

San Francisco Health Service System Health Service Board

Rates & Benefits

Delta Dental of California Self-Funded Active Employee PPO
Experience and Rate Stabilization Reserve Presentation

May 14, 2020

Delta Dental Active Employee PPO Plan Rate Stabilization Reserve—Aon Recommendation Summary

Recommended Buy-Down for 2021 Rating—One-Half of Available Reserve

As a result of the continued pattern of lower actual claims/fees relative to premiums in the active employee dental PPO plan—which is outlined in this material—a substantial rate stabilization reserve has developed as illustrated later in this presentation.

For the second consecutive year, Aon is recommending to the Health Service Board (HSB) that a higher level of rate stabilization reserve buy-down be applied to 2021 active employee dental PPO rating than the “per policy” one-third allocation, as a fiscally responsible approach to reduce the rate stabilization reserve balance. This will require the HSB to suspend the Self-Funded Plans Stabilization Policy for Delta Dental Active Employee PPO plan for this cycle’s approval.

Today Aon presents its recommendation for buy-down in 2021 rates, in the amount of one-half of the available stabilization reserve, or \$5,663,000. This action would preserve a remaining carryforward balance in rate stabilization reserve of \$5,662,000 for use in 2022 and beyond rating. Information leading to this recommendation is presented in this material. The recommended \$5,663,000 buy-down figure for 2021 rating compares to the \$7,016,000 buy-down figure (one-half of December 31, 2018 stabilization surplus balance) utilized in 2020 plan year rating.

Delta Dental Active Employee PPO Plan Rate Stabilization Reserve—Introduction

Stabilization Policy—General Background

The San Francisco Health Service System (SFHSS) Self-Funded Plans' Stabilization Policy requires an annual determination of the financial gain or loss for SFHSS self-funded / flex-funded plans. The Policy states for each plan, the difference between the expected plan cost and actual claim/fee cost for a plan year is added to the existing stabilization reserve and amortized over a three-year rating period.

Today's Presentation Focus—Delta Dental Active Employee PPO Plan

This presentation focuses on the recommended adjustment to the Delta Dental of California (Delta Dental) self-funded active employee PPO plan rate stabilization reserve to reflect impact of calendar year 2019 claim and fee experience. That experience is contained in this presentation.

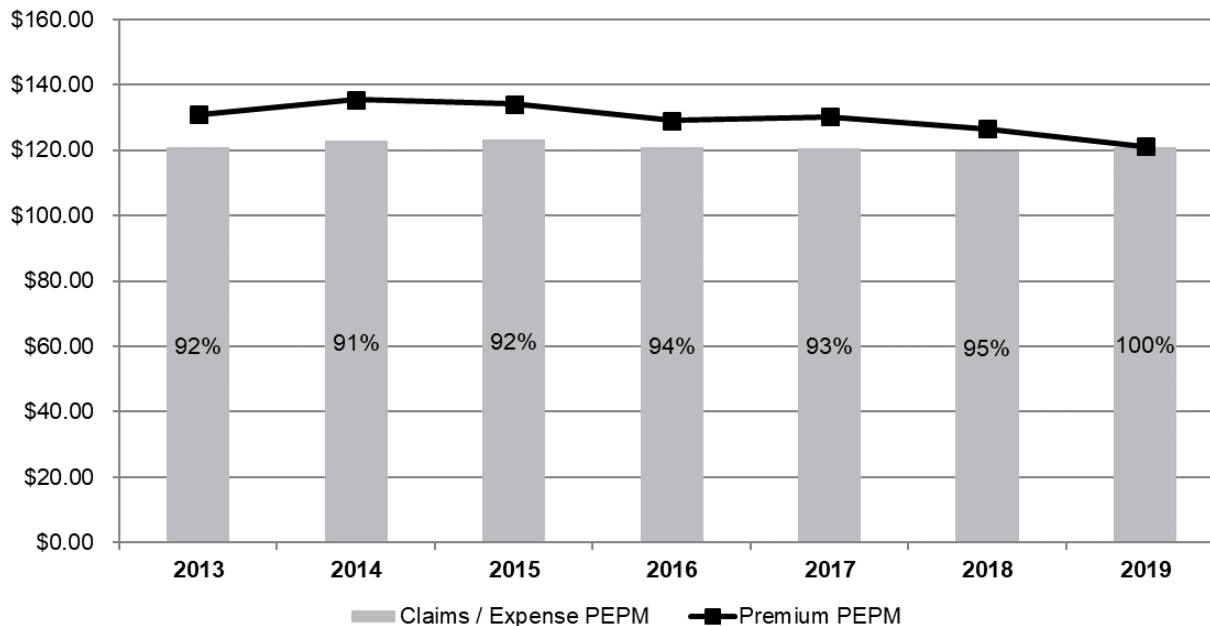
All other dental plans offered to SFHSS active employees and retirees are fully insured. Thus the focus on the active employee dental PPO plan for dental plan rate stabilization reserves.

Delta Dental Active Employee PPO Plan— 2019 Claim/Fee Experience Summary

The active employee dental PPO plan experience in 2019 came in as expected, as shown by the 100% loss ratio in 2019. This occurred after Aon's rate underwriting methodology was updated for the 2019 plan year (lower cost trend factor, no claim margin).

Actual 2019 plan experience on a per employee per month (PEPM) basis was nearly identical to the claim/expense PEPM figures in prior years. In the chart below, the **line** represents PEPM premiums, and the **bars** represent actual PEPM claims/fees.

Active Dental PPO Loss Ratio



← About \$120 PEPM actual claim/fee cost each of past six years

← 100% loss ratio (claims/expenses divided by premiums) is optimal—claims plus fees equaling premiums

Delta Dental Active Employee PPO Plan— 2019 Claim/Fee Experience Summary

Positive aspect of recent plan experience—gradual increases over time in PPO network dentist utilization (relative to lower-discounted Premier network dentists and out-of-network dentists)—including 1% increase from 2018 to 2019 in percentage of all claims that are attributed to a PPO network dentist.

Concerning aspect of recent plan experience—preventive care is underutilized, as 1 out of 3 enrolled persons **did not** have a dental cleaning in 2019.

Detailed 2019 plan experience information is contained in the Appendix.

Delta Dental Active Employee PPO Plan—Impact of Historical Experience on Rate Stabilization Reserve

Rate Stabilization Reserve Surplus / (Deficit) as of December 31

December 31, 2013	Not Yet Applicable
December 31, 2014	\$3,861,000
December 31, 2015	\$7,125,000
December 31, 2016	\$9,583,000
December 31, 2017	\$12,681,000
December 31, 2018	\$14,031,000
December 31, 2019	\$11,325,000

Surplus / (Deficit) Amount Applied to Rating

2016 Plan Year	\$1,287,000
2017 Plan Year	\$2,375,000
2018 Plan Year	\$3,194,000
2019 Plan Year	\$4,227,000
2020 Plan Year	\$7,016,000

Percentage Buy-Down Applied in Rating

2016 Plan Year	2.8%
2017 Plan Year	5.0%
2018 Plan Year	6.5%
2019 Plan Year	8.4%
2020 Plan Year	13.8%

Delta Dental Rate Stabilization reserve started in 2014—significant surpluses have built up since, given the favorable plan experience documented earlier. This led to actuarial assumption changes in plan rating starting for the 2019 plan year.

- HSB amortization decisions by rating year:
 - 2016-2019: one-third of new stabilization reserve per HSB policy
 - 2020: one-half of new stabilization reserve

Delta Dental Active Employee PPO Plan Rate Stabilization Reserve—Reconciliation Calculation*

During every Rates and Benefits cycle, the claims experience for the prior calendar year is evaluated. Based on 2019 claims experience, **\$4,310,000** should be added to the prior Delta Dental active employee PPO carry-forward rate stabilization reserve balance.

Calendar Year 2019 Plan Reconciliation (Actual versus Expected)	Expected	Actual
Paid Claims	\$48,428,000	\$44,812,000
IBNR Increase / (Decrease)	—	(\$119,000)
1—Total Projected Incurred Claims	\$48,428,000	\$44,693,000
2—Administration Expense—Delta Dental Fees	\$1,739,000	\$1,756,000
3—Total Cost (1+2)	\$50,167,000	\$46,449,000
4—Total Contributions	\$45,940,000	\$46,565,000
5—Revenue Shortfall / (Surplus) (3-4)	\$4,227,000	(\$116,000)
6—Increase / (Decrease) in Contingency Reserve		\$33,000
7—Total Shortfall / (Surplus) (Actual column: 5+6)		(\$83,000)
8—Adjustment to Stabilization Carry-Forward (Actual 7 – Expected 5): Aon Recommended Surplus to Add to December 31, 2018 Carry-Forward Stabilization Reserve to Calculate December 31, 2019 Amount		\$(4,310,000)

* See Appendix for descriptions of items listed above; expected column figures based on Aon rating calculations for 2019 plan year in May 2018; actual column figures provided by SFHSS Finance team.

Delta Dental Active Employee PPO Plan Rate Stabilization Reserve—Calculation Detail and Aon Recommendation

Stabilization Reserve Calculation—Delta Dental Active Employee PPO Plan

Stabilization reserve balance as of December 31, 2018	\$14,031,000
Offset reserve amount applied in 2020 rate buy-down	(\$7,016,000)
Prior carry-forward stabilization reserve balance	\$7,015,000
Recommended increase to the reserve based on 2019 experience	\$4,310,000
Stabilization reserve balance as of December 31, 2019	\$11,325,000
Aon recommended amount for amortization buy-down to apply to 2021 rates (one-half of stabilization reserve balance)	(\$5,663,000)
Updated carry-forward stabilization reserve for use after 2021	\$5,662,000

Delta Dental Active Employee PPO Plan Rate Stabilization Reserve—Aon Recommendation for HSB Action

Today's Recommended Approval Actions

- (1) Suspend the self-funded stabilization reserve policy on a one-time basis for the Delta Dental active employee PPO plan; and
- (2) Approve use of one-half of the December 31, 2019 stabilization reserve balance, or \$5,663,000, to be applied towards buy-down across all rating tiers for the Delta Dental active employee PPO plan for plan year 2021.

Appendix

Reconciliation Calculation Notes (From Page 6)

- 1 Estimated Incurred Claims including claim payments during January–December 2019.
- 2 Administration Expense—Calculated Delta Dental fees for administering January–December 2019 claims using \$4.62 per employee per month (PEPM). This fee level is in rate guarantee through the end of the 2021 plan year.
- 4 Total Contributions—annual premium revenue collected.
- 5 Revenue Shortfall / (Surplus)—difference in cost versus premium revenue collected.
- 6 Contingency Reserve—explicit reserve held to cover excess losses (amount presented in January 2020 HSB meeting).
- 8 Actual shortfall / (surplus) minus expected shortfall / (surplus)—amount added existing stabilization reserve per HSB policy and amortized over three years.

Active Employee PPO—2019 Claim Experience

Actual claim and fee experience in 2019 was very close to plan premiums—compared to the large surplus that have been seen in recent years for the active employee dental PPO plan.

Month	EE Only	EE + 1	EE + 2	Total Employees	Total Dependents	Average Contract Size	EE Only Rate	EE + 1 Rate	EE + 2 Rate	Monthly Premiums	Admin. Fees	Actual Paid Claims	Paid Loss Ratio	Projected Incurred Claims	Incurred Loss Ratio
Jan-19	12,043	8,293	11,394	31,730	40,919	2.29	\$60.48	\$127.00	\$181.43	\$3,848,726	\$146,593	\$4,434,999	119%	\$4,382,451	118%
Feb-19	12,096	8,313	11,421	31,830	41,038	2.29	\$60.48	\$127.00	\$181.43	\$3,859,370	\$147,055	\$3,631,160	98%	\$3,532,987	95%
Mar-19	12,085	8,329	11,384	31,798	40,974	2.29	\$60.48	\$127.00	\$181.43	\$3,854,024	\$146,907	\$3,815,118	103%	\$3,918,690	105%
Apr-19	12,127	8,330	11,379	31,836	40,939	2.29	\$60.48	\$127.00	\$181.43	\$3,855,784	\$147,082	\$3,552,842	96%	\$3,797,324	102%
May-19	12,116	8,324	11,356	31,796	40,883	2.29	\$60.48	\$127.00	\$181.43	\$3,850,184	\$146,898	\$4,307,802	116%	\$3,720,516	100%
Jun-19	12,117	8,361	11,351	31,829	40,912	2.29	\$60.48	\$127.00	\$181.43	\$3,854,036	\$147,050	\$3,533,340	95%	\$3,665,925	99%
Jul-19	12,019	8,218	11,292	31,529	40,626	2.29	\$60.48	\$127.00	\$181.43	\$3,819,244	\$145,664	\$3,325,158	91%	\$3,654,394	99%
Aug-19	12,006	8,202	11,290	31,498	40,607	2.29	\$60.48	\$127.00	\$181.43	\$3,816,063	\$145,521	\$4,329,759	117%	\$3,698,003	101%
Sep-19	12,044	8,170	11,315	31,529	40,611	2.29	\$60.48	\$127.00	\$181.43	\$3,818,833	\$145,664	\$2,847,251	78%	\$2,973,545	82%
Oct-19	12,065	8,190	11,312	31,567	40,625	2.29	\$60.48	\$127.00	\$181.43	\$3,822,099	\$145,840	\$4,033,160	109%	\$3,589,655	98%
Nov-19	12,098	8,154	11,338	31,590	40,647	2.29	\$60.48	\$127.00	\$181.43	\$3,824,240	\$145,946	\$3,053,763	84%	\$3,285,721	90%
Dec-19	12,115	8,189	11,296	31,600	40,535	2.28	\$60.48	\$127.00	\$181.43	\$3,822,093	\$145,992	\$3,051,259	84%	\$4,030,413	109%
Total / Averages				31,678	40,776	2.29				\$46,044,696	\$1,756,210	\$43,915,612	99%	\$44,249,626	100%
Surplus / (Deficit)												\$372,874		\$38,861	

NOTE: “loss ratio” = (claims + fees) divided by premiums

Data Source: Delta Dental of California year-end reporting for headcount, paid claims, and fees