Summary and Recommendation

Many self-funded plan sponsors purchase external reinsurance (or “stop loss” insurance) for catastrophic health plan claims exposure as a financial risk mitigation approach. Such programs offer the plan sponsor the ability to alleviate the financial strain that could present if higher-than-expected large claim experience were to occur.

The San Francisco Health Service System (SFHSS) has several mechanisms now in place to protect the Trust Fund (Trust) and members / employers from unforeseen adverse financial risk to its health plans, including:

- The Health Service Board’s (HSB’s) Contingency Reserve Policy;
- The HSB’s Self-Funded Plans’ Stabilization Policy; and
- Required large claim pooling (for amounts over $1 million annually per claimant) as part of Blue Shield of California’s (BSC) flex-funded product basis for Access+ and Trio.

Thus, consistent with prior recommendations on this topic, **Aon recommends not purchasing stop loss insurance protection for SFHSS self-funded and flex-funded health care plans.** Information that supports our recommendation is presented on the following pages.

Introduction

Presently there are three programs offered through the SFHSS that are self-funded / flex-funded:

- PPO (City Plan) currently administered by UnitedHealthcare (UHC) (active employees and non-Medicare retirees)[1]
- Blue Shield of California (BSC) Flex-Funded Plans—Access+ and Trio (active employees and non-Medicare retirees)
- Delta Dental of California (DDCA) PPO (active employees)

A new flex-funded plan, Health Net Canopy HMO, is scheduled to be added as a new plan option on January 1, 2022 for active employees and non-Medicare retirees (per Health Service Board approval on February 11, 2021).

As self-funded plans, the risk of excess claims experience over collected premium equivalents is the responsibility of the Trust. For BSC plans, exposure to the Trust is capped at $1 million per plan year per individual given large claim pooling is currently in the flex-funded financial agreement with BSC.

[1] Per approval by the Health Service Board (HSB) at the February 11, 2021 meeting, the administrator for the PPO (City Plan) is scheduled to change from UHC to BSC on January 1, 2022

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Stop Loss Reinsurance—General Commentary

In order to obtain the reinsurance coverage, the plan sponsor remits a premium to the reinsurer who reimburses the plan sponsor when claim costs exceed the criteria established in the reinsurance contract.

It is important to understand that reinsurance is an insurance product—so when claims are not excessive, the reinsurer may not issue a payout to cover any claims. If the premium paid to the reinsurer is greater than the reimbursements, over an extended time period, the plan sponsor may consider this approach to financial risk mitigation as an excessive use of available funds and consider alternative approaches to financial risk mitigation. As an insurance product, there are also risk charges and profit margins built into stop loss insurance premiums.

Dental plans are not candidates for stop loss insurance given the plan's financial exposure is limited via annual all-service and lifetime orthodontic dollar maximums.

SFHSS Contingency Reserve Policy

For very large pools, the most common approach to financial risk mitigation in lieu of external reinsurance is the establishment of contingency reserves. The purpose of the contingency reserve is to absorb excess claims costs in years where the actual claims experience exceeds the projected claims experience. The recommended contingency reserve level as presented to the HSB in January 2021 is found in the Appendix.

The HSB has an established Contingency Reserve Policy which articulates the purpose, use and calculation of the contingency reserves. The SFHSS Trust holds contingency reserves at a 99% confidence interval as established by an external actuary and audited annually by a third-party entity.

SFHSS Self-Funded Plans' Stabilization Policy

In addition, the HSB has a Self-Funded Plans' Stabilization Policy which establishes that self-funded plans amortize, over three years, any prior plan year underwriting gains or loses into the following years' premium calculations.

The amortization of losses are added into the future rates (buy-up) and conversely, gains are subtracted (buy-down) from future rates.

This practice of a three-year amortization of gains and losses helps to smooth the impact of self-funded plan claim experience that deviates from expectations.

Stop Loss Reinsurance—SFHSS-Specific Commentary

As part of BSC's flex-funded product requirements, the Access+ and Trio plans for active employees and early retirees each have an annual $1 million per claimant large claim pooling provision.

In 2021, SFHSS pays BSC a per employee/retiree per month pooling charge of $32.41 which serves as reinsurance protection for individual participants in the Access+ and Trio plans. In return, all dollars for claimants exceeding $1 million in a year, beyond that first $1 million per applicable individual, are pooled out of SFHSS-specific claim experience. These excess dollars over $1 million per applicable individual become the responsibility of BSC.

Stop Loss Reinsurance—Recommendation

As in prior years, **we ask the HSB to approve today the recommendation for SFHSS to not purchase external stop loss insurance for its self-funded and flex-funded health care plans into the 2022 plan year.** Reasons for this recommendation are:

- Contingency reserves and self-funded plans stabilization reserves, as established by HSB policies, provide financial protection against unexpected, adverse large claim experience in all SFHSS self-funded/flex-funded health care plans.
- In addition, for the BSC flex-funded plans, BSC requires large claim pooling at $1 million annually per individual.
- In addition, for the Delta Dental active employee PPO plan, employer cost exposure is capped annually per individual by all-service annual dollar maximums and lifetime orthodontic benefit dollar maximums.

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Appendix—Contingency Reserves as of June 30, 2020

Contingency reserves, and change from prior levels, are:

		Contingency Reserves			
Self-Funded / Flex-Funded Plan	**Population Covered**	**As of June 30, 2019**	**As of June 30, 2020**	**$ Increase / (Decrease)**	**% Increase / (Decrease)**
Blue Shield of California (BSC) Plans (Access+ and Trio)	Active Employees, Early Retirees	$13,977,799	$14,230,134	$252,335	1.8%
PPO (City Plan) administered by UHC	Active Employees, Early Retirees	$6,497,653	$6,343,969	($153,684)	(2.4%)
Delta Dental of California PPO Plan	Active Employees	$3,017,539	$2,940,270	($77,269)	(2.6%)
All SFHSS Self-Funded / Flex-Funded Plans		$23,492,991	$23,514,373	$21,382	0.1%

The Contingency reserves for the BSC plans, PPO (City Plan), and Delta Dental PPO plan are currently fully funded. These reserve figures will be reset as of June 30, 2021, after the close of the current fiscal year.

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