

# **San Francisco Health Service System Health Service Board**

## **Rates & Benefits**

Review Health Net CanopyCare Flex-Funded Non-Medicare HMO Plan 2022 Claims and Utilization Experience and Approve the Use of One-Third of the Stabilization Reserve Surplus as of December 31, 2022

March 23, 2023

# HN CC Flex-Funded Non-Medicare HMO Plan 2022 Experience and December 31, 2022 Rate Stabilization Fund

## Agenda

- Financial Experience Results Overview — 2022 Plan Year (first year of plan offering)
- Key cost and utilization drivers for Health Net CanopyCare (HN CC) HMO plan population
- December 31, 2022 Rate Stabilization Fund Use Recommendation
- Appendix
  - HN CC HMO Plan Reconciliation Notes
  - Glossary of terms

## Today's Recommendation

### HN CC HMO Plan Rate Stabilization Reserve

In congruence with the Stabilization Fund Policy, approve the use of one third of the December 31, 2022 stabilization reserve **Surplus** or \$118,000 (one-third of \$353,000) be applied towards buy-down of rates across all rating tiers for the Health Net CanopyCare (HN CC) HMO plan for plan year 2024, and apply proportionately between active employees and early retirees.

The remaining Surplus carry forward balance for plan year 2025 is \$235,000.

This presentation will explain the derivation of this result and recommendation.

# 1

## Financial Experience Results Overview — 2022 Plan Year

# HN CC Flex-Funded Non-Medicare HMO Plan 2022 Experience

## Introduction

This presentation captures information on calendar year 2022 claims, fees, and other associated costs relative to total cost premium rates for the Health Net CanopyCare HMO Plan for active employees and early retirees. Experience is presented on a combined basis for the active and retiree populations given the small size of the early retiree population in this plan during 2022 (10 covered lives).

The Health Net CanopyCare HMO plan was first offered by SFHSS to active employees and early retirees on January 1, 2022. This resulted from the HSB approval to offer this plan in the February 2021 HSB meeting.

Aggregate 2022 plan experience is presented on the next page. For the Health Net CanopyCare HMO plan, most medical plan expense is captured in capitation.

# HN CC Flex-Funded Plan Experience Detail <sup>[1]</sup>

## 2022 Plan Year

Month → →	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Total
EE/RET Count	165	171	178	185	191	193	197	202	211	218	231	232	198 (avg.)
<b>Premiums Collected</b>	<b>\$230,682</b>	<b>\$239,071</b>	<b>\$248,857</b>	<b>\$258,644</b>	<b>\$267,032</b>	<b>\$269,828</b>	<b>\$275,421</b>	<b>\$282,411</b>	<b>\$294,994</b>	<b>\$304,780</b>	<b>\$322,955</b>	<b>\$324,353</b>	<b>\$3,319,028</b>
Administration	\$19,138	\$19,549	\$20,195	\$20,371	\$20,605	\$20,664	\$21,369	\$22,073	\$22,954	\$23,188	\$24,363	\$24,420	\$258,889
Capitation	\$146,154	\$151,811	\$157,867	\$162,916	\$163,644	\$165,340	\$167,865	\$174,624	\$183,655	\$184,483	\$187,224	\$192,365	\$2,037,948
Medical Claims	\$0	\$1,539	\$3,548	\$5,063	\$4,657	\$8,558	\$6,576	\$7,064	\$4,063	\$3,176	\$5,217	\$6,850	\$56,311
Pharmacy Claims	\$8,950	\$12,923	\$15,519	\$16,528	\$20,943	\$22,775	\$29,494	\$24,163	\$39,273	\$32,379	\$32,684	\$31,512	\$287,143
Mental Health Cost	\$8,113	\$8,288	\$8,557	\$8,632	\$8,733	\$8,758	\$9,058	\$9,358	\$9,728	\$9,828	\$10,329	\$10,354	\$109,736
Chiropractic Rider	\$565	\$577	\$596	\$601	\$608	\$610	\$630	\$651	\$677	\$684	\$719	\$721	\$7,639
Change in IBNR	\$0	\$0	\$0	\$0	\$0	\$28,701	\$0	\$0	\$0	\$0	\$0	\$0	\$28,701
<b>Total Expenses</b>	<b>\$182,920</b>	<b>\$194,687</b>	<b>\$206,282</b>	<b>\$214,111</b>	<b>\$219,190</b>	<b>\$255,406</b>	<b>\$234,992</b>	<b>\$237,933</b>	<b>\$260,350</b>	<b>\$253,738</b>	<b>\$260,536</b>	<b>\$266,222</b>	<b>\$2,786,364</b>
<b>Premiums Less Expenses</b>	<b>\$47,762</b>	<b>\$44,384</b>	<b>\$42,575</b>	<b>\$44,533</b>	<b>\$47,842</b>	<b>\$14,422</b>	<b>\$40,429</b>	<b>\$44,478</b>	<b>\$34,644</b>	<b>\$51,042</b>	<b>\$62,419</b>	<b>\$58,131</b>	<b>\$532,664</b>
Increase / (Decrease) in Contingency Reserve as of June 30, 2022													<b>\$179,721</b>
<b>Total Incurred Expense Including Change in Contingency Reserve</b>													<b>\$2,966,085</b>
Incurred Loss Ratio (Total includes Contingency Reserve Change)	79.3%	81.4%	82.9%	82.8%	82.1%	94.7%	85.3%	84.3%	88.3%	83.3%	80.7%	82.1%	<b>89.4%</b>

[1] Exhibit reflects total HN CC population (active employees and early retirees) given small size of early retiree covered population in 2022 (10 covered lives).

# HN CC Flex-Funded Non-Medicare HMO Plan 2022 Experience

## Key Observations Summary

- Consistent with expectations from Health Net's financial proposal during the Fall 2020 Non-Medicare Health Plans RFP process, the vast majority of medical cost falls into capitation.
  - The favorable loss ratio for 2022 could be expected given Health Net lowered their capitation cost expectation used for 2023 plan year rating as outlined in the 2023 Health Net CanopyCare renewal presentation to the HSB in May 2022, leading to an overall 10.4% total rate reduction from 2022 to 2023.
- Health Net's financial model separately captures costs attributable to mental health care and chiropractic care, as exhibited on the prior page.
- Total enrollment in Health Net CanopyCare HMO grew by 40% from January 2022 to December 2022.

# 2

## HN CC HMO Plan December 31, 2022 Rate Stabilization Fund Recommendation



# SFHSS Health Plan Reserves Background

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

### Today's Discussion Focuses on Third Below — Stabilization

- 1) Incurred But Not Reported (IBNR):** Actuarial estimate of the unpaid claim 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, 2022, for most recent 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, 2022, for most recent 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, 2022, for today's review of the Health Net CanopyCare Flex Funded HMO stabilization amount).

# Today's Discussion — HN CC HMO Plan Rate Stabilization Fund

Information on the June 30, 2022 IBNR and Contingency Reserves was presented by Aon to the HSB on January 12, 2023.

This presentation focuses on the Health Net CanopyCare HMO Plan Rate Stabilization Reserve amount that is recommended by Aon as of December 31, 2022. As a new plan in 2022, this is the initial calculation for this plan's Rate Stabilization Reserve.

The HSB's Self-Funded Plans' Stabilization Policy requires an annual determination of the financial gain or loss over a calendar year for each self-funded and flex-funded health plan. The difference between the expected and actual plan costs for the just-completed plan year is added to the existing Stabilization Reserve balance, and per policy is amortized over a three-year rating period.

# HN CC HMO Plan 2022 Plan Year Reconciliation

## Combined Access+ and Trio Plans for Active Employees and Early Retirees

January 2022 – December 2022 Plan Reconciliation (Actual vs Expected)	Expected	Actual
1 Estimated Incurred Claims — includes capitation, pharmacy cost, and fee for service claims cost IBNR Increase/(Decrease)		\$2,498,774 <u>\$28,701</u>
Total Claims Spend		\$2,527,475
2 Administration Expense		\$258,889
3 Rx Rebates		<u>(incl. in Rx claims)</u>
4 Total Cost (1+2+3)		\$2,786,364
5 Total Contributions		<u>\$3,319,028</u>
6 Revenue Shortfall/(Surplus) (4-5)	\$0 (first year)	(\$532,664)
7 Increase/(Decrease) in Contingency Reserve		<u>\$179,721</u>
8 Total Shortfall/(Surplus) (Actual column: 6+7)		(\$352,943)
9 Aon Recommended Carry Forward Shortfall/(Surplus) (Actual 8 – Expected 6; rounded to nearest \$000)		<u>(\$353,000)</u>

# Today's Recommendation

## Rate Stabilization Reserve Calculation — Health Net CanopyCare HMO

Stabilization balance as of December 31, 2021	n/a
Offset amount applied in 2023 rate buy-down per policy (1/3)	n/a
Prior carry-forward stabilization balance	n/a
Recommended initial plan <b>surplus</b> based on 2022 experience	(\$353,000)
Stabilization <b>surplus</b> balance as of December 31, 2022	(\$353,000)
Calculated amount per amortization policy to apply to 2024 rate <b>buy-down</b> per policy (1/3 of stabilization <b>surplus</b> balance)	(\$118,000)
Updated carry-forward stabilization <b>surplus</b> for use after 2024	(\$235,000)

### Today's Recommendation

In congruence with the Stabilization Fund Policy, approve the use of one third of the December 31, 2022 stabilization reserve **Surplus** or \$118,000 (one-third of \$353,000) be applied towards buy-down of rates across all rating tiers for the Health Net CanopyCare HMO plan for plan year 2024, and apply proportionately between active employees and early retirees.

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## Appendix

- HN CC HMO Plan Reconciliation Notes
- Glossary of Terms

# HN CC HMO Plan Reconciliation Notes

- 1 Estimated Incurred Claims including claim payments for medical, pharmacy, and capitation in January – December 2022.
- 2 Administration Expense — Cost of administering January – December 2022 claims payments for medical and pharmacy including large claim pooling fees.
- 3 Rx Rebates — Rebates from drug manufacturers for active employees and early retirees.
- 5 Total Contributions — Annual premium revenue collected.
- 6 Revenue Shortfall/(Surplus) — Difference in cost versus premium revenue collected.
- 7 Contingency Reserve — Explicit reserve held to cover excess losses (amount presented in January 2023 HSB meeting).
- 9 Actual shortfall/(surplus) minus expected shortfall/(surplus) — Amount added to existing stabilization balance per HSB Self-Funded Plans' Stabilization Policy and amortized over three years.

# Glossary of Terms

**ACA** — Affordable Care Act (federal health care reform law)

**ACO** — Accountable Care Organization is an integrated physician and outpatient facility delivery model constructed to provide medical care in the most efficient manner while maintaining high standards of quality

**Administration** — Includes HN CC claim processing fees, Affordable Care Act taxes, and SFHSS Health Care Sustainability Fund fee

**Capitation** — Fixed monthly payment on a per member basis remitted to physician groups to cover member medical costs for specified services

**Contingency Reserve** — Reserve held by self-funded plans to cover contingency for unforeseen excess claims cost (measured as of June 30 each year for SFHSS)

# Glossary of Terms

**IBNR** — Incurred But Not Reported reserve which is actuarial estimate for claims incurred on or before a specific measurement date but paid after that date (measured as of June 30 each year for SFHSS)

**Member** — Covered individual in health plan (employee, retiree, dependent, and COBRA beneficiary)

**Pharmacy Rebates** — Paid to plans by drug manufacturers