Health Service Board
City & County of San Francisco

Rates & Benefits Committee

Self-Funded Program Reinsurance (Stop Loss) Recommendation

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Background

Presently there are three programs offered through the Health Service System City & County of San Francisco (HSS) Trust that are considered self-funded:

— UnitedHealthcare City Plan PPO (active employees and non-Medicare retiree)

— Delta Dental of California PPO (active employees)

— Blue Shield of California Flex Funded Plan (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. As a matter of practice many self-funded plan sponsors purchase external reinsurance (or “stop loss” insurance) for catastrophic claims exposure as a financial risk mitigation approach. There are many reinsurance programs available in the marketplace. Such programs offer the plan sponsor the ability to alleviate the financial strain of a plan year with excessive claims experience.

Background (continued)

In order to attain the reinsurance coverage, the plan sponsor remits a premium to the reinsurer who reimburses the plan sponsor when claims cost exceed the criteria established in the reinsurance contract usually on a monthly basis.

It is important to understand that reinsurance is an insurance product so when claims are not excessive the reinsurer may not pay out 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.

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.

Background (continued)

The Health Service Board (HSB) has an established Contingency Reserve Policy which articulates the purpose, use and calculation of the contingency reserves. The HSS Trust holds contingency reserves at a 99% confidence interval as established by an external actuary and audited annually by a third-party.

In addition, the HSB has a Self-Funded Plans' Stabilization Policy which establishes that self-funded plans amortize, over 3 years, any 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 effectively has the pool pay for itself on a ongoing basis.

Recommendation

Given the HSB funding policies (Contingency Reserve Policy and Self-Funded Plans' Stabilization Policy) of having all self-funded programs maintain a contingency reserve and of amortizing gains and losses over three years, Aon recommends that no additional external reinsurance is required and furthermore any external reinsurance would be considered redundant. In addition, HSS has not purchased external reinsurance under similar circumstances.

Contingency reserve levels as of June 30, 2016 are listed in following Appendix.

Appendix – Contingency Fund Status as of June 30, 2016

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

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.