

Board Education: SFHSS Health Plan Rates Negotiation Process

Presented by

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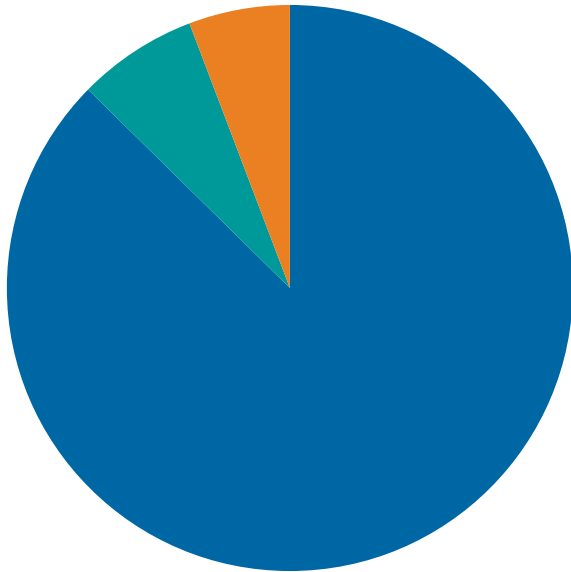
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Agenda

- Introduction
- How Proposed Rates Are Set
- Who Owns the Risk Determines What Can Be Negotiated
- Example of What Can Be Negotiated
- Appendix with Glossary of Terms

Introduction



At SFHSS, our priority is providing members with comprehensive, high-quality care. This commitment include working with our health plan partners to ensure we secure fair rates for our four employer groups and provide affordable care to our members.

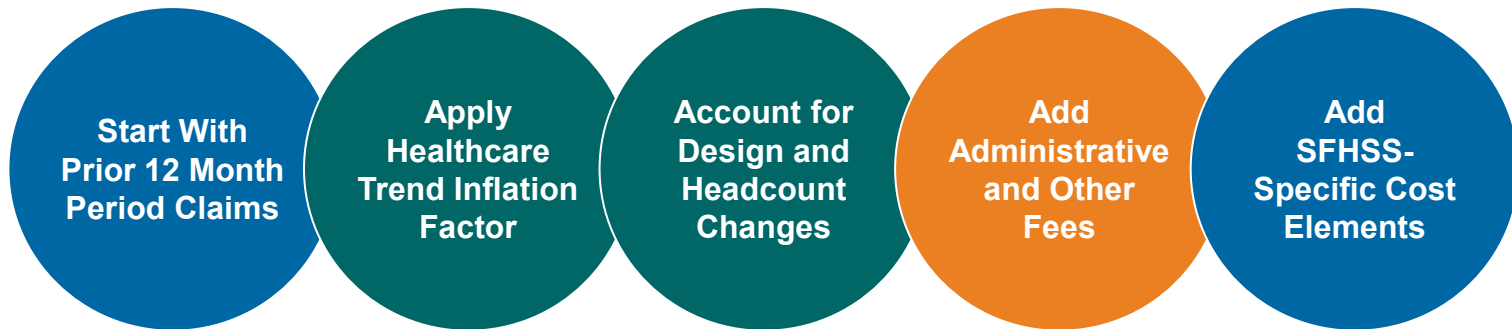
This presentation outlines how SFHSS collaborates with its actuary, Aon, to review and negotiate the rates with the health plans during the rates and benefits process. The pie chart represents the total premium and the orange and green slices are the negotiable portion of the premium. Most of the premium is dictated by our member's actual claims utilization is represented in blue.

How Proposed Rates are Set

Determining Needed Plan Rate Changes For Next Year — Five Step Process

Claims drive most of the calculated rates for health plans.

Administrative fees are the primary element that can be negotiated.



Aon and health plan actuaries compare these next-year cost projections to the total current-year dollars when multiplying rates times enrollment — and that leads to the needed percentage change in rates from this year to next year:

$$\frac{\text{2027 Total Projected Plan Cost}}{\text{2026 Rates x Enrollment}} = \text{Needed Rate Change Factor (2027 vs. 2026)}$$

Who Owns the Risk Determines What Can Be Negotiated

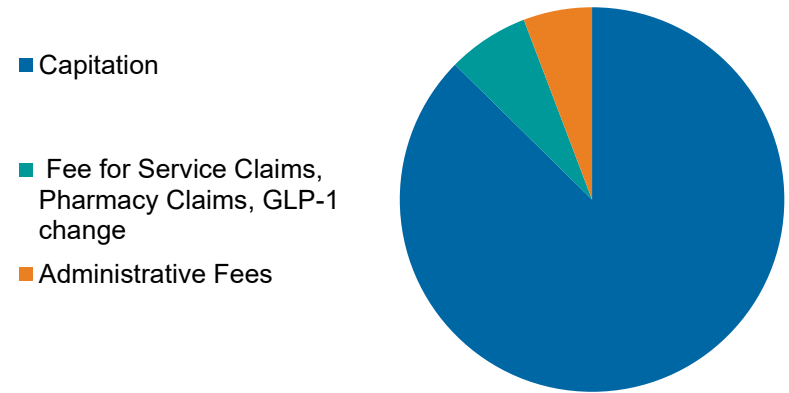
Funding Method (Risk Owner)	Self-Funded (SFHSS)	Flex-Funded (SFHSS + Health Plan)	Fully Insured (Health Plan)
Funding Method Description	Claim dollars based on services delivered to members are paid by the Trust, along with plan administrative fees to manage the plan (process claims, provide call center for members, etc.)	Insurance approach where most claim dollars based on services delivered to members are paid by the Trust, but with fixed costs for certain healthcare services ("capitation") as well as plan administrative fees and large claim reinsurance mechanism ("pooling")	Health plan sets fixed dollar plan premiums to cover expected claim costs for healthcare services by members, as well as plan administrative fee costs
SFHSS Plans by Funding Method	<ul style="list-style-type: none"> • Non-Medicare PPO • Delta Dental Active Employee PPO 	<ul style="list-style-type: none"> • Blue Shield of CA Access+ HMO • Blue Shield of CA Trio HMO • Health Net CanopyCare HMO 	<ul style="list-style-type: none"> • All Kaiser HMO plans • BSC MAPD PPO • Delta Dental Retiree PPO • DeltaCare Dental HMO • UHC Dental HMO • VSP Vision • New York Life
Provisions That Can Be Negotiated	Administrative fees	<ul style="list-style-type: none"> • Administrative fees • Large claim pooling fees (Blue Shield HMOs) 	<ul style="list-style-type: none"> • Premium rates (specifically, the assumptions used in rate underwriting by the plan)
Provisions That Can't Be Negotiated	Claim cost forecasts	<ul style="list-style-type: none"> • Claim cost forecasts • Capitation rates • Legislative fees 	<ul style="list-style-type: none"> • Legislative fees embedded within premiums

Specific Plan Example – What Can Be Negotiated

From April HSB Renewal Summary for Health Net CanopyCare HMO

Health Plan Costs Forecast (PMPM = Per Member Per Month)

- **Capitation:** based on agreement between Health Net CanopyCare and its network providers (not subject to SFHSS negotiation)
- **Claims:** based on recent SFHSS claims experience trended forward (not subject to SFHSS negotiation)
- **Administrative Fees:** (subject to SFHSS negotiation)



	2026 PMPM	2027 PMPM	2027 vs 2026
Capitation (professional/institutional/chiropractic)	\$548.90	\$604.22	10.1%
Fee-for-Service Claims (hospitalization, mental health)	\$57.06	\$85.42	49.7%
Pharmacy Claims (net of Rx rebates)	\$137.13	\$171.45	25.0%
GLP-1 Change for 2027	N/A	(\$1.52)	N/A
Medical Administrative Fees	\$44.17	\$45.27	2.5%
Pharmacy Administrative Fees (reflects SB41 impacts)	\$3.86	\$7.50	94.3%
Total Projected Plan Cost (Before Stabilization Buy-Down)	\$791.12	\$912.34	15.3%

Summary of Negotiations Process

1. SFHSS employs the services of Aon, to optimize renewal negotiation results. Aon contributes marketplace and benchmarking knowledge to support arguments for plans to consider reasonable revisions to initial financial renewal positions.
2. Aon and SFHSS review health plan financial renewal components for reasonability and non-financial renewal elements that could impact benefit design/program recommendations to the HSB as well as plan-specific performance guarantees for the next plan year.
3. Pre-renewal, SFHSS leadership and Aon agree to negotiation points and positions to be made when the vendor renewal meeting occurs.
4. SFHSS leadership and Aon present positions for renewal financials expected revisions based on review of information leading to the plan's initial renewal position(s).
5. Plans offer any revisions to proposed rating actions for the following plan year upon consideration of the arguments made by SFHSS leadership and Aon in the renewal meeting.

Post Negotiations: Rates Presented to HSB

- SFHSS and Aon respect a plan's request to maintain confidentiality on rate relief achieved in negotiations for a given client when requested by the plan.
- Negotiated renewal proposals become the basis of Rates and Benefits Cycle recommendations to the HSB for each plan.

Appendix

Health Plan Rating – Glossary of Terms

- **Claims:** dollars paid to providers of health care services and for plan-covered products (such as medical supplies, vision lenses/frames, prescription drugs, etc.).
 - The amounts are negotiated by the health plans with network providers – these negotiated prices apply for all of that health plan’s customers.
 - The amounts for out-of-network providers (where applicable) are determined by the health plan for all of its customers based on pre-set out-of-network reimbursement methods.
 - The combination of services provided to plan members and the prices set for those services adds up to the total claim amounts paid.
- **Premiums:** amounts paid to insurance organizations for fully insured health plans to cover plan participants. Premium amounts include the costs of delivering care (e.g., claim costs), administration, legislative requirements, and risk charges.

Health Plan Rating – Glossary of Terms

- **Capitation:** a fixed dollar amount per covered life paid to certain providers that provides a financial incentive to those providers to optimally guide high-quality care of plan members.
 - This “at risk” amount includes physician services in the Blue Shield HMO plans and most medical care (excluding behavioral health) in the Health Net CanopyCare HMO plan.
- **Fees:** the dollars paid to a health plan to administer the plan:
 - **Administrative fees** cover costs to pay member claims, provide member service, manage network arrangements, and provide plan management.
 - **Legislative fees** cover costs of certain federal and state mandates.
 - **Large claim pooling fees** for the Blue Shield HMO plans are for reinsurance required in Access+ and Trio for claims over \$1.25 million. In return, SFHSS is reimbursed for amounts per individual exceeding \$1.25 million in a year.