

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

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## 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 PPO (City Plan) stabilization amount).

# Today's Recommendation— PPO (City Plan) Rate Stabilization Reserve

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It is recommended per the requirements of the Health Service Board (HSB)-approved claims stabilization policy, that the **Surplus** amount of \$330,000 be amortized as a rating buy-down across all rating tiers for the PPO (City Plan and City Plan—Choice Not Available) 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 \$660,000.

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

# Today's Discussion— PPO (City Plan) Rate Stabilization Reserve

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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 PPO (City Plan) Rate Stabilization Reserve amount that is recommended by Aon as of December 31, 2020. The PPO (City Plan) is presently administered by UnitedHealthcare (UHC). Effective January 1, 2022, as approved by the Health Service Board on February 11, 2021, the plan administrator for the PPO (City Plan) is scheduled to become Blue Shield of California (BSC). The PPO rate stabilization actions described in this presentation will apply in 2022 PPO plan rating regardless of plan administrator.

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 PPO (City Plan) Rate Stabilization Actions

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For several years through 2019 plan year rating, in an effort to promote long-term sustainability of the PPO (City Plan), the Health Service Board (HSB) chose to apply Rate Stabilization funds in full towards active employee and early retiree rates. This included applying the entire Rate Stabilization Reserve amount available for 2019 plan year rating as a rate buy-down in 2019 rates.

For both the 2020 and 2021 plan years, a Rate Stabilization Deficit existed for the PPO (City Plan)—generating rating buy-up amounts of \$117,000 in 2020 rating and \$744,000 in 2021 rating.

The remaining PPO (City Plan) deficit carry forward in Stabilization Reserve after the 2021 rating action described above was \$1,489,000—this will be applied in PPO (City Plan) rating for the 2022 plan year and beyond.

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

## PPO (City Plan) Rate Stabilization Reserve Summary

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At the beginning of every rate and benefits cycle, the claims experience for the prior calendar year is evaluated. Based on the 2020 PPO (City Plan) plan claims experience, there is a projected Rate Stabilization **Surplus** balance of \$990,000 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 \$330,000, is recommended to be applied in 2022 plan year rating for the PPO (City Plan and City Plan—Choice Not Available) as a buy-down to rates.

This \$330,000 rating buy-down figure represents approximately 0.6% of early estimated 2022 plan year PPO rates, over and above health care cost trend that will also incorporate into 2022 PPO rate calculations. We will present 2022 PPO rating recommendations during the May 13, 2021 HSB meeting.

# PPO (City Plan) 2020 Plan Year Reconciliation

San Francisco Health Service System January 2020 – December 2020 Plan Reconciliation, Actual vs Expected			Expected	Actual
1	Estimated Incurred Claims (Excludes Shared Savings Fee Portion to UHC)		\$40,370,000	\$38,074,820
2	Base Administrative Fee Expense		\$1,019,000	\$996,876
	Affordable Care Act (ACA) Fee—PCORI		<u>\$6,000</u>	<u>\$6,397</u>
	Total Fee Expense		\$1,605,000	\$1,003,273
3	Prescription Drug Rebates		<u>(\$1,221,000)</u>	<u>(\$1,287,389)</u>
4	Total Cost ((1) + (2) + (3))		<u>\$40,174,000</u>	<u>\$37,790,704</u>
5	Total Contributions		<u>\$40,291,000</u>	<u>\$39,488,645</u>
6	Revenue Shortfall / (Surplus)		<u>(\$117,000)</u>	(\$1,697,941)
7	Change In Contingency Reserve (Decrease To Reserve)			<u>(\$153,684)</u>
8	Total Surplus ((Actual 6) + (Actual 7))			<u>(\$1,851,625)</u>
9	Net To Be Applied When Determining The Stabilization Carry Forward ((Expected 6) – (Actual 8))			\$1,734,625
10	Aon Recommended Increase / (Decrease) to December 31, 2019 Stabilization Reserve to Calculate December 31, 2020 Amount			<u>\$1,735,000</u>

**NOTE:** Descriptions for items above contained in Appendix to this document

# Today's Recommendation

## Rate Stabilization Reserve Calculation—PPO Plan

Stabilization Reserve as of December 31, 2019 (deficit carry forward)	(\$1,489,000)
Aon recommended increase to the Reserve from 2020 experience	<u>\$1,735,000</u>
Stabilization Reserve as of December 31, 2020 (surplus carry forward)	\$246,000
Plus Deficit amount applied in 2021 rates per policy	<u>\$744,000</u>
Estimated value of Stabilization Reserve as of December 31, 2021	\$990,000
<b>Calculated amount per amortization policy to apply to 2022 rates (33% of Stabilization Reserve)</b>	<b>\$330,000</b>
Remaining Surplus carry forward in Stabilization Reserve after 2022	\$660,000

### Today's Recommendation

It is recommended per the requirements of the HSB-approved claims stabilization policy, that the **Surplus** amount of \$330,000 be amortized as a rating buy-down across all rating tiers for the PPO (City Plan and City Plan—Choice Not Available) for plan year 2022, applied proportionately per Policy between active employees and early retirees.

# Appendix



# Appendix—PPO Plan Rate Stabilization Reserve History

## Final 2020 Rating Presented At May 9, 2019 Meeting

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- At the February 14, 2019 HSB meeting, the Board was presented with the PPO (City Plan) Plan Rate Stabilization Reserve calculation.
- At that time there was a calculated rate stabilization Deficit of \$351,000 to carry forward into future year rating.
- Based on the Health Service System's Self-Funded Plan's Stabilization Policy, one-third (1/3) of any Surplus or Deficit is applied to the following year's rate projections and the two subsequent years.
- On February 14, 2019, the HSB approved that \$117,000 of this Deficit (or one-third of \$351,000) will be applied to the 2020 PPO rate projections as a buy-up, leaving a Deficit carry forward balance of \$234,000 to be applied in future years.

# Appendix—PPO Plan Rate Stabilization Reserve History

## Final 2021 Rating Presented At May 28, 2020 Meeting

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- At the February 13, 2020 HSB meeting, the Board was presented with the PPO (City Plan) Plan Rate Stabilization Reserve calculation.
- At that time there was a calculated rate stabilization Deficit of \$2,233,000 to carry forward into future year rating.
- Based on the Health Service System's Self-Funded Plan's Stabilization Policy, one-third (1/3) of any Surplus or Deficit is applied to the following year's rate projections and the two subsequent years.
- On February 13, 2020, the HSB approved that \$744,000 of this Deficit (or one-third of \$2,233,000) will be applied to the 2021 PPO rate projections as a buy-up, leaving a Deficit carry forward balance of \$1,489,000 to be applied in future years.

# Appendix—PPO Plan Reconciliation

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## Notes on Specific Reconciliation Exhibit Items:

- 1) Claim payments for medical, and pharmacy services incurred between January 1, 2020 and December 31, 2020.
- 2) Cost of administering January 2020 – December 2020 claims payments for medical and pharmacy benefits.
  - The Affordable Care Act (ACA) expense reflects the Patient Centered Outcomes Research Institute (PCORI) fees paid for PPO (City Plan) active employees and early retirees.
- 3) Pharmacy rebates from drug manufacturers.

# Appendix—PPO Plan Reconciliation

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## Notes on Specific Reconciliation Exhibit Items (continued):

- 4) Annual premium revenue collected.
- 5) Difference in cost versus premium revenue collected (budgeted surplus of \$117,000 for January 2020 – December 2020).
- 6) A Contingency Reserve is an explicit reserve held to cover excess losses: *Change equals the difference of the June 30, 2020 Reserve and the June 30, 2019 Reserve, or \$6,343,969 minus \$6,497,653.*
- 7) Difference between expected results and actual results: *This amount is added to existing Stabilization Reserve and amortized over three years.*
- 8) Based on SFHSS funding policy: *This full amount is to be added to Stabilization Reserve.*