

San Francisco Health Service System Health Service Board

Rates & Benefits

Blue Shield of California Flex-Funded
Rate Stabilization Reserve Presentation

March 12, 2020

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BSC HMO Plan Rate Stabilization

Overview and Recommendation

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

This presentation focuses on the recommended adjustment to the Blue Shield of California Flex-Funded HMO Plan (BSC plan) rate stabilization reserve to reflect the impact of calendar year 2019 experience.

Presently, the BSC plan rate stabilization reserve is in a **surplus** position, for the first time since December 31, 2014 (see Appendix). Today we present our recommendation for a **buy-down** in 2021 rates, in the amount of \$2,562,000 (or 1/3 of stabilization **surplus** balance), as a result of application of the HSB Self-Funded Plans' Stabilization policy given the **surplus** position.

This is preliminarily expected to represent approximately 0.8% rating **buy-down** for 2021 premium rates for the BSC plans (with actual calculations to be presented to the HSB in May 2020). This compares to approximately 0.6% rating **buy-up** in 2020 total premium rates for the BSC plans.

BSC HMO Plan Rate Stabilization

Summary

In March 2019, the December 31, 2018 Stabilization Reserve recommendation was presented to the HSB. A BSC HMO plan rate stabilization **deficit** balance of \$5,687,000 existed as of December 31, 2018.

In May 2019, the HSB approved applying \$1,896,000 (or one-third of \$5,687,000) to buy-up 2020 active employee and early retiree premiums. This action left a BSC rate stabilization **deficit** carry-forward balance of \$3,791,000.

At the beginning of every Rates & Benefits cycle, the claims experience for the prior calendar year is evaluated. Based on the level of surplus generated in 2019 experience by the BSC plans, **there is now a surplus position** overall in the BSC plans rate stabilization balance. This leads to Aon's recommendation that \$2,562,000 **surplus** be applied as a **buy-down** to 2021 BSC plan rates.

The calculation which results in this figure, as well as resulting impact on the projected BSC Stabilization Reserve balance, is presented on the following pages,

BSC HMO Plan Rate Stabilization

Context for Change from Deficit to Surplus At This Time

As discussed in our prior BSC 2019 Experience presentation today, there was a substantial increase in premiums for the BSC plans from 2018 to 2019, based on Aon's recommendation to the HSB in May 2018.

- 2019 plan year rating was the first rating cycle where we knew the enrollment distribution between Access+ and Trio (given Trio's introduction on January 1, 2018).
- The overall recommended rate increase from 2018 to 2019 to reflect actual known enrollment distribution in the plans, as well as recent plan experience at the time, was 8.8% overall. This became an actual figure of around 10% in 2019 given some migration occurred from Trio back into Access+ overall into the 2019 plan year.

With an overall 7% increase in actual plan experience on a per employee/retiree per month (PEPM) basis from 2018 to 2019, as discussed today in our 2019 BSC Experience presentation, this differential generated surplus for BSC financials in 2019 beyond those forecasted by our rating and stabilization reserve calculation process in Spring 2018.

Looking forward, the overall projected rate increase for the BSC Access+ and Trio plans offered by SFHSS from 2019 to 2020 was approximately 2%. Plan experience levels during 2020 will dictate BSC plans stabilization reserve recommendations at this time next year.

BSC HMO Plan 2019 Experience Reconciliation

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

January 2019 – December 2019 Plan Reconciliation (Actual vs Expected)	Expected	Actual
1 Estimated Incurred Claims—including capitation, pharmacy cost, and fee for service claims cost	\$ 324,774,000	\$ 304,963,000
IBNR Increase / (Decrease)	\$ –	\$ 341,000
ACO Collaboration Earned Payout	\$ –	\$ 1,091,000
Total Claims Spend	\$ 324,774,000	\$ 306,395,000
2 Administration Expense—BSC Administrative/Large Claim Pooling Fees	\$ 18,697,000	\$ 18,653,000
3 Rx Rebates	\$ (6,000,000)	\$ (7,287,000)
4 Total Cost (1+2+3)	\$ 337,471,000	\$ 317,761,000
5 Total Contributions	\$ 340,633,000	\$ 332,321,000
6 Revenue Shortfall / (Surplus) (4-5)	\$ (3,162,000)	\$ (14,559,000)
7 Increase / (Decrease) in Contingency Reserve		\$ (80,000)
8 Total Shortfall / (Surplus) (Actual column: 6+7)		\$ (14,639,000)
9 Adjustment to Stabilization Carry-Forward (Actual 8 – Expected 6): Aon Recommended decrease to December 31, 2018 Carry-Forward Stabilization Deficit Balance to Calculate December 31, 2019 Amount		\$ (11,477,000)

Aon Recommendation

Rate Stabilization Reserve Calculation—BSC HMO Plan

Stabilization deficit balance as of December 31, 2018	\$5,687,000
Offset deficit amount applied in 2020 rate buy-up per policy (1/3)	<u>(\$1,896,000)</u>
Prior carry-forward stabilization deficit balance	\$3,791,000
Recommended decrease to the deficit based on 2019 experience	<u>(\$11,477,000)</u>
Stabilization surplus balance as of December 31, 2019	(\$7,686,000)
Calculated amount per amortization policy to apply to 2021 rate buy-down per policy (1/3 of stabilization surplus balance)	<u>(\$2,562,000)</u>
Updated carry-forward stabilization surplus for use after 2021	(\$5,124,000)

Aon recommends, per the requirements of HSB approved rate stabilization policy, that the **surplus** amount of \$2,562,000 (or 1/3 of stabilization surplus balance) be applied towards **buy-down** across all rating tiers for the BSC HMO plans for plan year 2021, applied proportionately per Policy between active employees and early retirees. The remaining BSC HMO plan carry-forward **surplus** balance for plan year 2022 and beyond is \$5,124,000.

Blue Shield of California HMO Plan Year Reconciliation

Notes:

- 1 Estimated Incurred Claims including claim payments for medical, pharmacy, and capitation in January–December 2019.
- 2 Administration Expense—cost of administering January–December 2019 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 2020 HSB meeting).
- 9 Actual shortfall / (surplus) minus expected shortfall / (surplus)—amount added existing stabilization reserve per HSB policy and amortized over three years (for BSC HMO, amount is added to the prior **deficit** – with the actual activity, this will now create a **surplus** into future years).

Appendix

BSC Plan Rate Stabilization Reserve History

Rate Stabilization Reserve Surplus / (Deficit) as of December 31

December 31, 2012	Not Yet Applicable
December 31, 2013	\$3,080,000
December 31, 2014	(\$13,455,000)
December 31, 2015	(\$15,461,000)
December 31, 2016	(\$10,634,000)
December 31, 2017	(\$9,485,000)
December 31, 2018	(\$5,687,000)
December 31, 2019	\$7,686,000

Surplus / (Deficit) Amount Applied to Rating

2015 Plan Year	\$1,027,000
2016 Plan Year	(\$4,485,000)
2017 Plan Year	(\$5,154,000)
2018 Plan Year	(\$3,545,000)
2019 Plan Year	(\$3,162,000)
2020 Plan Year	(\$1,896,000)
2021 Plan Year	\$2,562,000

Percentage Buy-Up / Buy-Down Applied in Rating

2015 Plan Year	Small buy-down (<0.5%)
2016 Plan Year	Buy-up (about 1.5%)
2017 Plan Year	Buy-up (almost 2%)
2018 Plan Year	Buy-up (about 1.3%)
2019 Plan Year	Buy-up (about 1.1%)
2020 Plan Year	Buy-up (about 0.6%)
2021 Plan Year	Buy-down (about 0.8%)

BSC's Rate Stabilization reserve started in 2013 with start of flex funding—inadequate rates relative to eventual actual experience in 2014-2015 generated the deficit which has been slowly decreasing since the end of 2015 and has now become a surplus for 2021 rating

BSC Plan Rate Stabilization Reserve History

Presented at March 8, 2018 Meeting

Aon Rate Stabilization Calculation [1]

Stabilization deficit balance carry-forward as of December 31, 2016	\$7,089,000
Aon recommended increase to stabilization deficit	\$2,396,000
Total stabilization deficit balance as of December 31, 2017	<u>\$9,485,000</u>
Stabilization policy requires 33% of balance to be applied to the 2019 rates	<u>(\$3,162,000)</u>
Remaining carry-forward in stabilization deficit balance for plan years 2020 and after	\$6,323,000

[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 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	(\$636,000)
Total stabilization deficit balance as of December 31, 2018	<u>\$5,687,000</u>
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.