

# San Francisco Health Service System Health Service Board

Rates and Benefits Committee

Blue Shield of California (BSC)

Flex-Funded Active Employee and Early Retiree  
2017 Claims Experience Presentation

March 8, 2018

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# BSC 2017 Flex-Funded HMO Plan Experience—Introduction

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This presentation captures information on calendar year 2017 claims, fees, and other associated costs relative to total cost premium rates for the Blue Shield of California (BSC) Access+ HMO plan for active employees and early retirees.

On the following pages, we summarize key observations captured from the experience charts that follow in this document. All data provided for the combined BSC Access+ active employee / early retiree population in this presentation was provided by SFHSS financial staff. Aon produced the estimated splits of information between active employees and early retirees on page 10 based on BSC reporting information.

# BSC 2017 Flex-Funded HMO Plan Experience—Summary

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## Key Observations—Total Expenses Versus Premiums Collected

- The 2017 total incurred plan expense, before considering changes in contingency reserves, increased 5.1% on a per subscriber per month (PSPM) basis—\$16,837 in 2017 versus \$16,027 in 2016
- This compares to a 3.7% increase in premiums collected on a PSPM basis—\$16,860 in 2017 versus \$16,259 in 2016
- As a result, the loss ratio (total expenses divided by premiums collected) worsened for 2017 (99.9%) versus 2016 (98.6%)
  - This is due to plan expenses increasing at a higher rate than what was anticipated in premium increases from 2016 to 2017

# BSC 2017 Flex-Funded HMO Plan Experience—Summary

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## Key Observations—Plan Expenses

- Medical claims and capitation expenses were the **unfavorable** expense increase drivers in 2017 versus 2016
- Total medical claims increased 10.0% on a PSPM basis, but net of large claim pooling adjustments, the PSPM increase was 6.3%
  - Claim amounts over \$1 million per individual in a year are pooled out of experience in return for a pooling charge
  - \$6.0 million was pooled out in 2017 versus only \$0.2 million in 2016
- Capitation expense increased by 9.8% on a PSPM basis

# BSC 2017 Flex-Funded HMO Plan Experience—Summary

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## Key Observations—Plan Expenses

- Pharmacy claims and administrative costs were the **favorable** contributors to the overall expense picture for 2017
- Pharmacy claims experienced a nearly identical PSPM cost in 2017 versus 2016 when factoring in pharmacy rebates
- Total administrative cost expense declined by 5.7% on a PSPM basis
  - 2016 baseline is net of (Health Insurance Tax) HIT tax reversal as reported in March 2017 BSC experience report to HSB—thus HIT tax is not a factor in the comparison of 2016 to 2017 administrative costs in this report
  - The administrative fee decline was attributable to two items:
    - (1) expiration of ACA Transitional Reinsurance Fee after 2016, and
    - (2) reduction in large claim pooling charge per subscriber

# BSC 2017 Flex-Funded HMO Plan Experience—Summary

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## Key Observations—Plan Expenses

- The 2016 Accountable Care Organization (ACO) payout for \$729,128 was to UCSF/Dignity/Hill Physicians; no ACO payout occurred in 2017
- The change in IBNR reserve as of June 30, 2017 is the one item in our reporting that includes the adjustment for Medicare retirees no longer having coverage through BSC as of January 1, 2017
  - Active employee change in IBNR: increase of \$986,808
  - Early retiree change in IBNR: decrease of \$560,598
  - Medicare retiree change in IBNR: decrease of \$586,530 (now eliminated as of June 30, 2017 for Medicare retirees)
  - Overall BSC change in IBNR: decrease of \$160,320

# BSC Flex-Funded Plan Experience\*—2017 Plan Year

Month →	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Total
Subscriber Count	18,347	18,263	18,268	18,244	18,226	18,183	18,033	18,043	18,060	18,040	18,044	18,000	18,146 (avg.)
Premiums Collected	\$25,888,778	\$25,866,460	\$25,862,374	\$25,743,295	\$25,958,039	\$24,072,403	\$25,425,145	\$25,425,145	\$25,425,145	\$25,425,145	\$25,425,145	\$25,425,145	\$305,942,217
Administration	\$1,438,994	\$1,431,448	\$1,437,500	\$1,431,784	\$1,434,407	\$1,425,765	\$1,425,177	\$1,409,919	\$1,415,977	\$1,419,109	\$1,410,261	\$1,409,635	\$17,089,977
Capitation	\$6,376,012	\$6,273,364	\$6,864,820	\$6,407,213	\$6,421,172	\$6,680,902	\$6,511,305	\$6,375,893	\$6,369,526	\$6,569,645	\$6,531,192	\$6,890,886	\$78,271,929
Medical Claims	\$11,718,371	\$13,964,071	\$13,374,660	\$12,475,269	\$16,292,898	\$15,016,515	\$12,568,912	\$14,029,116	\$14,024,138	\$16,014,355	\$15,207,875	\$13,933,845	\$168,620,024
Pharmacy Claims	\$5,463,503	\$3,249,124	\$4,077,915	\$4,378,002	\$4,460,657	\$4,329,361	\$4,433,140	\$4,662,043	\$4,408,670	\$3,449,812	\$4,441,421	\$4,418,784	\$51,772,431
Pharmacy Rebate	\$(263,977)	\$(267,664)	\$(263,977)	\$(587,734)	\$(587,734)	\$(587,734)	\$(250,000)	\$(250,000)	\$(250,000)	\$(250,000)	\$(250,000)	\$(250,000)	\$(4,058,821)
ACO	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Large Claim Pool'g	\$0	\$0	\$0	\$0	\$0	\$(720,373)	\$(6,315)	\$(364,087)	\$(749,400)	\$(2,128,260)	\$(1,497,694)	\$(539,999)	\$(6,006,127)
Change in IBNR	\$0	\$0	\$0	\$0	\$0	\$(160,320)	\$0	\$0	\$0	\$0	\$0	\$0	\$(160,320)
<b>Total Expenses</b>	<b>\$24,732,903</b>	<b>\$24,650,343</b>	<b>\$25,490,917</b>	<b>\$24,104,533</b>	<b>\$28,021,399</b>	<b>\$25,984,115</b>	<b>\$24,682,220</b>	<b>\$25,862,885</b>	<b>\$25,218,910</b>	<b>\$25,074,661</b>	<b>\$25,843,055</b>	<b>\$25,863,151</b>	<b>\$305,529,092</b>
Premiums Less Expenses	\$1,155,875	\$1,216,117	\$371,457	\$1,638,762	\$(2,063,360)	\$(1,911,712)	\$742,925	\$(437,740)	\$206,234	\$350,484	\$(417,911)	\$(438,006)	\$413,125
Increase / (Decrease) in Contingency Reserve as of June 30, 2017													\$(1,784,025)
<b>Total Incurred Expense Including Change in Contingency Reserve</b>													<b>\$303,745,067</b>
Incurred Loss Ratio	95.5%	95.3%	98.6%	93.6%	107.9%	107.9%	97.1%	101.7%	99.2%	98.6%	101.6%	101.7%	99.9%

\* Exhibit reflects total BSC population (active employees and early retirees); figures do not include claims paid in 2017 as runout from pre-2017 service dates for self-funded BSC Medicare retiree plan participants

# BSC Flex-Funded Plan Experience—2017 Versus 2016

## Comparison—Total Actual Dollar Basis

- Average subscribers: 18,755 in 2016 / 18,146 in 2017

Category	2016 Actual Dollars	2017 Actual Dollars	\$ Change	% Change
<b>Premiums Collected</b>	<b>\$304,936,856</b>	<b>\$305,942,217</b>	<b>\$1,005,361</b>	<b>0%</b>
Administration	\$18,731,681	\$17,089,977	\$(1,641,704)	(9%)
Capitation	\$73,696,896	\$78,271,929	\$4,575,033	6%
Medical Claims	\$158,396,364	\$168,620,024	\$10,223,660	6%
Pharmacy Claims	\$52,609,268	\$51,772,431	\$(836,837)	(2%)
Pharmacy Rebate	\$(3,278,458)	\$(4,058,821)	\$(780,363)	24%
ACO	\$729,128	\$0	\$(729,128)	(100%)
Large Claim Pooling	\$(225,596)	\$(6,006,127)	\$(5,780,531)	2562%
Change in IBNR	\$(64,227)	\$(160,320)	\$(96,093)	150%
<b>Total Expenses</b>	<b>\$300,595,056</b>	<b>\$305,529,092</b>	<b>\$4,934,036</b>	<b>2%</b>
Recommended Contingency Reserve	\$15,110,906	\$13,326,881	\$(1,784,025)	(12%)

# BSC Flex-Funded Plan Experience—2017 Versus 2016

## Comparison—Per Subscriber Per Month (PSPM) Basis

- Average subscribers: 18,755 in 2016 / 18,146 in 2017

Category	2016 Dollars PSPM	2017 Dollars PSPM	\$ Change PSPM	% Change PSPM
<b>Premiums Collected</b>	<b>\$1,354.91</b>	<b>\$1,405.00</b>	<b>\$50.09</b>	<b>4%</b>
Administration	\$83.23	\$78.48	\$(4.75)	(6%)
Capitation	\$327.45	\$359.45	\$32.00	10%
Medical Claims	\$703.80	\$774.37	\$70.57	10%
Pharmacy Claims	\$233.76	\$237.76	\$4.00	2%
Pharmacy Rebate	\$(14.57)	\$(18.64)	\$(4.07)	28%
ACO	\$3.24	\$0.00	\$(3.24)	(100%)
Large Claim Pooling	\$(1.00)	\$(27.58)	\$(26.58)	2658%
Change in IBNR	\$(0.29)	\$(0.74)	\$(0.45)	155%
<b>Total Expenses</b>	<b>\$1,335.62</b>	<b>\$1,403.11</b>	<b>\$67.49</b>	<b>5%</b>
Recommended Contingency Reserve	\$67.14	\$61.20	\$(5.94)	(9%)

# BSC Flex-Funded Plan Experience—2017 Plan Year

## Active Employee / Early Retiree Experience Splits

Category	Active Employees	Early Retirees	Total BSC Plans
Subscriber Count	15,778 (average)	2,368 (average)	18,146 (average)
Member Count	32,294 (1/1/2017)	3,998 (1/1/2017)	36,292 (1/1/2017)
<b>Premiums Collected</b>	<b>\$243,751,386</b>	<b>\$62,190,831</b>	<b>\$305,942,217</b>
Administration	\$14,436,244	\$2,653,733	\$17,089,977
Capitation	\$65,442,339	\$12,829,590	\$78,271,929
Medical Claims	\$136,318,352	\$32,301,672	\$168,620,024
Pharmacy Claims	\$40,378,441	\$11,393,989	\$51,772,431
Pharmacy Rebate	\$(3,165,563)	\$(893,259)	\$(4,058,821)
ACO	\$0	\$0	\$0
Large Claim Pooling	\$(4,725,081)	\$(1,281,046)	\$(6,006,127)
Change in IBNR*	\$986,808	\$(560,598)	\$(160,320)
<b>Total Expenses</b>	<b>\$249,671,540</b>	<b>\$56,444,082</b>	<b>\$305,529,092</b>
<b>Premiums Less Expenses</b>	<b>\$(5,920,154)</b>	<b>\$5,746,749</b>	<b>\$413,125</b>
Monthly Incurred Loss Ratio	102.4%	90.8%	99.9%

\* Change in IBNR for overall BSC plans also includes the phase-out of \$586,530 Medicare retiree IBNR portion from 2016, with the 2017 transition to fully-insured Medicare plan funding

# Glossary of Terms

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- **ACA**—Affordable Care Act (federal health care reform law)
- **ACO**—Accountable Care Organization is a integrated physician and outpatient facility delivery model constructed to provide medical care in the most efficient manner while maintaining high standards of quality
- **Administration**—Includes BSC claim processing fees, BSC large claim pooling fees, Affordable Care Act taxes, and SFHSS Health Care Sustainability Fund fee
- **Capitation**—Fixed monthly payment on a per member basis remitted to physician groups to cover member medical costs for specified services
- **Contingency Reserve**—Reserve held by self-funded plans to cover contingency for unforeseen excess claims cost (measured as of June 30 each year for SFHSS)

# Glossary of Terms

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- **IBNR**—Incurred But Not Reported reserve which is actuarial estimate for claims incurred on or before a specific measurement date but paid after that date (measured as of June 30 each year for SFHSS)
- **Large Claim Pooling**—Reimbursements to the plan for claims in excess of \$1,000,000 for a individual member during the plan year
- **Member**—subscribers and their covered dependents
- **Pharmacy Rebates**—Paid to plans by drug manufacturers
- **Subscriber**—covered SFHSS active employee or early retiree
- **Transitional Reinsurance Fee**—a fee required by ACA to be paid by employers during plan years 2014 through 2016