San Francisco Health Service System

Health Service Board

Rates & Benefits

Review and Approve Proposed Modifications to June 30, 2023, Self-Funded and Flex-Funded Health Plan Contingency Reserve Amounts

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Proposed Modifications to June 30, 2023, Self-Funded and Flex-Funded Health Plan Contingency Reserve Amounts —Agenda

- **Introduction—**basis for today's proposed June 30, 2023, contingency reserve amount modifications (from amounts approved by the Health Service Board [HSB] in January 2024)

- **Background**—HSB Contingency Reserve Policy 210

- **Medical Self-Funded/Flex-Funded Plans—**proposal to modify June 30, 2023, contingency reserve amounts using 95th percentile confidence interval methodology (relative to prior use of 99th percentile confidence interval amounts)

- **Dental Self-Funded Active PPO Plan—**proposal to set the June 30, 2023, contingency reserve amount for this dental plan to $0

- **Recommendations for HSB action**

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Introduction — Basis for Today's Recommendations

Introduction—Basis for June 30, 2023, Contingency Reserve Modifications

Brainstorming Reasonable Approaches to Go-Forward Cost Increase Relief

- As presented to the HSB on February 8, 2024, by representatives of the City and County of San Francisco, San Francisco Unified School District, and Community College of San Francisco, these employers operating health benefits via the San Francisco Health Service System (SFHSS) are experiencing unprecedented adverse financial outlooks.

- Knowing these difficult financial positions for the employers, SFHSS and Aon have recently brainstormed possible approaches into the 2025 health plans budgeting cycle to create savings for employers and members going forward in a way that does not compromise the financial integrity of SFHSS health plans.

- From this brainstorming, SFHSS and Aon have focused in recent weeks on re-evaluating the levels of health plan contingency reserves for SFHSS self-funded and flex-funded health plans—leading to today's recommendations for HSB action.

Introduction—Basis for June 30, 2023, Contingency Reserve Modifications

Summary of Today's Recommendations

1. Approve the modification of the June 30, 2023, medical self-funded and flex-funded health plan contingency reserve amounts from those originally approved at the 99th percentile confidence interval amounts on January 11, 2024, to the 95th percentile confidence interval amounts captured on page 19 of this presentation document totaling $17,992,721.
2. Amend the HSB Contingency Reserve Policy 210 on a one-time basis for the June 30, 2023, self-funded dental active PPO plan contingency reserve amount to be set to $0.
3. Ask the Governance Committee of the HSB, then the full HSB, during 2024 to consider the elimination of the self-funded active dental PPO plan from HSB Contingency Reserve Policy 210.

The dental plan component of today's recommendations is for the active employee dental PPO plan only given it is self-funded. The retiree dental PPO plan is not impacted by today's recommendations given it is fully insured.

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Background — HSB Contingency Reserve Policy 210

Background—HSB Contingency Reserve Policy 210

The HSB Reserve Policies are captured in the sfhss.org website within the Governance Policies and Terms of Reference document (revised January 2023) available at this link:

https://sfhss.org/sites/default/files/2023-01/HSB%20Governance%20Policies%20and%20Terms%20of%20Reference%20Revised%201-2023%20Full%20Packet_1.pdf

The Reserve Policy numbers and descriptions are (with emphasis on the Contingency Reserve Policy for today's recommendations for HSB action):

- **210 — SFHSS Contingency Reserve Policy**
- 211 — SFHSS Self-Funded Plans' Rate Stabilization Policy
- 212 — SFHSS IBNR Reserve Policy and Methodology

Background—HSB Contingency Reserve Policy 210

What is a Contingency Reserve? Think of It As The Trust's "Emergency Fund"

- First implemented by SFHSS in 2007, a Contingency Reserve protects the Trust from highly unusual, adversely high health plan claim experience that could occur in a self-funded or flex-funded health plan. These events, as outlined in Policy 210, can include:
  - Random variation from expected claims;
  - Credibility of the experience;
  - Fluctuations in large claims experience;
  - Vendor processing stability;
  - Changes in COBRA enrollment; and
  - Catastrophic events and whether to make and allowance or not.

Background—HSB Contingency Reserve Policy 210

Contingency Policy Objectives—Protecting Unusually High Claim Experience

- It is prudent for self-funded and flex-funded health plans to have a Contingency Reserve, otherwise known as excess loss reserve, to absorb financial strain brought about by adverse claims experience. This covers the risk of claims exceeding expected claims targets used in the underwriting rate setting process.

- Contingency reserves allow SFHSS to establish a budget based on a predetermined funding level and maintain that structure regardless of claims experience level.

- As stated in Policy 210, having a contingency reserve serves the same purpose as external stop loss insurance, **and therefore external stop loss insurance will not be purchased** except where required by the health plan.
  - Blue Shield of California requires $1 million per covered life large claim pooling in the Access+ and Trio HMO plans.

Background—HSB Contingency Reserve Policy 210

Contingency Policy—Health Plans Covered

- The HSB Contingency Reserve Policy 210 establishes contingency reserves for SFHSS flex-funded and self-funded health care plans:
  - Flex-Funded HMO Plans (non-capitated costs);
  - Self-Funded PPO Plan; and
  - Self-Funded Active Dental PPO Plan.

Background—HSB Contingency Reserve Policy 210

Contingency Policy—Reserve Calculation Methodology

- The HSB Contingency Reserve Policy 210 outlines the calculation methodology that Aon uses annually to produce three levels of statistical confidence intervals for reporting to the SFHSS Chief Financial Officer (CFO).

- Per Policy 210, Aon's calculations are performed at the 95th, 97th, and 99th percentile confidence intervals (where the 95th is statistically significant on its own, with the two other methods producing higher, more conservative amounts).

  - This three-calculation methodology was adopted within Policy 210 in 2013.

  - Since, practice for SFHSS has been to set contingency reserves at 99th percentile confidence interval levels—or the highest of the three calculated amounts per methodology outlined in HSB Contingency Reserve Policy 210.

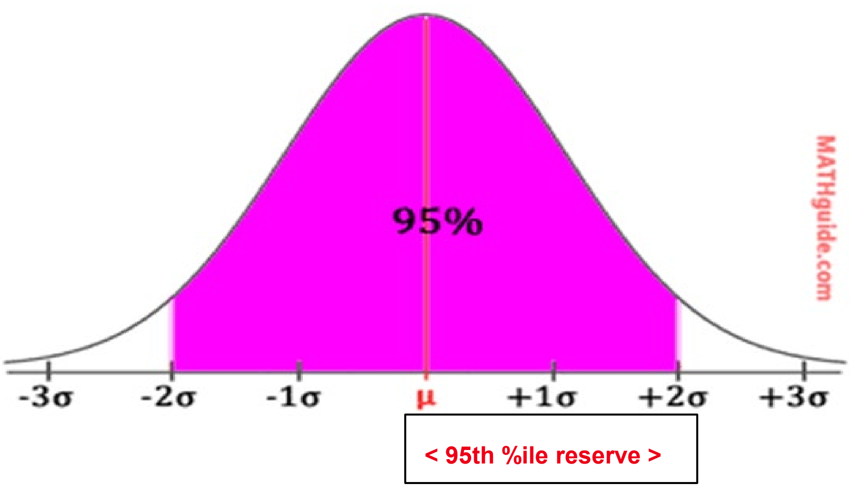
Background—HSB Contingency Reserve Policy 210

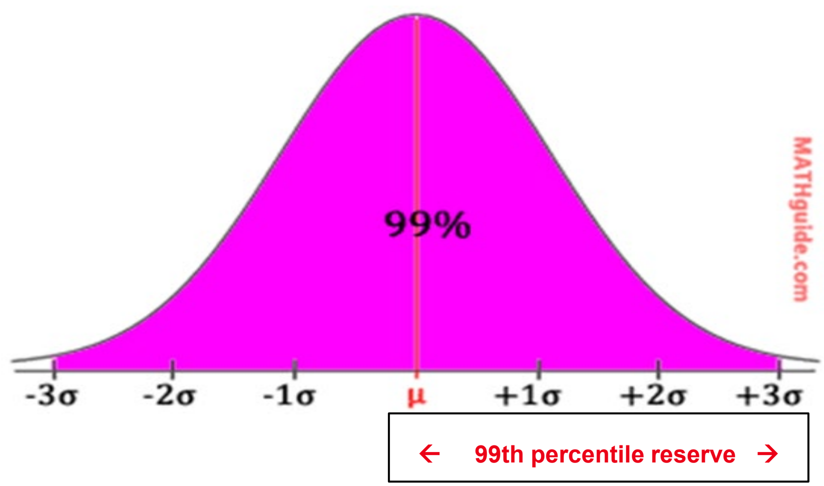
Contingency Policy—Confidence Intervals = Ranges of Deviation from Expected

From MATHguide.com (https://www.mathguide.com/lessons3/BC.html)

If we look at data that is two standard deviations from the mean (average), we should be looking at roughly 95% (or more accurately 95.4%) of the total data.

Looking at data that is within three standard deviations from the mean (average), we will find roughly 99% (actually closer to 99.7%) of the total data.





Background—HSB Contingency Reserve Policy 210

Contingency Policy—Reserve Calculation Methodology

- Across Aon public sector client experience for contingency reserve levels, the 95th percentile confidence level is typical for contingency reserve determination.

- Excerpt from National Institutes of Health article (https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3263226/):
  - "In accordance with the conventional acceptance of statistical significance at a P-value of 0.05 or 5%, confidence intervals (CI) are frequently calculated at a confidence level of 95%."

- It is prudent for the HSB and SFHSS to continue evaluating medical contingency reserve levels as calculated using the three existing confidence interval levels in Policy 210—and retain the lower limit (95th percentile confidence interval) in the methodology to ensure statistical significance.

Reserves in SFHSS Financial Accounting

Required Liabilities Per Accounting Rules

- Liabilities are required to be booked in financial statements per Accounting Rules for certain items—in this category, SFHSS needs sufficient assets to cover the following liabilities to avoid a deficit net position (e.g., insolvent):
  - Incurred But Not Reported (IBNR) reserves (for costs of health plan services delivered to members but not yet known as of June 30 each year, guided by HSB Policy 212);
  - Any advance payments received;
  - Any premiums due for services already received; and
  - Other one-time required liabilities (example: litigation claims).

Reserves in SFHSS Financial Accounting

How Contingency Reserves Are Reflected

- Beyond Accounting Rules requirements described on the prior page, HSB reserve policies require SFHSS to hold a certain of amount of funds for any reason as determined by the HSB—to carry out this goal, SFHSS should have sufficient assets on its books.

- HSB policies guide the Contingency and Rate Stabilization reserves held by SFHSS—these reserves are footnoted items on SFHSS financial statement.

- As SFHSS current net assets exceed the total amount of these items, SFHSS is fully funded for these items. HSB Contingency Reserve Policy 210 language indicates this reserve should be fully funded.

Reserves in SFHSS Financial Accounting

How Contingency Reserves Are Reflected (continued)

- Contingency reserve changes from the prior fiscal year-end to the most recent fiscal year-end are incorporated into the annual Rate Stabilization calculations to determine the annual recommended Rate Stabilization actions for next year's self-funded and flex-funded health plan rate cards each year.

- Hence, today's proposed modifications to June 30, 2023, self-funded and flex-funded plan contingency reserves would reduce the total cost rates in 2025 plan year health plan rate cards by approximately **$4.2 million**—leading to reduced member and employer costs for the 2025 plan year.

- The additional $6.4 million impact would flow to Rate Stabilization calculations in 2026 and after (to be reviewed with the HSB during the Rate Stabilization recommendations action item at the April HSB meeting).

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Medical Self-Funded/Flex-Funded Plans

Medical Self-Funded/Flex-Funded Health Plans

- Today's recommendation for the medical self-funded and flex-funded health plans falls within the framework of HSB Contingency Reserve Policy 210.
- The Aon actuary communicated during the January 11, 2024, HSB meeting for the Contingency Reserves approval item the potential impact of changing the confidence interval approach from the historically-utilized 99th percentile level to the other levels outlined in the HSB Contingency Reserve Policy 210 (95th and 97th percentile levels).
- The recommended modifications in today's recommendation for SFHSS self-funded and flex-funded medical plans result in a reduction of $8.5 million for June 30, 2023, contingency reserves in total as outlined on the next page. These modifications, if approved, will cascade into the 2025 Plan Year Rate Stabilization calculations for these plans that will be presented to the HSB at the April 11, 2024, meeting.

Medical Self-Funded/Flex-Funded Health Plans

Proposed Modified June 30, 2023, Contingency Reserves at 95th Percentile Confidence Interval (for Active Employee/Early Retiree Self-Funded and Flex-Funded Medical Plans—to $17,992,721 total)

Medical Self-Funded/Flex-Funded Health Plan	Contingency Reserves			
	Original 6/30/23 (99th %ile)	Modified 6/30/23 (95th %ile)	Modified 6/30/23 vs Original 6/30/23 $ Increase/ (Decrease)	Modified 6/30/23 vs Original 6/30/23 % Increase/ (Decrease)
Flex-Funded Non-Medicare HMO Plans Administered by BSC (Access+ and Trio) / Self-Funded Non-Medicare EPO Plans Administered by UHC (Select and Doctors)	$17,377,132	$12,116,214	($5,260,918)	-30.3%
Flex-Funded Non-Medicare HMO Plan Administered by Health Net (CanopyCare)	$402,249	$280,761	($121,488)	-30.2%
Self-Funded Non-Medicare PPO Plan Administered by BSC/UHC	$8,710,826	$5,595,746	($3,115,080)	-35.8%
Total Self-Funded/Flex-Funded Plans	$26,490,207	$17,992,721	($8,497,486)	-32.1%

Medical Self-Funded/Flex-Funded Health Plans

Illustration Example of Medical Contingency Reserve Amount Modification on Rate Stabilization Rate Card Portion for 2025—BSC HMO and UHC EPO Plans[1]

How Difference in Contingency Reserve Amount Impacts Rate Stabilization Fund (Currently in Deficit for BSC HMO and UHC EPO Plans)

	Expected 2023	Actual 2023 with Contingency at 99th Percentile	Actual 2023 with Contingency at 95th Percentile
Revenue Shortfall/(Surplus)	$6,592,000	$18,771,000	$18,771,000
Increase/(Decrease) in Contingency Reserve		$2,782,000	($2,479,000)
Total Shortfall/(Surplus)		$21,553,000	$16,292,000
Net to be Applied when Determining the Stabilization Carry Forward (Actual Less Expected)--Rating Buy-Up Since in Deficit Position		$14,961,000	$9,700,000
Reduction in Rate Stabilization Deficit for BSC HMO and UHC EPO Plans			($5,261,000)

[1] **2025 Rate Stabilization recommended actions will be reviewed with the HSB at the April 11 meeting**

Medical Self-Funded/Flex-Funded Health Plans

Illustration Example of Medical Contingency Reserve Amount Modification on Rate Stabilization Rate Card Portion for 2025—BSC HMO and UHC EPO Plans[1]

How The Reduction in Rate Stabilization Deficit for the BSC HMO and UHC EPO Plans Lowers the Proposed 2025 Rate Stabilization Rate Card Buy-Up Portions

- One-third of the overall amount applies in 2025 rating—**reduces these plans' stabilization buy-up by $1,753,000** (of the overall $4.2 million for all plans)
- Two-thirds of the overall amount applies after 2025 in rating

	Using 99th Percentile	Using 95th Percentile	Difference
Prior carry-forward stabilization deficit balance	$6,718,000	$6,718,000	$0
Recommended increase to the deficit based on 2023 experience	$14,961,000	$9,700,000	($5,261,000)
Stabilization deficit balance as of December 31, 2023	$21,679,000	$16,418,000	($5,261,000)
Calculated amount per amortization policy to apply to 2025 rate buy-up per policy (1/3 of stabilization deficit balance)	$7,226,000	$5,473,000	($1,753,000)
Updated carry-forward stabilization deficit for use after 2025	$14,453,000	$10,945,000	($3,508,000)

[1] **2025 Rate Stabilization recommended actions will be reviewed with the HSB at the April 11 meeting**

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Dental Self-Funded Active PPO Plan

Dental Self-Funded Active PPO Plan

- The contingency reserve concept is highly prudent for medical plans, as outlined in language contained earlier in this presentation from the HSB Contingency Reserve Policy 210.
  - A key element guiding this is for **medical** plans, the member financial responsibility on high-cost claims is capped through plan out-of-pocket maximums, whereas plan financial responsibility for a member is not capped.
- However, for **dental**, the plan's financial responsibility per member is capped through plan annual maximums and lifetime orthodontic benefit maximums.
  - Self-funded active dental PPO plan annual benefit maximum per person (excluding diagnostic and preventive services): $2,500.
  - Self-funded active dental PPO plan lifetime orthodontic maximum per person: $1,500 to $2,500, depending on provider network status.

Dental Self-Funded Active PPO Plan

- Thus, the criteria outlined within the Contingency Reserve Policy for prudency of a dental plan contingency reserve do not apply to a self-funded dental plan as a practical matter—though historically the Contingency Reserve Policy 210 has included provision for the active employee self-funded dental PPO plan.
  - Dental plan experience has historically not been subject to random variation from expected claims.
  - There is full credibility of experience given over 30,000 covered employees and 70,000 covered lives.
  - Benefit maximums control any potential for large claims experience.
  - Catastrophic events historically do not alter the course of dental plan utilization (in fact, there was a substantial utilization reduction during the COVID-19 pandemic).

Dental Self-Funded Active PPO Plan

- As a result, as part of the SFHSS and Aon review of contingency reserve modifications in this presentation, it is recommended that the active dental PPO plan contingency reserve be eliminated (e.g., set to $0) as of June 30, 2023.
  - This results in a recommended change of June 30, 2023, contingency reserve for this plan from $2,060,327 (as approved by the HSB at the January 11, 2024, meeting) to $0.
- This change will reduce the recommended 2025 active dental PPO plan total rate action when presented to the HSB at the May 9, 2024, meeting (based on the impact to the Rate Stabilization proposed action for 2025 plan year to be presented to the HSB at the April 11, 2024, meeting).
- The Aon actuary suggests the Governance Committee of the HSB, then the full HSB, consider Policy 210 modification for elimination of the dental self-funded active PPO plan from this Policy later in 2024.

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Recommendations for HSB Action

Recommendations for HSB Action

Proposed Modifications to June 30, 2023, Self-Funded and Flex-Funded Health Plan Contingency Reserve Amounts

It is recommended that the Health Service Board approve the recommendations below:

1. Approve the modification of the June 30, 2023, medical self-funded and flex-funded health plan contingency reserve amounts from those originally approved at the 99th percentile confidence interval amounts on January 11, 2024, to the 95th percentile confidence interval amounts captured on page 19 of this presentation document totaling $17,992,721.
2. Amend the HSB Contingency Reserve Policy 210 on a one-time basis for the June 30, 2023, self-funded dental active PPO plan contingency reserve amount to be set to $0.
3. Ask the Governance Committee of the HSB, then the full HSB, during 2024 to consider the elimination of the self-funded active dental PPO plan from HSB Contingency Reserve Policy 210.