

Delta Dental Active Employee PPO Plan Rate Stabilization Reserve—Recommendation

Today's Recommended Approval Actions

- (1) Suspend the self-funded stabilization reserve policy on a one-time basis for the Delta Dental active employee PPO plan; and
- (2) Approve use of **two-thirds** of the December 31, 2020 stabilization reserve balance, or \$12,229,000, to be applied towards buy-down across all rating tiers for the Delta Dental active employee PPO plan for plan year 2022.

The remaining Surplus carry forward balance for plan year 2023 and beyond is \$6,114,000.

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

Today's dental presentation and recommendations are for active employees. The 2022 retiree dental plan renewals and experience information will be presented to the Health Service Board (HSB) at the April 8, 2021 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 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 2020 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 2021 Rating—One-Half of Available Reserve

Continuing a recent pattern, active employee dental PPO plan claim experience ended the year favorably relative to premiums.

In 2020, this was magnified as claim experience for the dental plan ended at a much lower level than beginning-of-year expectations, given substantial suppression of dental care services especially in the second calendar quarter of 2020 given dental practice closures related to the COVID-19 pandemic.

Thus, the already-sizable active employee dental PPO rate stabilization fund at the end of 2019 is now projected to be much higher as of the end of 2020.

Delta Dental Active Employee PPO Plan Rate Stabilization Reserve—Recommendation Summary

Recommended Buy-Down for 2021 Rating—One-Half of Available Reserve

As a result, it is recommended to the HSB that a higher level of rate stabilization reserve buy-down be applied to 2022 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.

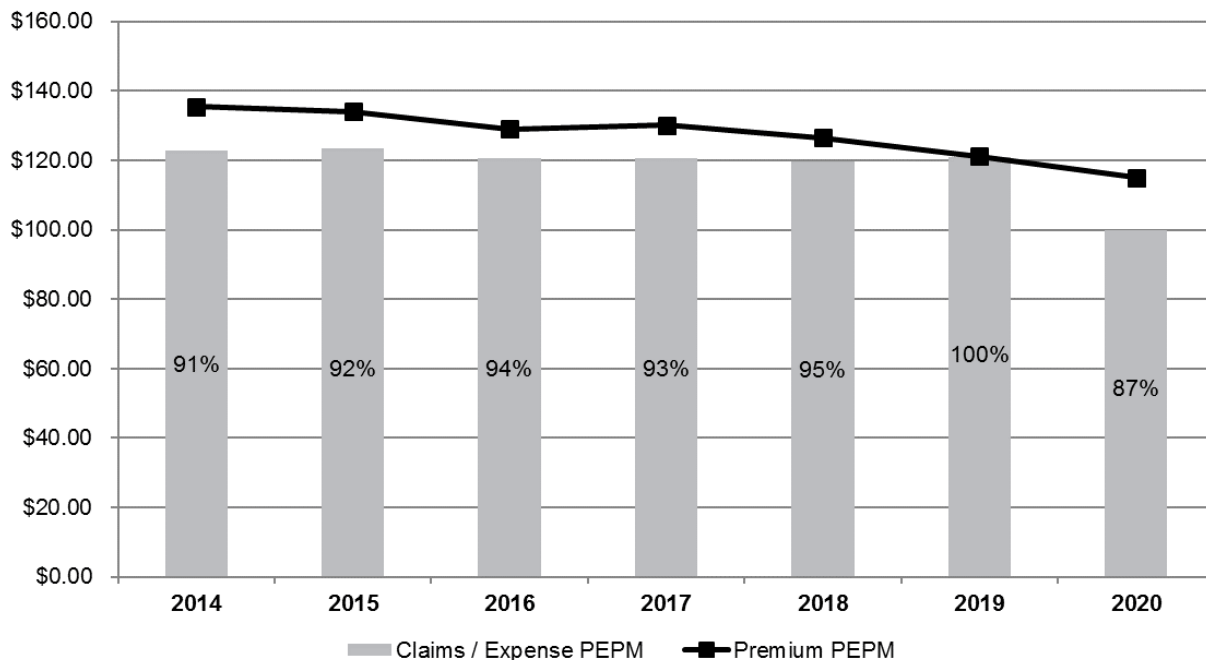
Today’s recommendation is to apply a buy-down of 2022 rates in the amount of two-thirds of the available stabilization reserve, or \$12,229,000.

This action would preserve a remaining carryforward balance in rate stabilization reserve of \$6,114,000 for use in 2023 and beyond rating. The recommended \$12,229,000 buy-down figure for 2022 rating compares to the \$5,663,000 buy-down figure (one-half of December 31, 2019 stabilization surplus balance) utilized in 2021 plan year rating.

Delta Dental Active Employee PPO Plan— 2020 Claim/Fee Experience Summary

After a 100% loss ratio in 2019 (e.g., claims plus fees nearly equaling premiums), claim suppression especially in the second calendar quarter of 2020 led to a substantially lower 2020 loss ratio for the active employee dental PPO plan than in prior years (87%). In the chart below, the **line** represents per employee per month (PEPM) premiums, and the **bars** represent actual PEPM claims/fees.

Active Dental PPO Loss Ratio



← About \$120 PEPM actual claim/fee cost from 2014 to 2019—before the large drop in 2020

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

Delta Dental Active Employee PPO Plan— 2020 Claim/Fee Experience Summary

The COVID-19 Pandemic Impacted Dental Plan Utilization Significantly

- In 2019, about 1 out of 3 covered lives **did not** have a dental cleaning—unfortunately that statistic grew to nearly half of covered lives in 2020 (43%).
- Even with fewer overall services delivered to members, the relative distribution of services among type of care remained the same as in 2019:

Diagnostic & Preventive (e.g., Cleanings and X-rays)	Basic (e.g., Fillings, Oral Surgery, Root Canals)	Major (e.g., Crowns, Inlays, Implants, Dentures, Bridges)
75% of services	20% of services	5% of services

- 3% of total covered lives utilize orthodontic services—including 6% of children

Detailed month-by-month 2020 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	80% covered	80% covered
▪ X-rays	100% covered	80% covered	80% 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 (1x3yr)	80% covered (1x3yr)	80% covered (1x3yr)

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’s PPO network
 - Lesser discounts are for dentists in Delta’s Premier (2nd level) network
 - No discounts are available for dentists choosing not to participate in either Delta’s PPO network or Delta’s Premier network

Delta Dental Active Employee PPO Plan— Plan Design Variation by Type of Dentist Utilized

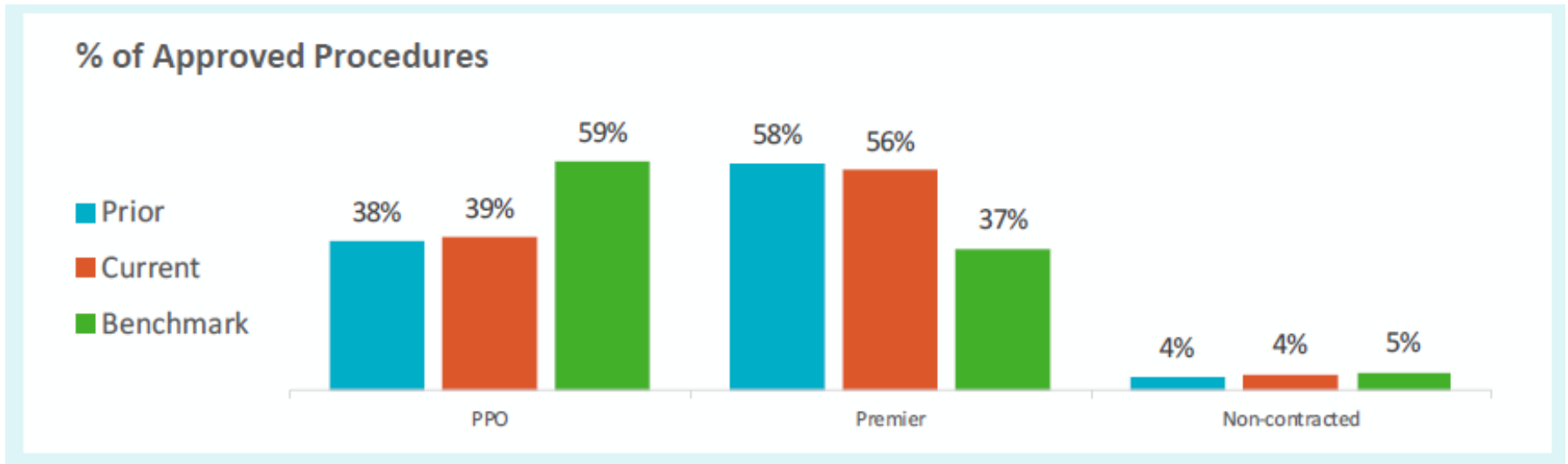
Delta Dental Dentist Network Utilization—Three Benefit Levels

- 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 network
- Another key member benefit for using a Delta network dentist (PPO network or Premier network) is no balance billing if service costs are high
 - This can happen with use of an out-of-network dentist

Delta Dental Active Employee PPO Plan— Member Dentist Utilization by Type of Network Dentist

Delta Dental Dentist Network Utilization—Three Benefit Levels

- Presently, SFHSS active employees and their family members use Premier dentists at a much higher rate than PPO dentists (blue and red bars)—counter to general book of business experience from Delta Dental (green bars):



Delta Dental Active Employee PPO Plan— Member Dentist Utilization by Type of Network Dentist

Delta Dental Dentist Network Utilization—Three Benefit Levels

- Service utilization across the three dentist network categories (PPO dentists, Premier dentists, and non-contracted dentists) varies across Bay Area counties
 - By dentist location—distribution by number of 2020 non-orthodontic procedures in counties with at least 1,000 member procedures

County	2020 Procedure Count	Distribution of Procedures		
		PPO Dentists	Premier Dentists	Non-Contracted Dentists
San Francisco	150,273	31%	63%	6%
San Mateo	90,266	39%	57%	4%
Alameda	45,366	47%	50%	3%
Contra Costa	44,594	48%	50%	2%
Solano	12,157	54%	43%	3%
Santa Clara	9,824	41%	52%	7%
Marin	8,486	29%	64%	6%
Sonoma	5,895	33%	63%	4%
Sacramento	3,467	59%	40%	1%
San Joaquin	3,287	60%	38%	2%
Tuolumne	2,171	49%	49%	1%
Napa	2,142	35%	65%	0%
Placer	1,968	67%	32%	1%
Stanislaus	1,307	78%	22%	0%

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 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 these weblinks:
 - <https://www1.deltadentalins.com/individuals/find-a-dentist.html> (enter a zip code and choose PPO Network on the drop-down menu before clicking the Find-a-Dentist search button)
 - SFHSS members can also access this network provider search online tool via <https://www.deltadentalins.com/ccsf/>

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

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

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%

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 policy
 - 2020-2021: one-half 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 2020 claims experience, **\$12,681,000** should be added to the prior Delta Dental active employee PPO carry-forward rate stabilization reserve balance.

Calendar Year 2020 Plan Reconciliation (Actual versus Expected)	Expected	Actual
1—Total Projected Incurred Claims	\$48,947,000	\$35,955,333
2—Administration Expense—Delta Dental Fees	\$1,758,000	\$1,687,029
3—Total Cost (1+2)	\$50,705,000	\$37,642,362
4—Total Contributions	\$43,689,000	\$43,230,564
5—Revenue Shortfall / (Surplus) (3-4)	\$7,016,000	(\$5,588,202)
6—Increase / (Decrease) in Contingency Reserve		(\$77,269)
7—Total Shortfall / (Surplus) (Actual column: 5+6)		(\$5,665,471)
8—Adjustment to Stabilization Carry-Forward (Actual 7 – Expected 5): Aon Recommended Surplus to Add to December 31, 2019 Carry-Forward Stabilization Reserve to Calculate December 31, 2020 Amount		\$(12,681,000)

* See Appendix for descriptions of items listed above; expected column figures based on Aon rating calculations for 2020 plan year in May 2019; actual column figures provided by SFHSS Finance team.

Delta Dental Active Employee PPO Plan Rate Stabilization Reserve—Calculation Detail

Stabilization Reserve Calculation—Delta Dental Active Employee PPO Plan

Stabilization reserve balance as of December 31, 2019	\$11,325,000
Offset reserve amount applied in 2021 rate buy-down	(\$5,663,000)
Prior carry-forward stabilization reserve balance	\$5,662,000
Recommended increase to the reserve based on 2020 experience	\$12,681,000
Stabilization reserve balance as of December 31, 2020	\$18,343,000
Recommended amount for amortization buy-down to apply to 2022 rates (two-thirds of stabilization reserve balance)	(\$12,229,000)
Updated carry-forward stabilization reserve for use after 2022	\$6,114,000

Delta Dental Active Employee PPO Plan Rate Stabilization Reserve—Recommendation

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Appendix

Reconciliation Calculation Notes (From Page 14)

- 1 Estimated Incurred Claims including claim payments during January–December 2020.
- 2 Administration Expense—Calculated Delta Dental fees for administering January–December 2020 claims using \$4.62 per employee per month (PEPM). This fee level is in rate guarantee through the end of the 2021 plan year.
- 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 2021 HSB meeting).
- 8 Actual shortfall / (surplus) minus expected shortfall / (surplus)—amount added existing stabilization reserve per HSB policy and amortized over three years.

Delta Dental Active Employee PPO— 2020 Claim Experience

Actual claim experience in 2020 was significantly less than premiums given impact of COVID-19 pandemic related dental claim suppression, especially in the second calendar quarter of 2020.

Month	EE Only	EE + 1	EE + 2	Total Employees	Total Dependents	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-20	12,087	8,334	11,531	31,952	41,398	2.30	\$57.28	\$120.28	\$171.83	\$3,676,129	\$147,618	\$4,726,282	133%	\$4,308,364	121%
Feb-20	12,102	8,317	11,557	31,976	41,476	2.30	\$57.28	\$120.28	\$171.83	\$3,679,411	\$147,729	\$3,766,007	106%	\$3,675,853	104%
Mar-20	12,150	8,279	11,561	31,990	41,409	2.29	\$57.28	\$120.28	\$171.83	\$3,678,277	\$147,794	\$3,193,910	91%	\$2,085,704	61%
Apr-20	12,170	8,284	11,543	31,997	41,351	2.29	\$57.28	\$120.28	\$171.83	\$3,676,931	\$147,826	\$1,059,927	33%	\$376,946	14%
May-20	12,186	8,273	11,540	31,999	41,314	2.29	\$57.28	\$120.28	\$171.83	\$3,676,009	\$147,835	\$611,211	21%	\$851,205	27%
Jun-20	12,198	8,273	11,519	31,990	41,261	2.29	\$57.28	\$120.28	\$171.83	\$3,673,088	\$147,794	\$2,067,385	60%	\$3,289,399	94%
Jul-20	12,132	8,170	11,463	31,765	40,994	2.29	\$57.28	\$120.28	\$171.83	\$3,647,296	\$146,754	\$4,073,728	116%	\$3,758,286	107%
Aug-20	12,034	8,138	11,427	31,599	40,849	2.29	\$57.28	\$120.28	\$171.83	\$3,631,648	\$145,987	\$3,282,516	94%	\$3,640,437	104%
Sep-20	11,980	8,095	11,415	31,490	40,769	2.29	\$57.28	\$120.28	\$171.83	\$3,621,320	\$145,484	\$3,113,108	90%	\$3,383,341	97%
Oct-20	11,929	8,105	11,403	31,437	40,725	2.30	\$57.28	\$120.28	\$171.83	\$3,617,540	\$145,239	\$4,017,070	115%	\$3,501,018	101%
Nov-20	11,876	8,108	11,393	31,377	40,691	2.30	\$57.28	\$120.28	\$171.83	\$3,613,147	\$144,962	\$3,035,414	88%	\$3,094,266	90%
Dec-20	11,886	8,110	11,375	31,371	40,636	2.30	\$57.28	\$120.28	\$171.83	\$3,610,867	\$144,934	\$3,905,185	112%	\$4,309,205	123%
Total / Averages				31,745	41,073	2.29				\$43,801,661	\$1,759,957	\$36,851,743	88%	\$36,274,024	87%
Surplus/ (Deficit)												\$5,189,961		\$5,767,680	

NOTE: “loss ratio” = (claims + fees) divided by premiums

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