

**AON**

**San Francisco  
Health Service  
System**

**Health Service  
Board**

June 30, 2021  
Incurred But Not Reported  
(IBNR) Reserve and  
Contingency Reserve  
Amounts for Self-Funded  
and Flex-Funded Health  
Plans

January 13, 2022



# Background – Three Reserves for SFHSS Self-Funded/Flex-Funded Plans

## Today's Discussion Focuses on First Two – IBNR and Contingency

- 1) Incurred But Not Reported (IBNR):** Actuarial estimate of the unpaid liability for run-out claims where services were incurred on or before a given date, but those claims have not yet been paid as of that date; **calculated annually as of June 30 (last day of fiscal year)** for SFHSS plans (e.g., as of June 30, 2021, for this reserve cycle).
- 2) Contingency:** Statistically determined amount which protects against potential for funding estimate shortfalls which could occur when the actual claims incurred over a plan year would exceed projected claims when developing premium equivalents; **calculated annually as of June 30 (last day of fiscal year)** for SFHSS plans (e.g., as of June 30, 2021, for this reserve cycle).
- 3) Stabilization:** Annual determination of the financial gain or loss for the self-funded/flex-funded plans; **calculated annually as of December 31 (last day of plan year)** for SFHSS plans (e.g., as of December 31, 2021, for the upcoming Rates and Benefits cycle – recommended amounts will be reviewed with the HSB in March-April 2021).

# Today's Discussion – IBNR and Contingency Reserves

The Health Service Board (HSB) has three distinct health plan reserve policies – and as such maintains three distinct reserves on each self-funded and flex-funded medical/prescription drug and dental plan (e.g., health plan). Descriptions of these three types of health plan reserves are outlined on the prior page. Reserves are held by San Francisco Health Service System (SFHSS) as of June 30, 2021, on these health plans:

- Flex-funded non-Medicare medical/Rx HMO plans administered by Blue Shield of California (BSC) (Access+ and Trio) for active employees and early retirees;
- Self-funded non-Medicare medical/Rx PPO plan administered by UnitedHealthcare (UHC) for active employees and early retirees; and
- Self-funded dental PPO plan administered by Delta Dental of California (Delta Dental) for active employees.

In future years, there will be IBNR, Contingency, and Stabilization reserves established for the new Health Net CanopyCare flex-funded non-Medicare medical/Rx HMO plan. This plan becomes effective January 1, 2022. Reserves established for the self-funded non-Medicare medical/Rx PPO plan will continue to apply to this plan as the entity administering this plan transitions from UHC to BSC on January 1, 2022 (though UHC will continue to administer this plan for non-Medicare retiree “split family” members where one or more family member is enrolled in non-Medicare PPO plan coverage through UHC, and one or more family member is enrolled in the UHC Medicare Advantage PPO plan).

**This presentation requests HSB approval today** for Incurred But Not Reported (IBNR) and Contingency reserve amounts calculated as of June 30, 2021, for the SFHSS health plans listed above.

# IBNR Reserves as of June 30, 2021

Recommended IBNR reserves, and change from prior levels, are:

Self-Funded/Flex-Funded Plan	Population Covered	Incurred But Not Reported (IBNR) Reserves			
		As of June 30, 2020	As of June 30, 2021	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Flex-Funded Non-Medicare HMO Plans Administered by BSC (Access+ and Trio)	Active Employees, Early Retirees	\$21,922,805	\$20,992,032	(\$930,773)	(4.2%)
Self-Funded Non-Medicare PPO Plan Administered by UHC	Active Employees, Early Retirees	\$3,405,317	\$4,088,760	\$683,443	20.1%
Self-Funded Dental PPO Plan Administered by Delta Dental	Active Employees	\$1,697,144	\$3,027,348	\$1,330,204	78.4%
All SFHSS Self-Funded/Flex-Funded Plans as of June 30, 2021		\$27,025,266	\$28,108,140	\$1,082,874	4.0%

The IBNR reserves for the plans listed above are currently fully funded. IBNR reserve figures for SFHSS flex-funded and self-funded health plans will be reset as of June 30, 2022, after the close of the current fiscal year.

The large increases in the self-funded Non-Medicare PPO plan and self-funded active employee dental PPO plan IBNR reserves as of June 30, 2021 (versus June 30, 2020) are due to impacts of COVID-19 pandemic claim suppression present in IBNR reserves for these plans as of the June 30, 2020, measurement date.

# Contingency Reserves as of June 30, 2021

Recommended Contingency reserves, and change from prior levels, are:

Self-Funded/Flex-Funded Plan	Population Covered	Contingency Reserves			
		As of June 30, 2020	As of June 30, 2021	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Flex-Funded Non-Medicare HMO Plans Administered by BSC (Access+ and Trio)	Active Employees, Early Retirees	\$14,230,134	\$13,774,152	(\$455,982)	(3.2%)
Self-Funded Non-Medicare PPO Plan Administered by UHC	Active Employees, Early Retirees	\$6,343,969	\$7,608,082	\$1,264,113	19.9%
Self-Funded Dental PPO Plan Administered by Delta Dental	Active Employees	\$2,940,270	\$2,145,095	(\$795,175)	(27.0%)
All SFHSS Self-Funded/Flex-Funded Plans as of June 30, 2021		\$23,514,373	\$23,527,329	\$12,956	0.1%

The Contingency reserves for the plans listed above are currently fully funded. Contingency reserve figures for SFHSS flex-funded and self-funded health plans will be reset as of June 30, 2022, after the close of the current fiscal year.

The substantial increase in Contingency reserve for the self-funded Non-Medicare PPO plan is, in part, attributable to a methodology change from linear regression used in 2020/prior calculations to a large claim predictive modeling approach for the June 30, 2021, calculation (recognizing this plan does not have stop loss insurance). The substantial decrease in Contingency reserve for the self-funded active employee dental PPO plan is primarily due to a methodology change from linear regression used in 2020/prior calculations to using a 5% of annual claims factor for the June 30, 2021, calculation—recognizing employer large claim exposure in dental is capped by plan design.

# Today's Recommendation

It is recommended that the Health Service Board (HSB) approve the Incurred But Not Reported (IBNR) and Contingency reserve amounts as of June 30, 2021, as presented in this material for the following SFHSS self-funded and flex-funded health plans:

- Flex-funded non-Medicare medical/Rx HMO plans administered by Blue Shield of California (BSC) (Access+ and Trio) for active employees and early retirees;
- Self-funded non-Medicare medical/Rx PPO plan administered by UnitedHealthcare (UHC) for active employees and early retirees; and
- Self-funded dental PPO plan administered by Delta Dental of California (Delta Dental) for active employees.

The HSB Reserve Policies are captured in the sfhss.org website within the Governance Policies and Terms of Reference document (dated February 2019) available at this link:

<https://sfhss.org/sites/default/files/2020-07/Final%20Updated%20Governance%20Policies%20and%20Terms%20of%20Reference%20as%20of%202-26-19.pdf>

The Reserve Policy numbers and descriptions are:

- 210 – Contingency Reserve Policy and Methodology
- 211 – Self-Funded Plans' Stabilization Policy
- 212 – IBNR Reserve Policy and Methodology

Changes in Contingency reserves will be a component of December 31, 2021, Stabilization reserve calculations in early 2022.