

# **San Francisco Health Service System Health Service Board**

## **Rates & Benefits**

Review and Approve Self-Funded Active Dental PPO Plan  
2026 Stabilization Reserve Action

March 13, 2025

# Review and Approve Self-Funded Active Dental PPO Plan 2026 Stabilization Reserve Action—Agenda

- Introduction—Health Plan Reserves Background
- Rate Stabilization Recommended Action for Delta Dental of California (Delta Dental) Self-Funded Active Dental PPO Plan
- Appendix—Historical View of Active Dental PPO Plan Rate Stabilization Action, Reconciliation Exhibit Glossary

# Recommendation for HSB Action

## Self-Funded Active Dental PPO Plan

In congruence with the Stabilization Fund Policy, approve the use of one-third of the December 31, 2024, stabilization fund balance in plan year 2026 active dental PPO plan rates as follows:

Approve use of one-third of the December 31, 2024, stabilization reserve Surplus, or \$1,320,000 (one-third of \$3,960,000), to be applied towards buy-down across all rating tiers for the Delta Dental active employee PPO plan for plan year 2026.

# 1

## Introduction—Health Plan Reserves Background

# SFHSS Health Plan Reserves 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, 2024, 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, 2024, 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, 2024, for today's review of the self-funded and flex-funded health plans stabilization amounts).

## SFHSS Health Plan Reserves Background – Pt. 2

Recommended June 30, 2024, IBNR and Contingency reserves amounts for all SFHSS self-funded and flex-funded health plans were approved by the Health Service Board (HSB) on January 9, 2025.

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.

This presentation contains exhibits showing the impact of actual 2024 self-funded active dental PPO plan experience relative to original 2024 plan cost expectations from the Spring 2023 Rates & Benefits cycle—along with the resulting December 31, 2024, rate stabilization fund balance and allocation of this balances into 2026 plan year total cost rates for the self-funded active dental PPO plan.

# 2

## Delta Dental Active Dental PPO Plan Rate Stabilization Recommendation

# Delta Dental Active Dental PPO Plan

## Rate Stabilization Calculation Introduction

The rate stabilization calculations for 2026 rating are based on 2024 plan experience relative to expectations for the Delta Dental Active Dental PPO Plan, combined with surplus carry-forward balance from the plan's December 31, 2023, rate stabilization fund amount.

The Delta Dental Active Dental PPO plan has existed for years in a significant rate stabilization surplus balance due to favorable claim experience over time. This is illustrated on the next page. Though there was a small increase in per employee claim experience from 2023 to 2024, the plan generated added rate stabilization fund surplus in 2024 based on actual plan experience.

To accelerate the amortization of rate stabilization surpluses in this plan over time, the HSB in prior years has approved a higher level of rate stabilization surplus amortization than the per-policy one-third level. It is recommended today to return to a per-policy one-third amortization of surplus for the recommended rate stabilization action for 2026 rating.



# Delta Dental Active Dental PPO Plan – Pt. 2

## Impact of Historical Experience on Rate Stabilization Reserve

Rate Stabilization Reserve Surplus/(Deficit) as of December 31	
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
December 31, 2021	\$10,617,000
December 31, 2022	\$11,113,000
December 31, 2023	\$3,704,000
December 31, 2024	\$9,018,000
Surplus/(Deficit) Amount Applied to Rating	
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
2022 Plan Year	\$12,229,000
2023 Plan Year	\$5,309,000
2024 Plan Year	\$7,409,000
2025 Plan Year	\$6,012,000

**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 Stabilization Policy
- **2020 – 2021:** One-half of new stabilization reserve
- **2022:** Two-thirds of new stabilization reserve
- **2023:** One-half of new stabilization reserve
- **2024 – 2025 :** Two-thirds of new stabilization reserve

# Delta Dental Active Dental PPO Plan – Pt.3

## 2024 Experience Assessment, Expected Versus Actual

The Delta Dental Active Dental PPO plan had a carry-forward surplus balance for use in rate stabilization calculations after 2025 of \$3,006,000.

For the 2024 plan year, plan experience was once again favorable to expectations. The expected and actual figures are illustrated on the next page. It is recommended to apply the per-policy one-third amortization of the rate stabilization surplus balance into 2026 plan year rating for the active employee dental PPO plan.

# Active Dental PPO Plan 2024 Plan Year Reconciliation

## Active Employees

	January 2024 – December 2024 Plan Reconciliation (Actual vs Expected)	Expected	Actual
1	Paid Claims IBNR Increase/(Decrease)		\$44,813,948 <u>(\$48,653)</u>
	Total Incurred Claims Spend	\$47,719,339	\$44,765,295
2	Administration Expense	\$1,727,532	\$1,783,015
3	Rx Rebates	<u>n/a</u>	<u>n/a</u>
4	Total Cost (1+2+3)	\$49,446,871	\$46,548,310
5	Total Contributions	<u>\$42,037,871</u>	<u>\$40,093,568</u>
6	Revenue Shortfall/(Surplus) (4-5)	\$7,409,000	\$6,454,742
7	Increase/(Decrease) in Contingency Reserve		<u>n/a</u>
8	Total Shortfall/(Surplus) (Actual column: 6+7)		\$6,454,742
9	Aon Recommended Carry Forward Shortfall/(Surplus) (Actual 8 – Expected 6; rounded to nearest \$000)		<span style="border: 2px solid red; padding: 2px;">(\$954,000)</span>

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

# Today’s Recommendation—Active Dental PPO Plan

## Rate Stabilization Reserve Calculation

Stabilization <b>surplus</b> balance as of December 31, 2023	(\$9,018,000)
Offset <b>surplus</b> amount applied in 2025 rate buy-down (2/3 per HSB)	(\$6,012,000)
	(\$3,006,000)
Prior carry-forward stabilization <b>surplus</b> balance	(\$3,006,000)
Recommended increase to the <b>surplus</b> based on 2024 experience	(\$954,000)
	(\$3,960,000)
Stabilization <b>surplus</b> balance as of December 31, 2024	(\$3,960,000)
Calculated amount per recommendation to apply to 2026 rate <b>buy-down</b> (recommend 1/3 of stabilization <b>surplus</b> balance)	(\$1,320,000)
	(\$1,320,000)
Updated carry-forward stabilization <b>surplus</b> for use after 2026	(\$2,640,000)

### Today’s Recommendation

Approve the use of one-third of the December 31, 2024, stabilization reserve **Surplus** or \$1,320,000 (one-third of \$3,960,000) be applied towards buy-down of rates across all rating tiers for the Delta Dental active dental PPO plan for plan year 2026.

# 3

## Recommendation for HSB

# Recommendation

## Self-Funded Active Dental PPO Plan

In congruence with the Stabilization Fund Policy, approve the use of one-third of the December 31, 2024, stabilization fund balance in plan year 2026 active dental PPO plan rates as follows:

Approve use of one-third of the December 31, 2024, stabilization reserve Surplus, or \$1,320,000 (one-third of \$3,960,000), to be applied towards buy-down across all rating tiers for the Delta Dental active employee PPO plan for plan year 2026.

Rate stabilization recommendations for HSB action for self-funded and flex-funded medical and prescription drug plans will be presented at the April 10, 2025, HSB meeting.

# 4

## Appendix

- Historical View of Rate Stabilization Actions for Each Self-Funded and Flex-Funded Health Plan
- Reconciliation Exhibit Glossary

# Rate Stabilization History—Active Dental PPO Plan

Column reference --->	B	C	G	H	I	J	K	L
Year for Rating Application	Starting Point Stabilization Reserve / Deficit Carry Forward as of date	Starting Point Stabilization Reserve / (Deficit) Carry Forward (col K from prior year)	Increase / (Decrease) to Stabilization Reserve (E+F-D)	Updated Stabilization Reserve / (Deficit) (G+C)	Revised Stabilization Reserve / Deficit as of date	Reserve / (Deficit) Amount Applied in Year for Rating Application	Reserve / (Deficit) Amount Applied to Carry Forward (H-J)	Percentage of Revised Stabilization Reserve / Deficit Applied
2016	12/31/2013	\$0	\$3,861,000	\$3,861,000	12/31/2014	\$1,287,000	\$2,574,000	33.3%
2017	12/31/2014	\$2,574,000	\$4,551,000	\$7,125,000	12/31/2015	\$2,375,000	\$4,750,000	33.3%
2018	12/31/2015	\$4,750,000	\$4,833,000	\$9,583,000	12/31/2016	\$3,194,000	\$6,389,000	33.3%
2019	12/31/2016	\$6,389,000	\$6,292,000	\$12,681,000	12/31/2017	\$4,227,000	\$8,454,000	33.3%
2020	12/31/2017	\$8,454,000	\$5,577,000	\$14,031,000	12/31/2018	\$7,016,000	\$7,015,000	50.0%
2021	12/31/2018	\$7,015,000	\$4,310,000	\$11,325,000	12/31/2019	\$5,663,000	\$5,662,000	50.0%
2022	12/31/2019	\$5,662,000	\$12,681,000	\$18,343,000	12/31/2020	\$12,229,000	\$6,114,000	66.7%
2023	12/31/2020	\$6,114,000	\$4,503,000	\$10,617,000	12/31/2021	\$5,309,000	\$5,308,000	50.0%
2024	12/31/2021	\$5,308,000	\$5,805,000	\$11,113,000	12/31/2022	\$7,409,000	\$3,704,000	66.7%
2025	12/31/2022	\$3,704,000	\$5,314,000	\$9,018,000	12/31/2023	\$6,012,000	\$3,006,000	66.7%



# Reconciliation Exhibit Glossary

- 1 Estimated Incurred Claims including claim payments for medical, pharmacy, and capitation in January–December 2024.
- 2 Administration Expense — cost of administering January–December 2024 claims payments for the self-funded active dental PPO plan.
- 3 Rx Rebates — not applicable to the dental plan.
- 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 (no longer applicable to the dental plan).
- 9 Actual shortfall/(surplus) minus expected shortfall/(surplus) — amount added to existing stabilization balance per HSB policy and amortized over three years.