMO stabilization amounts).

Today's Recommendation— BSC HMO Plans Rate Stabilization Reserve

It is recommended per the requirements of the Health Service Board (HSB)-approved claims stabilization policy, that the **Surplus** amount of \$4,856,000 be amortized as a rating buy-down across all rating tiers for the BSC HMO plans for plan year 2022, applied proportionately per Policy between active employees and early retirees.

The remaining Surplus carry forward balance for plan year 2023 and beyond is \$9,711,000.

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

Today's Discussion— BSC HMO Plans Rate Stabilization Reserve

Information on the June 30, 2020 IBNR and Contingency Reserves was presented by Aon to the HSB on January 14, 2021.

Today's discussion focuses on the BSC HMO Plans (Access+ and Trio) Rate Stabilization Reserve amount that is recommended by Aon as of December 31, 2020.

The HSB's Self-Funded Plans' Stabilization Policy requires an annual determination of the financial gain or loss over a calendar year for each self-funded and flex-funded health plan. The difference between the expected and actual plan costs for the just-completed plan year is added to the existing Stabilization Reserve balance, and per policy is amortized over a three-year rating period.

Recent BSC HMO Plans Rate Stabilization Actions

For most years since the BSC HMO became flex-funded in 2013 (after being fully insured prior to 2013), the BSC HMO plans have been in a Rate Stabilization Deficit position. Due to favorable claim experience in the 2019 plan year relative to plan rates, the BSC HMO plans flipped to a Rate Stabilization Surplus as of December 31, 2019. This resulted in a Rate Stabilization Buy-Down in 2021 plan year rates in the amount of \$2,562,000 for the BSC HMO Plans.

The remaining BSC HMO Plans surplus carry forward in Stabilization Reserve after the 2021 rating action described above was \$5,124,000—this will be applied in BSC HMO Plans rating for the 2022 plan year and beyond.

Further information on recent Rate Stabilization Fund actions is presented in the Appendix to this document.

BSC HMO Plans Rate Stabilization Reserve Summary

At the beginning of every rate and benefits cycle, the claims experience for the prior calendar year is evaluated. Based on the 2020 BSC HMO Plans claims experience, there is a projected Rate Stabilization **Surplus** balance of \$14,567,000 to carry into the 2022 plan year and beyond.

This calculation will be discussed in following pages. Per policy, one-third of this Rate Stabilization **Surplus** amount, or \$4,856,000, is recommended to be applied in 2022 plan year rating for the BSC HMO Plans (Access+ and Trio) as a buy-down to rates.

This \$4,856,000 rating buy-down figure represents approximately 1.4% of early estimated 2022 plan year BSC HMO rates, over and above health care cost trend that will also incorporate into 2022 BSC HMO rate calculations. We will present 2022 BSC HMO rating recommendations during the May 13, 2021 HSB meeting.

BSC HMO Plans 2020 Plan Year Reconciliation

Combined Access+ and Trio Plans for Active Employees and Early Retirees

January 2020 – December 2020 Plan Reconciliation (Actual vs Expected)	Expected	Actual
1 Estimated Incurred Claims—includes capitation, pharmacy cost, and fee for service claims cost	\$ 316,170,000	\$ 303,140,840
IBNR Increase / (Decrease)	\$ –	\$ 68,621
ACO Collaboration Expected Payout	\$ –	\$ 1,236,580
Total Claims Spend	\$ 316,170,000	\$ 304,446,041
2 Administration Expense—BSC Administrative/Large Claim Pooling Fees	\$ 19,214,000	\$ 18,588,252
3 Rx Rebates	<u>\$ (5,009,000)</u>	<u>\$ (5,354,019)</u>
4 Total Cost (1+2+3)	\$ 330,375,000	\$ 317,680,274
5 Total Contributions	\$ 332,271,000	\$ 329,271,754
6 Revenue Shortfall / (Surplus) (4-5)	\$ (1,896,000)	\$ (11,591,480)
7 Increase / (Decrease) in Contingency Reserve		\$ 252,335
8 Total Shortfall / (Surplus) (Actual column: 6+7)		\$ (11,339,145)
9 Adjustment to Stabilization Carry-Forward (Actual 8 – Expected 6): Aon Recommended increase to December 31, 2019 Carry-Forward Stabilization Surplus Balance to Calculate December 31, 2020 Amount (rounded to nearest \$000)		\$ (9,443,000)

Today's Recommendation

Rate Stabilization Reserve Calculation—BSC HMO Plans

Stabilization surplus balance as of December 31, 2019	(\$7,686,000)
Offset surplus amount applied in 2021 rate buy-up per policy (1/3)	<u>(\$2,562,000)</u>
Prior carry-forward stabilization surplus balance	(\$5,124,000)
Recommended increase to the surplus based on 2020 experience	<u>(\$9,443,000)</u>
Stabilization surplus balance as of December 31, 2020	(\$14,567,000)
Calculated amount per amortization policy to apply to 2022 rate buy-down per policy (1/3 of stabilization surplus balance)	<u>(\$4,856,000)</u>
Updated carry-forward stabilization surplus for use after 2022	(\$9,711,000)

Today's Recommendation

It is recommended per the requirements of the Health Service Board (HSB)-approved claims stabilization policy, that the **Surplus** amount of \$4,856,000 be amortized as a rating buy-down across all rating tiers for the BSC HMO plans for plan year 2022, applied proportionately per Policy between active employees and early retirees.

Appendix

BSC Plan Rate Stabilization Reserve History

Presented At March 14, 2019 Meeting

Aon Rate Stabilization Calculation [1]

Stabilization deficit balance carry-forward as of December 31, 2017	\$6,323,000
Aon recommended increase to stabilization deficit	<u>(\$636,000)</u>
Total stabilization deficit balance as of December 31, 2018	\$5,687,000
Stabilization policy requires 33% of balance to be applied to the 2020 rates	<u>\$1,896,000</u>
Remaining carry-forward in stabilization deficit balance for plan years 2021 and after	\$3,791,000

[1] Positive numbers reflect a loss and are added to the rates; negative numbers in parentheses reflect a gain and are subtracted from the rates.

BSC Plan Rate Stabilization Reserve History

Presented At March 12, 2020 Meeting

Aon Rate Stabilization Calculation [1]

Stabilization deficit balance carry-forward as of December 31, 2018	\$3,791,000
Aon recommended decrease to stabilization deficit	(\$11,477,000)
Total stabilization surplus balance as of December 31, 2019	(\$7,686,000)
Stabilization policy requires 33% of balance to be applied to the 2021 rates	(\$2,562,000)
Remaining carry-forward in stabilization surplus balance for plan years 2022 and after	(\$5,124,000)

[1] Positive numbers reflect a loss and are added to the rates; negative numbers in parentheses reflect a gain and are subtracted from the rates.

Blue Shield of California HMO Plan Year Reconciliation

Notes:

- 1 Estimated Incurred Claims including claim payments for medical, pharmacy, and capitation in January–December 2020.
- 2 Administration Expense—cost of administering January–December 2020 claims payments for medical and pharmacy including large claim pooling fees.
- 3 Rx Rebates—rebates from drug manufacturers for active employees and early retirees.
- 5 Total Contributions—annual premium revenue collected.
- 6 Revenue Shortfall / (Surplus)—difference in cost versus premium revenue collected.
- 7 Contingency Reserve—explicit reserve held to cover excess losses (amount presented in January 2021 HSB meeting).
- 9 Actual shortfall / (surplus) minus expected shortfall / (surplus)—amount added existing stabilization reserve per HSB policy and amortized over three years