

Health Service Board City & County of San Francisco

Rates & Benefits Committee

Blue Shield of California (BSC) Rate Stabilization Reserve Presentation

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Blue Shield of California HMO Rate Stabilization

The Health Service Board (HSB) approved Self-Funded Plans' Stabilization Policy requires an annual determination of the financial gain or loss for the self-funded plans. This difference between the expected versus actual plan cost is added to the existing stabilization reserve and amortized over a three-year rating period. This policy applies to the Blue Shield of California (BSC) Flex Funded HMO Plan.

The 2016 amount that can be added to the December 2015 Stabilization Reserve balance is calculated as follows:

- In 2016, a total of \$304,937,000 contributions were received
- The total cost of the plan in 2016 was \$300,596,000 (\$285,206,000 in claims - \$64,000 which is the reduction in the IBNR reserve as discussed on January 12, 2017 + \$17,635,000 in administrative expenses + \$1,097,000 in ACA fees - \$3,278,000 in pharmacy rebates)
- The result is an actual revenue gain of \$4,341,000

Blue Shield of California HMO Rate Stabilization (continued)

On June 30, 2016 Aon calculated the Contingency Reserve for the external audit (see Appendix). The June 30, 2016 Reserve (\$15,110,906) is \$183,000 greater than the 2015 Contingency Reserve (\$14,928,178). The increase in the Contingency Reserve is funded by the \$4,341,000 (see page 2) leaving a \$4,158,000 total gain.

When the 2016 rates were approved, it was assumed that the federal Health Insurance Tax (HIT) would be applicable to the BSC Flex Funded Plan due to the California Department of Managed Health Care (DMHC) filing as a fully insured plan. Blue Shield of California and the DMHC revisited the definition and as a result flex-funded plans are being treated as not fully insured by Blue Shield and DMHC and therefore were not required to pay the HIT, for 2016. The amount assumed in the 2016 rates was \$9,753,000.

Blue Shield of California HMO Rate Stabilization (continued)

Based on the approved rates for 2016, a gain of \$4,485,000 was expected. The actual 2016 gain was \$4,158,000 leaving a shortfall of \$327,000 to be added to the 2015 Stabilization Reserve which totaled \$10,307,437 resulting in a deficit of \$10,634,437 to be amortized over three years. The amount to be applied to the 2018 rates is \$3,544,812 and the remaining \$7,089,624 will be applied to 2019 and beyond.

Detailed rate calculations and notes are found on pages 5 and 6. See Appendix 1 for the Contingency Reserve status as of June 30, 2016, as presented to the HSB on January 12, 2017, and Appendix 2 for the 2015 Blue Shield of California HMO Rate Stabilization calculation.

Blue Shield of California HMO Plan Year Reconciliation

January 2016 through December 2016 Plan Reconciliation Actual versus Expected	Expected	Actual
1–Estimated Incurred Claims—including capitation, pharmacy cost, and fee for service claims cost	\$ 276,590,000	\$ 285,206,000
IBNR Increase	\$ -	\$ (64,000)
Potential Claims Cost Payout	\$ -	\$ -
Total Claims Spend	\$ 276,590,000	\$ 285,142,000
2–Administration Expense		
Basic Retention	\$ 17,312,000	\$ 17,635,000
PCORI—Patient Centered Outcome Research Institute	\$ 83,000	\$ 83,000
Transitional Reinsurance	\$ 995,000	\$ 1,014,000
HIT—Health Insurance Tax	\$ 9,753,000	\$ -
Total Admin Expense	\$ 28,143,000	\$ 18,732,000
3–Rx Rebates	\$ (3,000,000)	\$ (3,278,000)
4–Total Cost (1+2+3+4)	<u>\$ 301,773,000</u>	<u>\$ 300,596,000</u>
5–Total Contributions	\$ 306,218,000	\$ 304,937,000
6–Revenue Shortfall/(Gain)	\$ (4,485,000)	\$ (4,341,000)
7–Change in Contingency Reserve		\$ 183,000
8–Total Shortfall (Gain) (7+8 Actual column)		\$ (4,158,000)
9–Net to be Applied when Determining the Stabilization Carry Forward		\$ 327,000
10–Rate Spend Down		\$ -
11–Aon Recommended Final Carry Forward		\$ 327,000

Blue Shield of California HMO Plan Year Reconciliation

Notes:

- 1 Estimated Incurred Claims including claim payments for medical, pharmacy, and capitation in January–December 2016.
- 2 Administration Expense—cost of administering January–December 2016 claims payments for medical and pharmacy including pooling and all health care reform fees.
- 3 Rx Rebates—rebates from drug manufacturers for actives and early retirees.
- 5 Total Contributions—annual premium revenue collected.
- 6 Revenue Shortfall—difference in cost versus premium revenue collected.
- 7 Contingency Reserve—explicit reserve held to cover excess losses.
- 9 Expected minus shortfall result add to existing stabilization reserve and amortized over three years.
- 11 Based on HSS funding policy full amount is to be added to stabilization reserve.

Recommendation

Aon Rate Stabilization Calculation*

Stabilization reserve as of December 31, 2015	\$10,307,437
Aon recommended increase to stabilization reserve	\$327,000
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Total carry forward stabilization reserve as of December 31, 2016	\$10,634,437
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Stabilization policy requires 33% of reserve to be applied to the 2018 rates	\$3,544,812
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Remaining carry forward in stabilization reserve for plan years 2019 and after	\$7,089,624

*** Positive numbers reflect a loss and are added to the rates; negative numbers reflect a gain and are subtracted from the rates.**

Recommendation (continued)

Aon recommends that per the requirements of Health Service Board approved Self-Funded Plans' Stabilization Policy, which requires amortizing the loss of \$10,634,437 over a 3-year rate period, adding \$3,544,812 across all rating tiers for the 2018 Blue Shield of California HMO Plan.

Appendix 1 – Contingency Fund Status

The recommended Contingency Reserve as of June 30, 2016 is as follows:

Contingency Reserves

Plan	June 30, 2015	June 30, 2016	\$ Change	% Change
UHC City Plan	\$5,179,916	\$5,694,340	\$514,424	10%
Delta Dental of California PPO Plan	\$3,736,413	\$3,634,389	-\$102,024	-3%
Blue Shield of California Plan	\$14,928,178	\$15,110,906	\$182,728	1%
TOTAL	\$23,844,507	\$24,439,635	\$595,128	2%

The City Plan, Blue Shield of California and Delta Dental of California IBNR reserves are currently fully funded.

The change in contingency reserve is added into the calculation of the Claims Stabilization.

These estimates will be reset as of June 30, 2017 after the close of the fiscal year.

Appendix 2 – 2015 Blue Shield of California HMO Rate Stabilization

Self-Funded Plans' Stabilization Policy

The Health Service Board (HSB) approved Self-Funded Plans' Stabilization Policy requires an annual determination of the financial gain or loss for the self-funded plans. This difference between the expected versus actual plan cost is added to the existing stabilization reserve and amortized over a three-year rating period. This includes the Blue Shield of California (BSC) Flex Funded HMO Plan.

Appendix 2 – 2015 Blue Shield of California HMO Rate Stabilization (continued)

Aon Rate Stabilization Calculation*

Stabilization reserve as of December 31, 2014 (surplus carry forward)	\$8,970,155
Aon recommended increase to stabilization reserve (Net to be applied when determining the Stabilization Carry Forward page 3)	\$6,491,000
Total carry forward stabilization reserve as of December 31, 2015	<u>\$15,461,155</u>
Stabilization policy requires 33% of reserve to be applied to the 2017 rates	\$5,153,718
Remaining carry forward in stabilization reserve for plan years 2018 and after	<u>\$10,307,437</u>

* Positive numbers reflect a loss and are added to the rates; negative numbers reflect a gain and are subtracted from the rates.