San Francisco Health Service System
Health Service Board

Board Forum

Health Plan Risk Sharing

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Today's Discussion—Health Plan Risk Sharing

- What is health plan financial risk
- Risk-bearing methods by employers and health plans
  - Advantages and considerations of each method
  - How methods apply to SFHSS health plans today
- Current risk sharing provisions

Health Plan Financial Risk

- Risk in health plans is created by variation in plan experience from actuarial forecasts
- Components that drive health plan financial risk include:
  - — Plan utilization by health plan members
  - — Provider pricing variations
  - — New technologies/pharmaceuticals
  - — Large claim experience
  - — Member demographics (age/gender)
  - — Member health status
- Health plan claim experience deviations from expected could benefit either the health plan or the employer

Risk-Bearing Methods—Components of Cost

Fully Insured (premiums which include claims, fees, and risk charges)	▶	Self-Funded With Risk Sharing (employer covers claims and fees)	▶	Self-Funded Without Risk Sharing (employer covers claims and fees)

- Fully Insured—health plan maintains financial risk
- Self-Funded—employer maintains financial risk
- Self-funding could involve risk-sharing methods such as:
  - — Stop-loss insurance (individual and/or aggregate)
  - — Capitation (fixed cost per member) for certain services
  - — Capping of employer claim liability by health plan

Fully Insured Advantages / Concerns From Employer Perspective

Advantages

- Insurance company bears the risk of poor/adverse claims experience
- Employer's costs are guaranteed by the insurer
- Monthly costs are fixed and easy to budget – consistent cash flow
- Insurer assumes role of HIPAA Covered Entity and claim fiduciary liability

Concerns

- Additional costs due to premium taxes, profit margins, and ACA insurer fees
- Insurer benefits upon favorable claims experience relative to level anticipated in premiums
- Limited claims and utilization reporting which could limit plan management and decision making
- Less flexibility in plan design options due to state insurance mandates and plan filings
- Cost saving measures (wellness programs, disease management, consumer driven plan designs, etc.) directly benefit the insurance company

Self-Funded Advantages / Concerns From Employer Perspective

Advantages

- Lower administrative costs due to no premium tax, limited profit margins, no insurer fee, and reduced overhead
- Improved cash flow and interest earnings on monies held – claims are paid as they occur
- Exempt from state insurance laws and mandates
- Greater flexibility/control in plan design and financing
- Routine access to claims and utilization data – employer owns claims data
- Cost saving measures directly benefit employer

Concerns

- Less predictability in monthly budgeting due to claims fluctuation
- Increased exposure if claims exceed expected levels, including large claims
- Must establish reserve liabilities to cover claim run-out in the event of plan termination
  - Public sector also typically includes contingency and claim stabilization reserves
- Employer assumes the role of HIPAA Covered Entity and claim fiduciary liability

Funding Considerations

	Self-Funded	Fully Insured
Plan Risk	Client will maintain all plan risk outside of reinsurance; additional funding may be required	Insurance company will maintain all plan risk; additional funding is not required
Stop Loss Reinsurance	Client will need to purchase stop loss insurance to protect against catastrophic loss	Insurance company will maintain stop loss insurance to protect against catastrophic loss
Funding Rates	Actuarial assistance needed to develop plan funding rates	Insurance company will develop premium rates
Plan Reserving	Must maintain "Incurred but Not Reported" (IBNR) reserve as calculated by actuaries	Reserves are maintained by insurance company

Funding Considerations (cont.)

	Self-Funded	Fully Insured
Taxes and Margins	Not subject to state imposed premium tax or insurance company risk charges	States impose premium taxes to fully insured premiums; insurance carriers build risk charges into premiums
Plan Design Flexibility	Significant flexibility on covered services and plan design	Limited flexibility on covered services and plan design; must be state filed and follow state mandates
Fee Allocation	Rates set by employer include provision for administrative fees	Rates set by insurance company include fees and risk charges
Reporting	Improved reporting package and ownership of claim level detail	Typically limited standard reporting with little claim level detail

Risk-Bearing Methods—SFHSS Health Plans

Fully Insured

- Kaiser (Actives / Early Retirees)
- Kaiser (Medicare retirees)
- UHC New City Plan (Medicare Retirees)
- Delta Dental (Retirees)
- DeltaCare (all)
- United Healthcare Dental (all)
- VSP (all)

Self-Funded With Risk Sharing

- BSC Access+ (Actives / Early Retirees)
- BSC Trio (Actives / Early Retirees)

Self-Funded Without Risk Sharing

- UHC City Plan (Actives / Early Retirees)
- Delta Dental (Actives)

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Current Risk Sharing Provisions

Blue Shield Active / Early Retiree Plans—Flex Funding Features

- Flex Funding allows the SFHSS Trust to realize the impact of positive claims experience driven by the Accountable Care Organization (ACO) initiatives—adopted by Health Service Board in 2012
- Risk-sharing features of BSC plans for SFHSS:
  - Large claim pooling at $1 million per individual claimant in a year (in return for a pooling charge)
  - SFHSS Brown & Toland and Hill Physicians gain share potential (Access+)
  - Maximum claim liability cap at 125% of expected non-capitated medical claims
- New Trio plan option offered in 2018 as lower-cost alternative to Access+, with same plan design as Access+ but savings derived from certain provider exclusions (California Pacific Medical Center from hospital network, Sutter Health from physician network)