San Francisco Health Service System
Health Service Board

Rates and Benefits Committee

Self-Funded Program Reinsurance (Stop Loss) Recommendation

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Aon | Health & Benefits

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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.

As in prior years, Aon’s recommends that pursuant to the Health Service Board’s (HSB’s) Contingency Reserve Policy and Self-Funded Plans’ Stabilization Policy, as well as the required large claim pooling as part of Blue Shield’s flex-funded product basis, provide adequate protection from the risk of unusual large claim experience—and therefore we recommend 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 San Francisco Health Service System (SFHSS) that are self-funded / flex-funded:

- UnitedHealthcare City Plan PPO (active employees and non-Medicare retirees)
- Delta Dental of California PPO (active employees)
- Blue Shield of California Flex-Funded Plans—Access+ and Trio (active employees and non-Medicare retirees)

As self-funded plans, the risk of excess claims experience over collected premium equivalents is the responsibility of the Trust.

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 time the plan sponsor may consider this approach to financial risk mitigation as an excess 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 recommend contingency reserve level as presented to the HSB in January 2018 is found in the Appendix.

The Health Service Board (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 and conversely, gains are subtracted 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 Blue Shield of California's (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.

SFHSS pays BSC a $22.48 per subscriber per month pooling charge in 2018 which serves as reinsurance protection for 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 and become the responsibility of BSC.

Stop Loss Reinsurance—Recommendation

As in prior years, Aon's recommends that pursuant to the HSB's Contingency Reserve Policy and Self-Funded Plans' Stabilization Policy, as well as the required large claim pooling as part of Blue Shield's flex-funded product basis, provide adequate protection from the risk of unusual large claim experience—and therefore we recommend not purchasing stop loss insurance protection for SFHSS self-funded and flex-funded health care plans.

Appendix—Contingency Fund Status as of June 30, 2017

The recommended Contingency Reserves as of June 30, 2017 are:

Contingency Reserves

Plan	June 30, 2016	June 30, 2017	$ Change	% Change
UHC City Plan	$5,694,340	$5,555,678	-$138,662	-2%
Delta Dental of Califonia PPO Plan	$3,634,389	$3,086,872	-$547,517	-15%
Blue Shield of California Plan	$15,110,906	$13,326,881	-$1,784,025	-12%
TOTAL	**$24,439,635**	**$21,969,431**	**-$2,470,204**	**-10%**

These estimates will be reset as of June 30, 2018 after the close of the fiscal year.