

San Francisco Health Service System Health Service Board

Rates & Benefits

Review and Approve Self-Funded Active Dental PPO Plan
2027 Stabilization Reserve Action

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Review and Approve Self-Funded Active Dental PPO Plan 2027 Stabilization Reserve Action—Agenda

- Introduction—Health Plan Reserves Background
- Rate Stabilization Recommended Action for Delta Dental of California (Delta Dental) Self-Funded Active Dental PPO Plan
- Appendix—Historical View of Active Dental PPO Plan Rate Stabilization Action, Reconciliation Exhibit Glossary

Recommendation for HSB Action

Self-Funded Active Dental PPO Plan

In congruence with the Stabilization Fund Policy, approve the use of one-third of the December 31, 2025, stabilization fund balance in plan year 2027 active dental PPO plan rates as follows:

Approve use of one-third of the December 31, 2025, stabilization reserve Surplus, or \$1,358,000 (one-third of \$4,075,000), to be applied towards buy-down across all rating tiers for the Delta Dental active employee PPO plan for plan year 2027.

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Introduction—Health Plan Reserves Background

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, 2025, 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, 2025, 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, 2025, for today's review of the self-funded and flex-funded health plans stabilization amounts).

SFHSS Health Plan Reserves Background

The recommended June 30, 2025, IBNR reserve amount for the self-funded active employee dental PPO plan was approved by the Health Service Board (HSB) on January 8, 2026.

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.

This presentation contains exhibits showing the impact of actual 2025 self-funded active dental PPO plan experience relative to original 2025 plan cost expectations from the Spring 2024 Rates & Benefits cycle—along with the resulting December 31, 2025, rate stabilization fund balance and allocation of this balances into 2027 plan year total cost rates for the self-funded active dental PPO plan.

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Delta Dental Active Dental PPO Plan Rate Stabilization Recommendation

Delta Dental Active Dental PPO Plan

Rate Stabilization Calculation Introduction

The rate stabilization calculations for 2027 rating are based on 2025 plan experience relative to expectations for the Delta Dental Active Dental PPO Plan, combined with surplus carry-forward balance from the plan's December 31, 2024, rate stabilization fund amount.

The Delta Dental Active Dental PPO plan has existed for years in a significant rate stabilization surplus balance due to favorable claim experience over time. This is illustrated on the next page. Though there was a small increase in per employee claim experience from 2024 to 2025, the plan generated added a small rate stabilization fund surplus in 2025 based on actual plan experience.

Delta Dental Active Dental PPO Plan

Impact of Historical Experience on Rate Stabilization Reserve

Rate Stabilization Reserve Surplus/(Deficit) as of December 31	
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
December 31, 2019	\$11,325,000
December 31, 2020	\$18,343,000
December 31, 2021	\$10,617,000
December 31, 2022	\$11,113,000
December 31, 2023	\$9,018,000
December 31, 2024	\$3,960,000
December 31, 2025	\$4,075,000

Surplus/(Deficit) Amount Applied to Rating	
2017 Plan Year	\$2,375,000
2018 Plan Year	\$3,194,000
2019 Plan Year	\$4,227,000
2020 Plan Year	\$7,016,000
2021 Plan Year	\$5,663,000
2022 Plan Year	\$12,229,000
2023 Plan Year	\$5,309,000
2024 Plan Year	\$7,409,000
2025 Plan Year	\$6,012,000
2026 Plan Year	\$1,320,000

HSB amortization decisions by rating year:

- **2016 – 2019:** One-third of new stabilization reserve per HSB Stabilization Policy
- **2020 – 2021:** One-half of new stabilization reserve
- **2022:** Two-thirds of new stabilization reserve
- **2023:** One-half of new stabilization reserve
- **2024 – 2025 :** Two-thirds of new stabilization reserve
- **2026:** One-third of new stabilization reserve per HSB Stabilization Policy

Delta Dental Active Dental PPO Plan

2025 Experience Assessment, Expected Versus Actual

The Delta Dental Active Dental PPO plan had a prior accumulated carry-forward surplus balance for use in rate stabilization calculations after 2026 of \$2,640,000.

For the 2025 plan year, plan experience was slightly more favorable than expected. The expected and actual figures are illustrated on the next page. It is recommended to apply the per-policy one-third amortization of the rate stabilization surplus balance into 2027 plan year rating for the active employee dental PPO plan.

Active Dental PPO Plan 2025 Plan Year Reconciliation

Active Employees

	January 2025 – December 2025 Plan Reconciliation (Actual vs Expected)	Expected	Actual
1	Paid Claims IBNR Increase/(Decrease)		\$45,437,350 <u>\$63,426</u>
	Total Incurred Claims Spend	\$46,578,873	\$45,500,776
2	Administration Expense	\$1,828,959	\$1,855,753
3	Rx Rebates	<u>n/a</u>	<u>n/a</u>
4	Total Cost (1+2+3)	\$48,407,832	\$47,356,529
5	Total Contributions	<u>\$42,395,832</u>	<u>\$42,779,492</u>
6	Revenue Shortfall/(Surplus) (4-5)	\$6,012,000	\$4,577,037
7	Increase/(Decrease) in Contingency Reserve		<u>n/a</u>
8	Total Shortfall/(Surplus) (Actual column: 6+7)		\$4,577,037
9	Aon Recommended Carry Forward Shortfall/(Surplus) (Actual 8 – Expected 6; rounded to nearest \$000)		(\$1,435,000)

NOTE: Descriptions for items above contained in Appendix to this document

Today’s Recommendation—Active Dental PPO Plan

Rate Stabilization Reserve Calculation

Stabilization surplus balance as of December 31, 2024	(\$3,960,000)
Offset surplus amount applied in 2026 rate buy-down (1/3 per HSB)	(\$1,320,000)
	(\$2,640,000)
Prior carry-forward stabilization surplus balance	(\$2,640,000)
Recommended increase to the surplus based on 2025 experience	(\$1,435,000)
	(\$4,075,000)
Stabilization surplus balance as of December 31, 2025	(\$4,075,000)
Calculated amount per recommendation to apply to 2027 rate buy-down (recommend 1/3 of stabilization surplus balance)	(\$1,358,000)
	(\$1,358,000)
Updated carry-forward stabilization surplus for use after 2027	(\$2,717,000)

Today’s Recommendation

Approve the use of one-third of the December 31, 2025, stabilization reserve **Surplus** or \$1,358,000 (one-third of \$4,075,000) be applied towards buy-down of rates across all rating tiers for the Delta Dental active dental PPO plan for plan year 2027.

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Recommendation for HSB

Recommendation

Self-Funded Active Dental PPO Plan

In congruence with the Stabilization Fund Policy, approve the use of one-third of the December 31, 2025, stabilization fund balance in plan year 2027 active dental PPO plan rates as follows:

Approve use of one-third of the December 31, 2025, stabilization reserve Surplus, or \$1,358,000 (one-third of \$4,075,000), to be applied towards buy-down across all rating tiers for the Delta Dental active employee PPO plan for plan year 2027.

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Appendix

- Historical View of Rate Stabilization Actions for the Active Employee Dental PPO Plan
- Reconciliation Exhibit Glossary

Rate Stabilization History—Active Dental PPO Plan

Column reference --->	B	C	D	E	F	G	H	I	J	K	L
Year for Rating Application	Starting Point Stabilization Reserve / Deficit Carry Forward as of date	Starting Point Stabilization Reserve / (Deficit) Carry Forward (col K from prior year)	Expected Revenue Surplus / (Shortfall)	Actual Revenue Surplus / (Shortfall) - Item #5 from Stabilization Calc Exhibit	Transfer from (Increase) / Decrease in Contingency Reserve	Increase / (Decrease) to Stabilization Reserve (E+F-D)	Updated Stabilization Reserve / (Deficit) (G+C)	Revised Stabilization Reserve / Deficit as of date	Reserve / (Deficit) Amount Applied in Year for Rating Application	Reserve / (Deficit) Amount Applied to Carry Forward (H-J)	Percentage of Revised Stabilization Reserve / Deficit Applied
2016	12/31/2013	\$0	\$0	\$4,241,000	(\$380,000)	\$3,861,000	\$3,861,000	12/31/2014	\$1,287,000	\$2,574,000	33.3%
2017	12/31/2014	\$2,574,000	\$0	\$3,747,000	\$804,000	\$4,551,000	\$7,125,000	12/31/2015	\$2,375,000	\$4,750,000	33.3%
2018	12/31/2015	\$4,750,000	(\$1,287,000)	\$3,444,000	\$102,000	\$4,833,000	\$9,583,000	12/31/2016	\$3,194,000	\$6,389,000	33.3%
2019	12/31/2016	\$6,389,000	(\$2,375,000)	\$3,369,000	\$548,000	\$6,292,000	\$12,681,000	12/31/2017	\$4,227,000	\$8,454,000	33.3%
2020	12/31/2017	\$8,454,000	(\$3,194,000)	\$2,281,000	\$102,000	\$5,577,000	\$14,031,000	12/31/2018	\$7,016,000	\$7,015,000	50.0%
2021	12/31/2018	\$7,015,000	(\$4,227,000)	\$116,000	(\$33,000)	\$4,310,000	\$11,325,000	12/31/2019	\$5,663,000	\$5,662,000	50.0%
2022	12/31/2019	\$5,662,000	(\$7,016,000)	\$5,588,000	\$77,000	\$12,681,000	\$18,343,000	12/31/2020	\$12,229,000	\$6,114,000	66.7%
2023	12/31/2020	\$6,114,000	(\$5,663,000)	(\$1,955,000)	\$795,000	\$4,503,000	\$10,617,000	12/31/2021	\$5,309,000	\$5,308,000	50.0%
2024	12/31/2021	\$5,308,000	(\$12,229,000)	(\$6,443,000)	\$19,000	\$5,805,000	\$11,113,000	12/31/2022	\$7,409,000	\$3,704,000	66.7%
2025	12/31/2022	\$3,704,000	(\$5,309,000)	(\$2,121,000)	\$2,126,000	\$5,314,000	\$9,018,000	12/31/2023	\$6,012,000	\$3,006,000	66.7%
2026	12/31/2023	\$3,006,000	(\$7,409,000)	(\$6,455,000)	\$0	\$954,000	\$3,960,000	12/31/2024	\$1,320,000	\$2,640,000	33.3%
2027	12/31/2024	\$2,640,000	(\$6,012,000)	(\$4,577,000)	\$0	\$1,435,000	\$4,075,000	12/31/2025	\$1,358,000	\$2,717,000	33.3%

Reconciliation Exhibit Glossary

- 1 Estimated Incurred Claims including claim payments for medical, pharmacy, and capitation in January–December 2025.
- 2 Administration Expense — cost of administering January–December 2025 claims payments for the self-funded active dental PPO plan.
- 3 Rx Rebates — not applicable to the dental plan.
- 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 (no longer applicable to the dental plan).
- 9 Actual shortfall/(surplus) minus expected shortfall/(surplus) — amount added to existing stabilization balance per HSB policy and amortized over three years.