

San Francisco Health Service System Health Service Board

Rates & Benefits

Review and Approve June 30, 2025, Incurred But Not Reported (IBNR) Reserve and Contingency Reserve Amounts for Self-Funded and Flex-Funded Health Plans

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Introduction — Incurred But Not Reported (IBNR) and Contingency Reserves

The Health Service Board (HSB) Reserve Policies are captured in the San Francisco Health Service System (SFHSS) website at sfhss.org within the Governance Policies and Terms of Reference document (revised December 2024) available at this link:

<https://sfhss.org/sites/default/files/2025-01/HSB%20Governance%20Policies%20and%20Terms%20of%20Reference%20Revised%2012-2024%20Full%20Packet.pdf>

The HSB Reserve Policy numbers and descriptions are:

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

This presentation requests HSB approval today for IBNR and 95th percentile confidence level Contingency reserve amounts calculated as of June 30, 2025, for SFHSS self-funded and flex-funded health plans.

Background — Three Reserves for SFHSS Self-Funded and Flex-Funded Health Plans

Today's Recommendations Focus on First Two — IBNR and Contingency

- 1) **Incurred But Not Reported (IBNR)—HSB Policy 212:** 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, 2025, for this reserve cycle).
- 2) **Contingency—HSB Policy 210:** 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, 2025, for this reserve cycle).
- 3) **Stabilization—HSB Policy 211:** 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, 2025, for the upcoming Rates and Benefits cycle — recommended amounts will be reviewed with the HSB in March-April 2026).

Health Plans Holding IBNR and Contingency Reserves

Reserves are held on each self-funded and flex-funded medical/prescription drug and dental plan (e.g., health plan). IBNR and Contingency Reserves are held by SFHSS as of June 30, 2025, 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 non-Medicare retirees;
- Flex-funded non-Medicare medical/Rx HMO plan administered by Health Net (CanopyCare) for active employees and non-Medicare retirees;
- Self-funded non-Medicare medical/Rx PPO plan administered by BSC for active employees and non-Medicare retirees; and
- Self-funded dental PPO plan administered by Delta Dental of California (Delta Dental) for active employees (IBNR reserves only).

Recent SFHSS Contingency Reserve Developments

Self-Funded and Flex-Funded Medical/Prescription Drug Plans

HSB Contingency Reserve Policy 210 states the plan actuary will develop contingency reserve recommendations for SFHSS self-funded and flex-funded health plans at three statistical confidence interval levels: 95th percentile, 97th percentile, and 99th percentile. Historically, the 99th percentile confidence interval was utilized by SFHSS for determination of contingency reserves (which produces the highest figure of the three methods).

At the March 14, 2024, HSB meeting, the HSB approved the restatement of June 30, 2023, contingency reserves for the self-funded and flex-funded medical/prescription drug plans to figures developed at the 95th percentile confidence interval, based on SFHSS and Aon recommendation. The rationale for this change was to reduce the high level of conservatism in the contingency reserve figures (at 99th percentile level), recognizing the 95th percentile level is common practice among public sector employers and retains a reasonable level of contingency reserves for the self-funded and flex-funded health plans.

Today's contingency reserve recommendations are based on continued use of figures calculated at the 95th percentile confidence level.

Recent SFHSS Contingency Reserve Developments

Self-Funded Active Employee Dental PPO Plan

In prior years before 2023, contingency reserves were held on the self-funded active employee dental PPO plan. In 2024, SFHSS and Aon recommended to the HSB that contingency reserves be eliminated for the self-funded dental plan as reasoning for a contingency reserve does not apply to dental (as benefit maximums cap plan financial exposure).

At the March 14, 2024, HSB meeting, the HSB approved the restatement of June 30, 2023, contingency reserves for the self-funded dental PPO plan to \$0—with commitment to change Contingency Reserve Policy 210 later in 2024 to remove this plan from the policy. That change was approved by the HSB Governance Committee on December 6, 2024, then by the full HSB at the December 12, 2024, HSB meeting.

Thus, a contingency reserve is no longer held on the self-funded active employee dental PPO plan.

IBNR Reserves as of June 30, 2025

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

Self-Funded/Flex Funded Plan	Population Covered	Incurred But Not Reported (IBNR) Reserves			
		As of June 30, 2024	As of June 30, 2025	\$ Increase/(Decrease)	% Increase/(Decrease)
Flex-Funded Non-Medicare HMO Plans Administered by BSC (Access+ and Trio)	Active Employees, Non-Medicare Retirees	\$28,902,855	\$30,566,598	\$1,663,743	5.8%
Flex-Funded Non-Medicare HMO Plan Administered by Health Net (CanopyCare)	Active Employees, Non-Medicare Retirees	\$177,297	\$158,501	(\$18,796)	(10.6%)
Self-Funded Non-Medicare PPO Plan Administered by BSC	Active Employees, Non-Medicare Retirees	\$4,453,321	\$5,231,979	\$778,658	17.5%
Self-Funded Dental PPO Plan Administered by Delta Dental	Active Employees	\$3,009,669	\$3,073,095	\$63,426	2.1%
Total Self-Funded/Flex-Funded Plans as of June 30, 2025		\$36,543,142	\$39,030,173	\$2,487,031	6.8%

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, 2026, after the close of the current fiscal year.

Contingency Reserves as of June 30, 2025

Recommended Contingency reserves utilizing the 95th percentile statistical confidence interval, and changes from prior levels, are:

Self-Funded/Flex-Funded Plan	Population Covered	Contingency Reserves (95 th percentile level)			
		As of June 30, 2024	As of June 30, 2025	\$ Increase/(Decrease)	% Increase/(Decrease)
Flex-Funded Non-Medicare HMO Plans Administered by BSC (Access+ and Trio)	Active Employees, Non-Medicare Retirees	\$12,075,345	\$13,590,508	\$1,515,163	12.5%
Flex-Funded Non-Medicare HMO Plan Administered by Health Net (CanopyCare)	Active Employees, Non-Medicare Retirees	\$682,680	\$862,469	\$179,789	26.3%
Self-Funded Non-Medicare PPO Plan Administered by BSC	Active Employees, Non-Medicare Retirees	\$6,050,117	\$6,276,133	\$226,016	3.7%
Total Self-Funded/Flex-Funded Plans as of June 30, 2025		\$18,808,142	\$20,729,110	\$1,920,968	10.2%

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, 2026, after the close of the current fiscal year.

Contingency Reserves as of June 30, 2025

Below shows the comparison of calculated June 30, 2025, self-funded and flex-funded medical/prescription drug contingency reserves utilizing the three statistical confidence intervals outlined in HSB Contingency Reserve Policy 210 (95th, 97th, and 99th percentiles). The 95th percentile figures were utilized for the June 30, 2024, contingency reserve measurement—and are recommended for the June 30, 2025, measurement date.

		June 30, 2025, Contingency Reserves (by confidence interval level)		
Self-Funded/Flex-Funded Plan	Population Covered	95 th Percentile (recommended)	97 th Percentile	99 th Percentile
Flex-Funded Non-Medicare HMO Plans Administered by BSC (Access+ and Trio)	Active Employees, Non-Medicare Retirees	\$13,590,508	\$15,644,111	\$19,624,818
Flex-Funded Non-Medicare HMO Plan Administered by Health Net (CanopyCare)	Active Employees, Non-Medicare Retirees	\$862,469	\$992,793	\$1,245,414
Self-Funded Non-Medicare PPO Plan Administered by BSC/UHC	Active Employees, Non-Medicare Retirees	\$6,276,133	\$7,355,316	\$9,676,690
Total Self-Funded/Flex-Funded Plans as of June 30, 2025		\$20,729,110	\$23,992,220	\$30,546,922

Today's Recommendation

It is recommended that the Health Service Board (HSB) approve the IBNR and 95th percentile confidence level Contingency reserve amounts as of June 30, 2025, 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 non-Medicare retirees;
- Flex-funded non-Medicare medical/Rx HMO plan administered by Health Net (CanopyCare) for active employees and non-Medicare retirees;
- Self-funded non-Medicare medical/Rx PPO plan administered by BSC for active employees and non-Medicare retirees; and
- Self-funded dental PPO plan administered by Delta Dental of California (Delta Dental) for active employees (IBNR reserves only).

Changes in Contingency reserves will be a component of December 31, 2025, stabilization reserve calculations in early 2026.

Appendix—Confidence Intervals Explained

Confidence Intervals = Ranges of Deviation from Expected

From MATHguide.com (<https://www.mathguide.com/lessons3/BC.html>)

If we look at data that is two standard deviations from the mean (average), we should be looking at roughly 95% (or more accurately 95.4%) of the total data.

Looking at data that is within three standard deviations from the mean (average), we will find roughly 99% (actually closer to 99.7%) of the total data.

