

# 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

April 11, 2019

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

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## Recommended Buy-Down for 2020 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 we outline in this material—a substantial rate stabilization reserve has developed as outlined on the prior page.

Aon is recommending to the Health Service Board (HSB) that a higher level of rate stabilization reserve buy-down be applied to 2020 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 2019.

**Today we present our recommendation for buy-down in 2020 rates, in the amount of one-half of the available stabilization reserve, or \$7,016,000.** This action would preserve a remaining carryforward balance in rate stabilization reserve of \$7,015,000 for use in 2021 and beyond rating. Information leading to this recommendation is presented in this material. The recommended \$7,016,000 buy-down figure for 2020 rating compares to a “per policy” one-third amount of \$4,677,000.

# Delta Dental Active Employee PPO Plan Rate Stabilization Reserve—Introduction

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## **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**

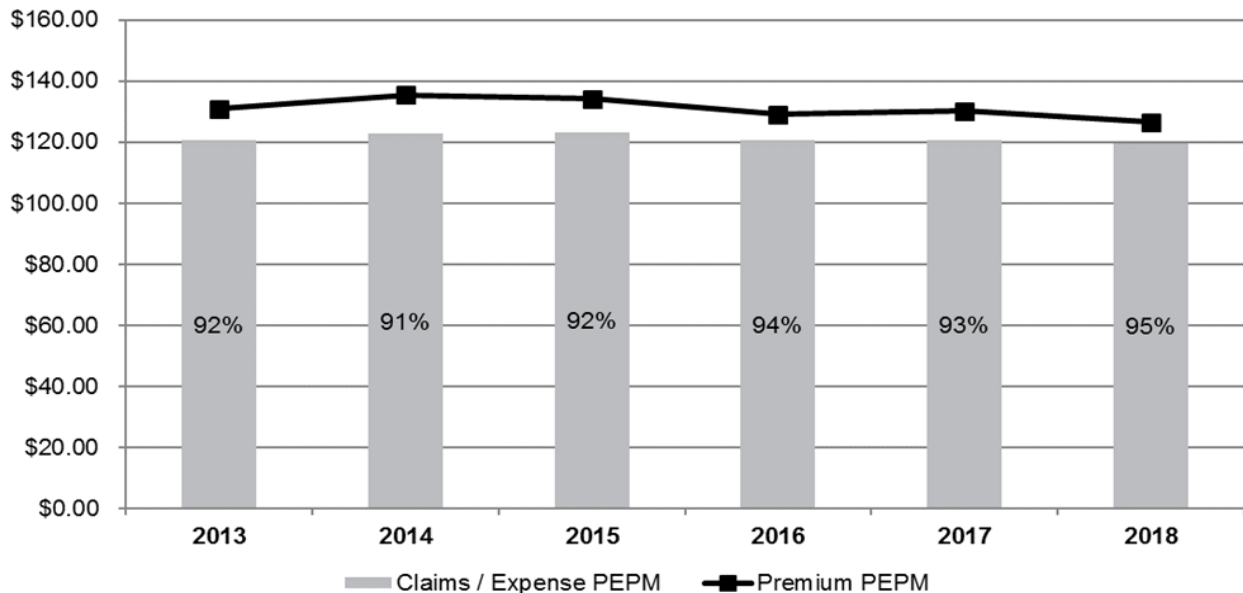
This presentation focuses on the recommended adjustment to the Delta Dental of California (Delta Dental) self-funded active employee PPO plan rate stabilization reserve to reflect impact of calendar year 2018 claim and fee experience. That experience is contained in this presentation.

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

# Delta Dental Active Employee PPO Plan— 2018 Claim/Fee Experience Summary

The active employee dental PPO plan ended 2018 in a favorable financial position, with premiums exceeding actual claim and fee costs by 5%. This is consistent with prior years in the active employee PPO plan, as seen in the chart below—where the **line** represents per employee per month (PEPM) premiums, the **bars** represent actual claim/fees PEPM, and the **percentages** represent the “loss ratio”.

**Active Dental PPO Loss Ratio**



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

← 100% loss ratio is optimal—claims plus fees equaling premiums

# Delta Dental Active Employee PPO Plan— 2018 Claim/Fee Experience Summary

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## Reasons For Ongoing Favorable Active Dental PPO Plan Experience

- (1) Nearly constant claim/fees PEPM from 2013 to 2018—about \$120 PEPM each of the past six years.
- (2) Preventive care under-utilization—in 2018, about 1 out of 3 enrolled persons did not have a dental cleaning.
- (3) Prior year premium calculations utilized a higher expected annual claim increase trend factor than we are now using for 2019 rating and beyond.

Into 2019, we expect claim/fees to be close to premiums as a result of changes in cost trend and margin assumptions used in 2019 active dental PPO plan rating, as noted in (3) above.

Detailed 2018 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

## 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

## 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%

**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

# 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 2018 claims experience, **\$5,577,000** should be added to the prior Delta Dental active employee PPO carry-forward rate stabilization reserve balance.

Calendar Year 2018 Plan Reconciliation (Actual versus Expected)	Expected	Actual
Paid Claims	\$47,578,000	\$43,883,000
IBNR Increase / (Decrease)	—	(\$14,000)
1—Total Projected Incurred Claims	\$47,578,000	\$43,869,000
2—Administration Expense—Delta Dental Fees	\$1,607,000	\$1,644,000
3—Total Cost (1+2)	\$49,185,000	\$45,513,000
4—Total Contributions	\$45,991,000	\$47,794,000
5—Revenue Shortfall / (Surplus) (3-4)	\$3,194,000	(\$2,281,000)
6—Increase / (Decrease) in Contingency Reserve		(\$102,000)
7—Total Shortfall / (Surplus) (Actual column: 5+6)		(\$2,383,000)
8—Adjustment to Stabilization Carry-Forward (Actual 7 – Expected 5): Aon Recommended Surplus to Add to December 31, 2017 Carry-Forward Stabilization Reserve to Calculate December 31, 2018 Amount		<b>\$(5,577,000)</b>

\* See Appendix for descriptions of items listed above

# Delta Dental Active Employee PPO Plan Rate Stabilization Reserve—Calculation Detail

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## Stabilization Reserve Calculation—Delta Dental Active Employee PPO Plan

Stabilization reserve balance as of December 31, 2017	\$12,681,000
Offset reserve amount applied in 2019 rate buy-down	(\$4,227,000)
Prior carry-forward stabilization reserve balance	\$8,454,000
Recommended increase to the reserve based on 2018 experience	\$5,577,000
Stabilization reserve balance as of December 31, 2018	\$14,031,000
<b>Aon recommended amount for amortization buy-down to apply to 2020 rates (one-half of stabilization reserve balance)</b>	<b>(\$7,016,000)</b>
Updated carry-forward stabilization reserve for use after 2020	\$7,015,000



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

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## 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, 2018 stabilization reserve balance, or \$7,016,000, to be applied towards buy-down across all rating tiers for the Delta Dental active employee PPO plan for plan year 2020.

# Appendix

## Reconciliation Calculation Notes

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- 1 Estimated Incurred Claims including claim payments during January–December 2018.
- 2 Administration Expense—Calculated Delta Dental fees for administering January–December 2018 claims using \$4.35 per employee per month (PEPM).
- 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 2019 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—2018 Claim Experience

Actual claim and fee experience in 2018 was lower than plan premiums—which is a similar result to that in recent years for the active employee dental PPO plan.

Month	EE	EE + 1	EE + 2	Total Subscribers	Dependents	Average Contract Size	EE Rate	EE + 1 Rate	EE + 2 Rate	Monthly Premiums	Administrative Fees	Paid Claims	Paid Loss Ratio	Incurred Claims	Incurred Loss Ratio
Jan-18	11,709	8,295	11,445	31,449	41,233	2.31	\$63.04	\$132.38	\$189.11	\$4,000,523	\$136,803	\$3,737,894	97%	\$4,253,462	110%
Feb-18	11,783	8,300	11,450	31,533	41,276	2.31	\$63.04	\$132.38	\$189.11	\$4,006,795	\$137,169	\$3,678,347	95%	\$3,435,143	89%
Mar-18	11,826	8,308	11,455	31,589	41,304	2.31	\$63.04	\$132.38	\$189.11	\$4,011,510	\$137,412	\$4,486,098	115%	\$3,984,032	103%
Apr-18	11,914	8,300	11,454	31,668	41,272	2.30	\$63.04	\$132.38	\$189.11	\$4,015,809	\$137,756	\$3,585,347	93%	\$3,574,347	92%
May-18	11,928	8,274	11,419	31,621	41,127	2.30	\$63.04	\$132.38	\$189.11	\$4,006,631	\$137,551	\$4,200,561	108%	\$3,701,732	96%
Jun-18	11,936	8,263	11,427	31,626	41,115	2.30	\$63.04	\$132.38	\$189.11	\$4,007,192	\$137,573	\$3,353,767	87%	\$3,660,249	95%
Jul-18	11,832	8,109	11,348	31,289	40,734	2.30	\$63.04	\$132.38	\$189.11	\$3,965,311	\$136,107	\$3,271,351	86%	\$3,578,838	94%
Aug-18	12,103	8,049	11,200	31,352	40,022	2.28	\$63.04	\$132.38	\$189.11	\$3,946,463	\$136,381	\$4,237,052	111%	\$3,757,067	99%
Sep-18	12,067	8,069	11,190	31,326	40,051	2.28	\$63.04	\$132.38	\$189.11	\$3,944,950	\$136,268	\$3,027,774	80%	\$2,983,819	79%
Oct-18	12,118	8,116	11,221	31,455	40,179	2.28	\$63.04	\$132.38	\$189.11	\$3,960,249	\$136,829	\$3,022,874	80%	\$3,429,232	90%
Nov-18	12,134	8,123	11,231	31,488	40,217	2.28	\$63.04	\$132.38	\$189.11	\$3,964,075	\$136,973	\$3,881,651	101%	\$3,393,121	89%
Dec-18	12,175	8,135	11,205	31,515	40,144	2.27	\$63.04	\$132.38	\$189.11	\$3,963,332	\$137,090	\$3,400,378	89%	\$3,793,963	99%
				<b>31,493</b>	<b>40,723</b>	<b>2.29</b>				<b>\$47,792,842</b>	<b>\$1,643,913</b>	<b>\$43,883,096</b>		<b>\$43,545,006</b>	
												<b>Claims + Fees → \$44,707,334</b>	<b>95%</b>	<b>\$44,489,013</b>	<b>95%</b>

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