



October 14, 2010

## **Rates & Benefits Committee**

Preliminary Self-Funded Plan(s) Premium  
Equivalent Rates  
HMO Request for Proposal Update

Rhys Evans FIA, ASA, MAAA

## Contents

- Self Funded Plans Review: The City Health Plan Page 2
- Self Funded Plans Review: Employee Dental Plan Page 13
- HMO Request For Proposal Update Page 18
- Appendix Page 22

# Self-Funded Plans Review

## The City Health Plan

**Please note that all estimates included in this report are based on the information and data available at a point in time and are subject to unforeseen and random events. Therefore, any projection must be interpreted as having a likely range of variability from the estimate.**

# The City Health Plan

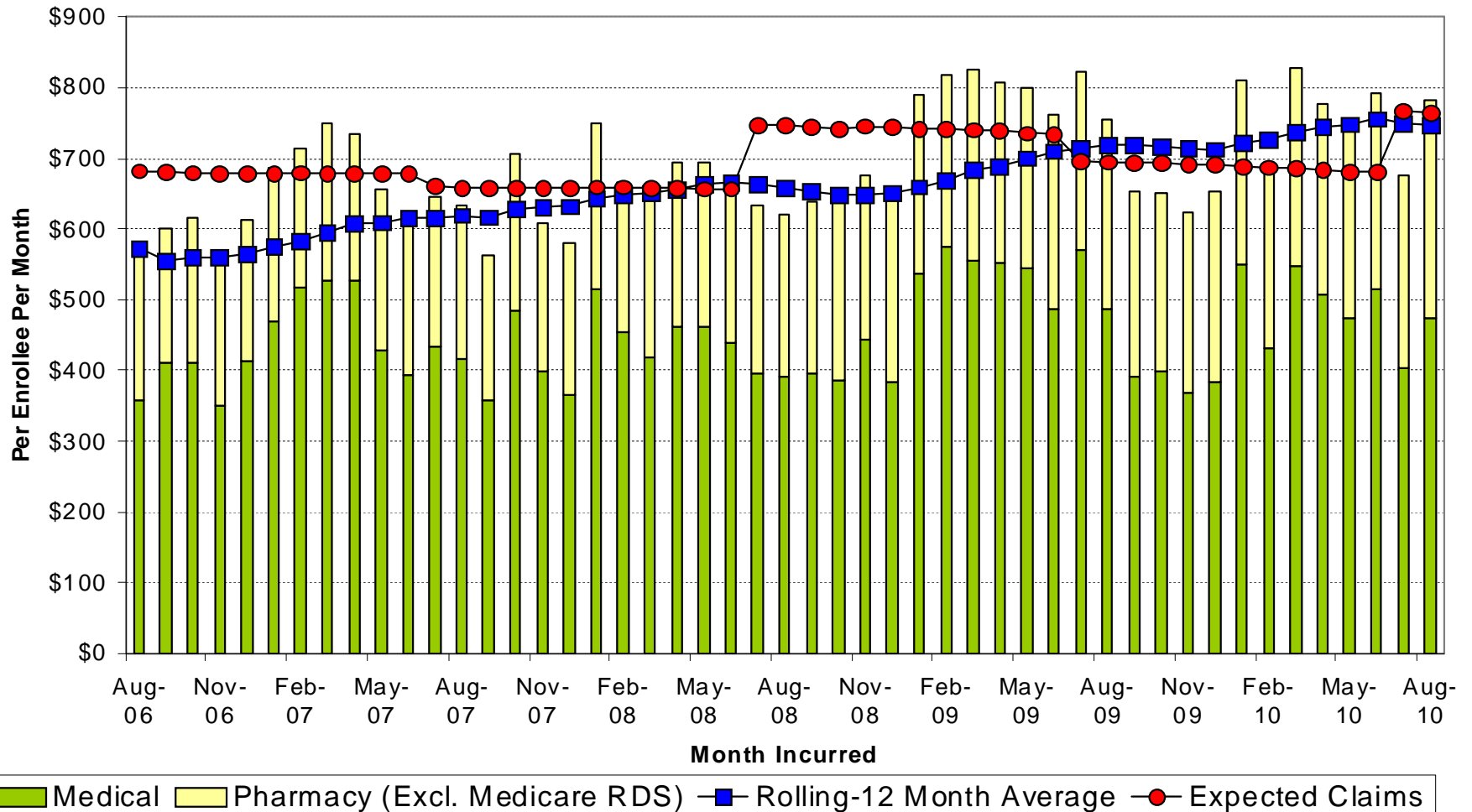
## Review of experience

- Claims experience for the 2009/10 plan year was higher than anticipated in the premium equivalent rates
  - Employee experience continues to deteriorate and drove the overall unfavorable out turn for the 2009/10 plan year
- For the non-Medicare membership, cost trends continue to deteriorate for both medical and pharmacy cost
  - Exposure to large claims in the employee and non-Medicare retiree groups results in considerable experience volatility
    - Although average claim size has remained fairly stable, per capita incidence of claims over \$50,000 has increased considerably
  - The acceleration in pharmacy cost trend was driven by the active group's claims experience
    - Changes made to the pharmacy benefit effective July 1, 2009 have helped mitigate some of this unfavorable escalation to cost

# The City Health Plan to August 2010

Unfavorable experience leading to budget overrun occurred in the latter half of the 2009/11 plan year

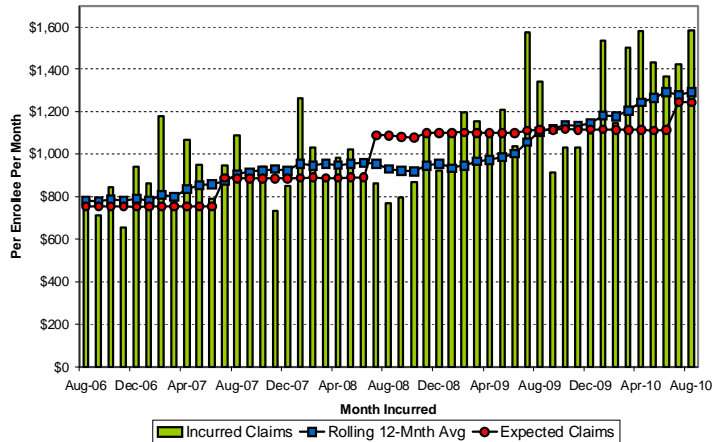
## Combined Enrollee Experience



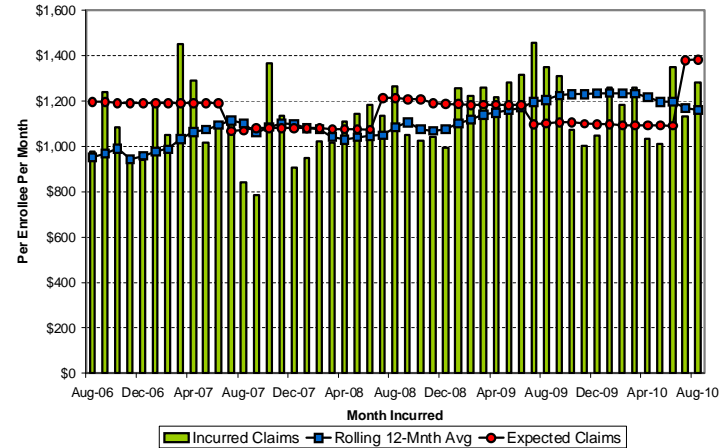
# The City Health Plan to August 2010

## Comparison across categories of enrollment

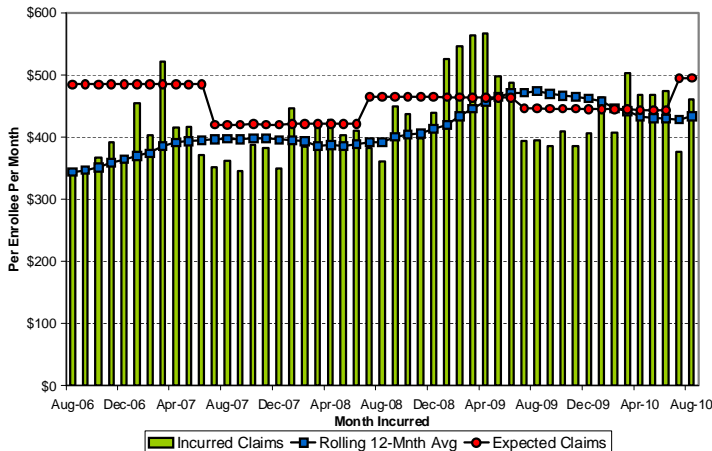
Employees' Claims Experience



Early Retirees' Claims Experience



Medicare Retirees' Claims Experience

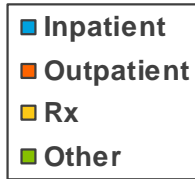
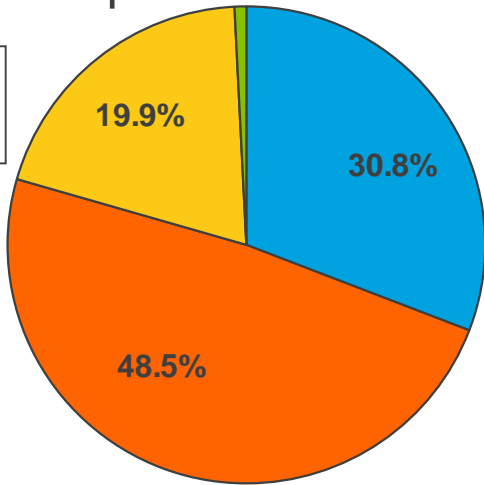


- Large claims experience within the employee membership resulted in an acceleration of claims trend
- Most recently, for both the early retirees and Medicare retirees, annualized experience has improved over that observed in 2009
- For the 2009/10 plan year however, both the employee and early retiree groups generated losses against budget. The Medicare retirees' experience was close to expected

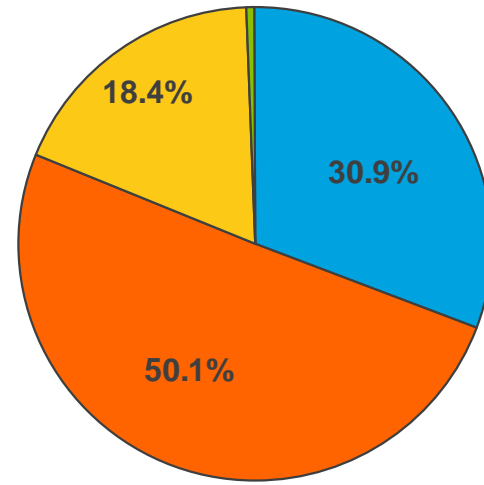
# Distribution of Claims Costs for non-Medicare enrollees

Medical trends continue to outpace pharmacy trends; Material unfavorable reversal in inpatient trends observed

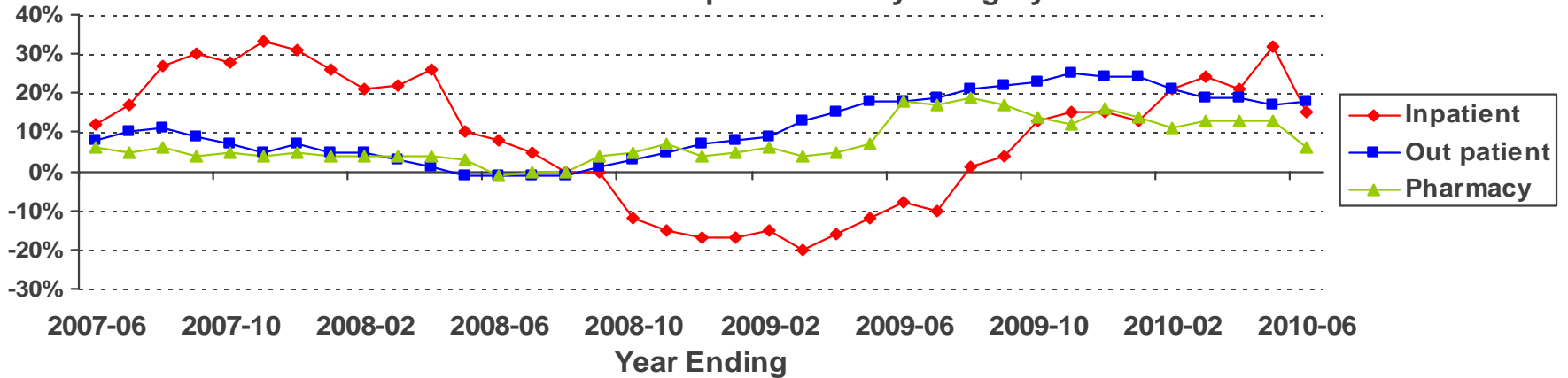
Year Ending  
June 2009



Year Ending  
June 2010

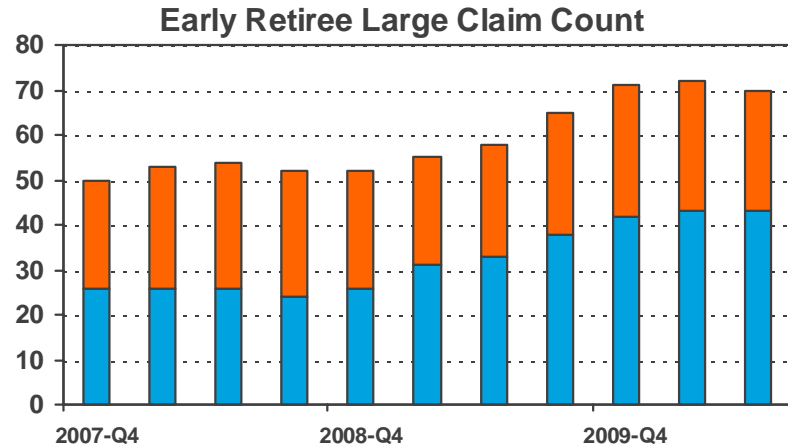
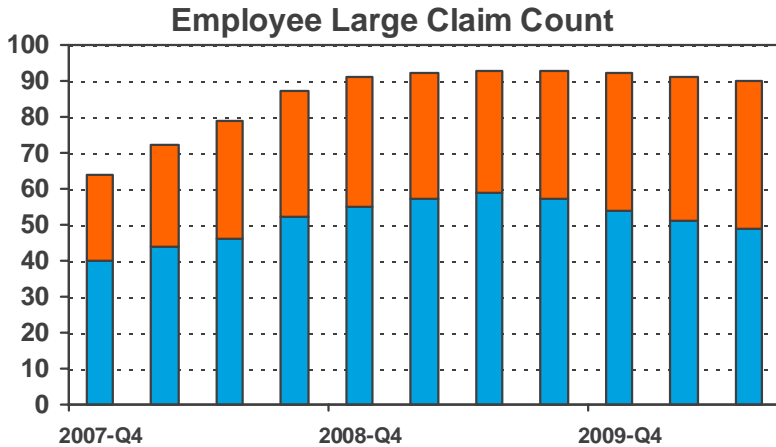


Annual Per Capita Trends by Category

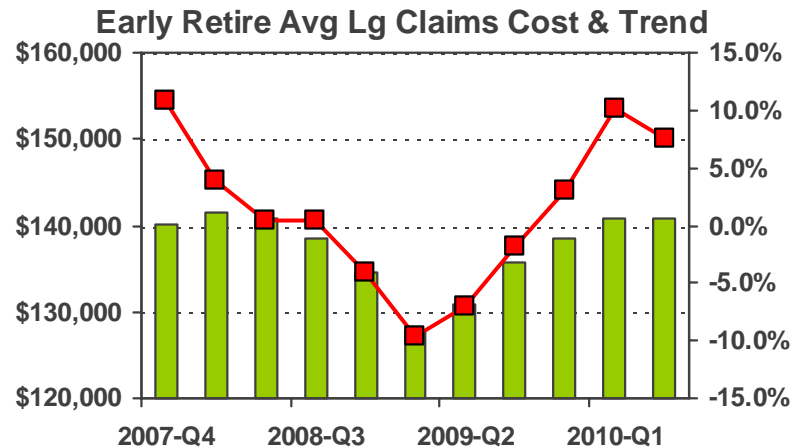
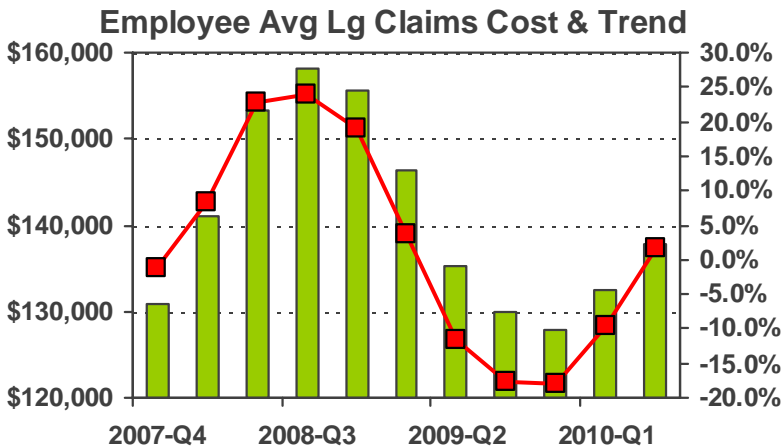


# Employees' and Early Retirees' Large Claims (>\$50k) Experience

Although aggregate experience is leveling off, given the rapid decline in enrollment, per capita experience continues to be unfavorable



■ Claims btw \$50k and \$100k
 ■ Claims greater than \$100k



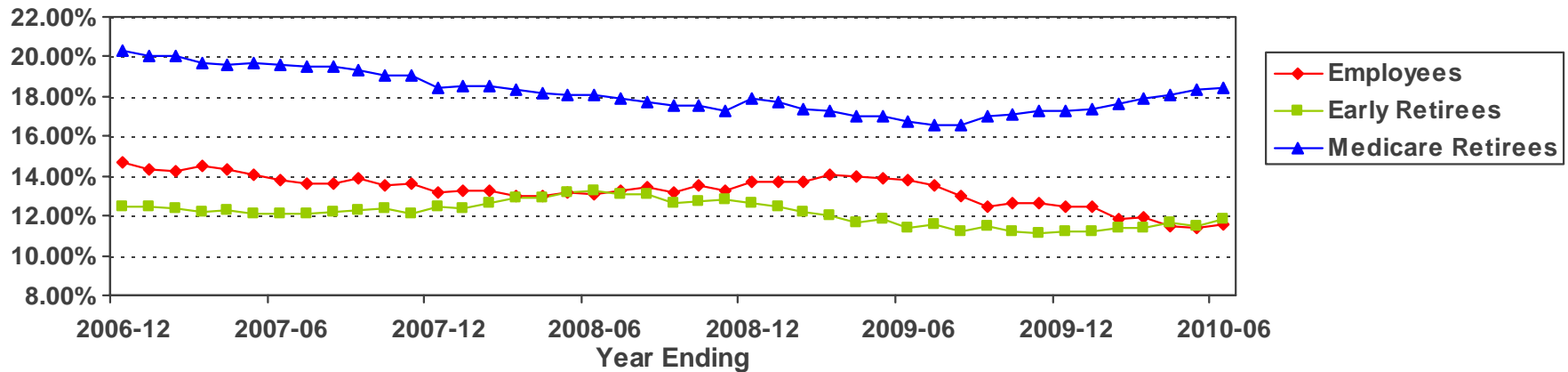
■ Average \$ of claims >\$50k
 — Trend in >\$50k claims cost



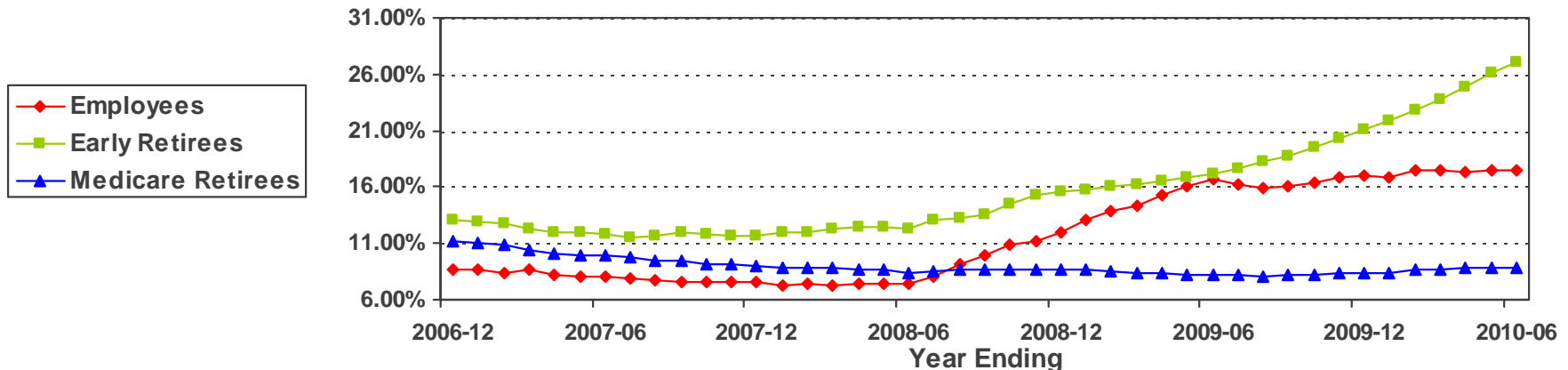
# Cost Sharing Across Membership Categories

Proportion of claims cost met by members via plan design has generally decreased over time; Employees and early retirees have however seen their contributions increase rapidly relative to claims experience

Percentage of Claims Costs Borne by the Membership through Copay/Coinsurance



Percentage of Claims Costs Borne by the Membership through Premium Contributions



## The City Plan

### Funding policy – Plan year reconciliation

- HSS and Mercer have reviewed the actual claims and premium experience against that expected for the 2009/10 plan year

2009/10 Plan Year	Expected	Actual
Estimated Incurred Claims (+VSP premiums)	\$75.5M	\$72.7M
+ Administration Costs	\$3.9M	\$3.4M
+ Part D Accrual	\$(3.5M)	\$(2.9M)
+ Rx Rebates (included in the expected Rx claims)	\$(2.4M)	\$(2.5M)
<b>Total Cost</b>	<b>\$73.5M</b>	<b>\$70.7M</b>
- Contributions Collected	\$72.8M	\$64.9M
<b>Revenue <u>Shortfall</u></b>	<b>\$0.7M</b>	<b>\$5.8M</b>
Change in year-end Contingency Margin (from \$10.8M to \$11.1M)		\$0.3M
<b>Total Shortfall</b>		<b>\$6.1M</b>
<b>Net to be applied when determining the 2011/12 Stabilization Amount (\$0.7M less \$9.4M)</b>		<b>\$5.4M</b>

## How Health Reform will impact the City Plan

### Grandfathering provision

- A grandfathered plan is one in place before March 23, 2010
- Plans don't lose grandfathered status for voluntary changes made to increase benefits or adoption of consumer protections in the health reform law, or to conform with legal rules
- But plans have only limited ability to decrease covered benefits, increase enrollees' contributions or cost sharing, or change annual or lifetime limits without losing grandfathered status
- Insured plans generally can't change carriers without losing such status
- Coverage subject to a Collective Bargaining Agreement (CBA) in effect on March 23, 2010, must comply with the same coverage and cost-sharing standards at the same time non-CBA grandfathered plans must comply
  - However, insured CBA coverage will be considered grandfathered until the last agreement in effect on March 23, 2010, expires – even if the insurance carrier changes in that period.

## How Health Reform will impact the City Plan

To be implemented for the 2011/12 plan year

### Required for all plans – Preliminary estimated impact on claims: **+1.2%**

- Dependent coverage to age 26 for covered employee's married or unmarried children (grandfathered plans can exclude children lacking access to other employer coverage other than parent's coverage)
- No lifetime dollar limits
- No pre-existing condition requirements for covered children under age 19
- Restricted annual dollar limits, phased amounts until 2014

### Required for non-grandfathered plans – Preliminary estimated impact on claims: **+0.2%**

- No cost sharing for certain preventive services
- No emergency services pre-authorization or higher cost sharing for out-of-network providers
- No OB-GYN preauthorization or referral requirement
- Enrollee choice of primary care physician or pediatrician
- Mandatory internal and external claims appeal process

# The City Health Plan

## Preliminary 2011/12 premium equivalent rates – Medical + Rx + Admin

Category	2010/11 Plan Year				2011/12 Plan Year <sup>1</sup>			
	Premium Equivalent	Stabilization Amount	PacifiCare Close-Out	Total	Premium Equivalent	Stabilization Amount	Total	Increase
Employee Only	\$939.01	\$(13.97)	\$1.62	\$926.66	\$1073.53	\$14.11	\$1,087.64	17.4%
Emp. + 1	\$1,836.16	\$(27.32)	\$3.16	\$1,812.00	\$2,105.20	\$27.68	\$2,132.88	17.7%
Emp. + 2+	\$2,576.67	\$(38.34)	\$4.43	\$2,542.76	\$2,950.61	\$38.79	\$2,989.40	17.6%
Retiree w/o Medicare	\$1,083.66	\$(16.13)	\$1.86	\$1,069.39	\$1,246.63	\$16.39	\$1,263.02	18.1%
Retiree w/o Medicare + 1	\$2,125.46	\$(31.63)	\$3.66	\$2,097.49	\$2,451.41	\$32.23	\$2,483.64	18.4%
Retiree w/o Medicare + 2+	\$2,865.97	\$(42.65)	\$4.93	\$2,828.25	\$3,296.82	\$43.34	\$3,340.16	18.1%
Retiree with Medicare	\$372.79	\$(5.55)	\$0.64	\$367.88	\$382.32	\$5.03	\$387.35	5.3%
Retiree with Medicare + 1	\$711.05	\$(10.58)	\$1.22	\$701.69	\$730.12	\$9.60	\$739.72	5.4%
Retiree with Medicare + 2+	\$1,451.56	\$(21.60)	\$2.49	\$1,432.45	\$1,575.53	\$20.71	\$1,596.24	11.4%

1. Prior to offsetting application of expected ERRP revenue

# Self-Funded Plans Review Employee Dental Plan

**Please note that all estimates included in this report are based on the information and data available at a point in time and are subject to unforeseen and random events. Therefore, any projection must be interpreted as having a likely range of variability from the estimate.**

## Employee Dental Plan

### Update

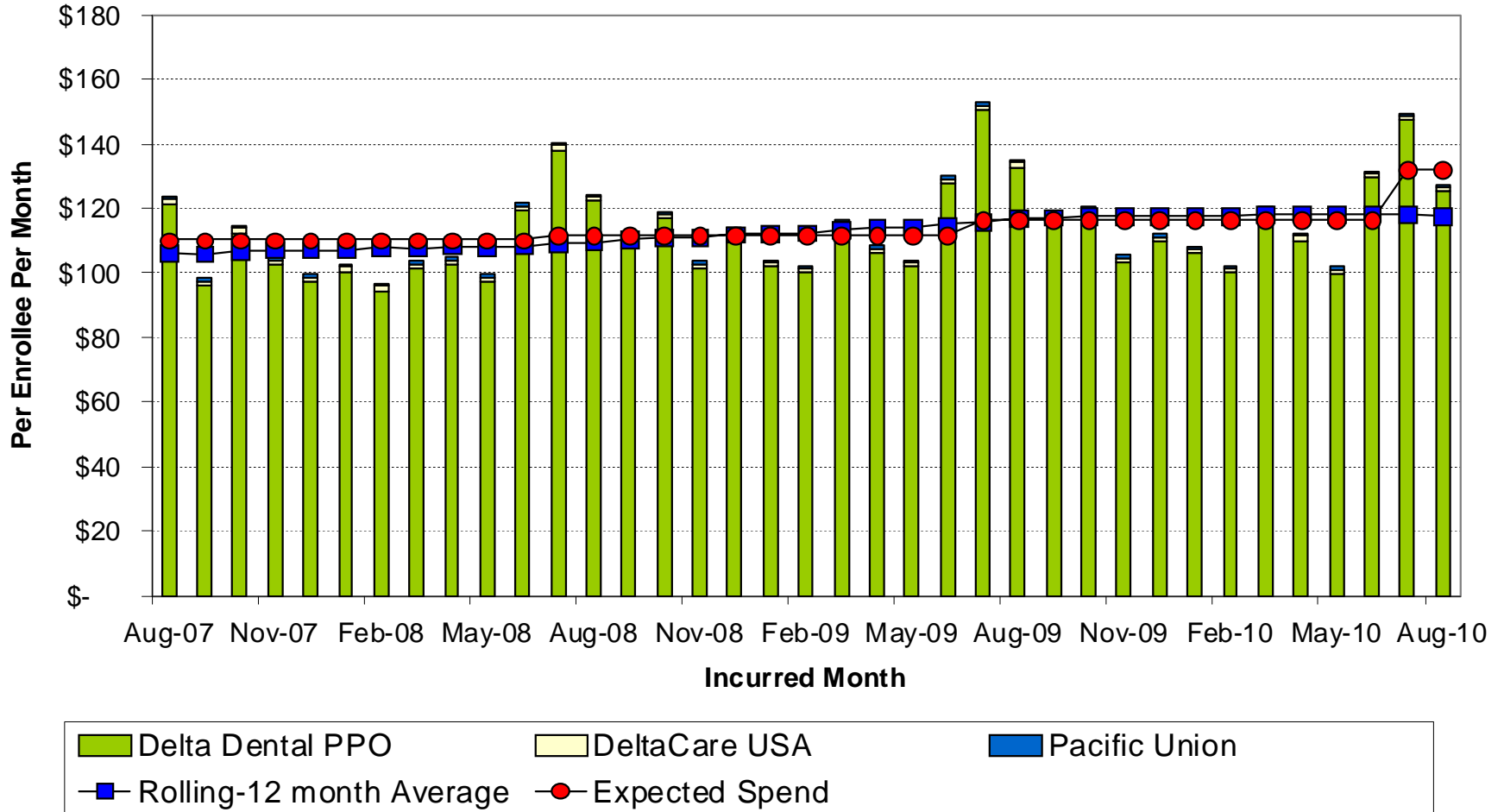
- Overall claims experience has been higher than expected
- 2009/10 has resulted in costs exceeding revenue by an estimated \$2.5 million – this represents approximately 6% of the annual cost of the dental program

# Employee Dental Plan

## Review of experience

### Estimated Incurred Spend vs. Expected Spend

Incurred Claims for Delta Dental PPO Self-Funded Plan and Premiums for Delta Care USA/Pacific Union Plans





## Employee Dental Plan

### Funding policy – Plan year reconciliation

- HSS and Mercer have reviewed the actual claims and premium experience against that expected for the 2009/10 plan year

2009/10 Plan Year	Expected	Actual
Estimated Incurred Claims/Premium Cost	\$40.5M	\$40.9M
+ Administration Costs	\$1.6M	\$1.5M
<b>Total Cost</b>	<b>\$42.1M</b>	<b>\$42.4</b>
- Contributions Collected	\$42.2M	\$39.9M
<b>Revenue Shortfall</b>	<b>\$0.1M</b>	<b>\$2.5M</b>
Change in year-end Contingency Margin (from \$3.3M to \$3.4M)		\$0.1M
<b>Total Shortfall</b>		<b>\$2.6M</b>
<b>Net Shortfall to be applied in full to the 2010/11 Premium Equivalent Rates</b>		<b>\$2.5M</b>

## Employee Dental Plan

Preliminary estimate of 2010/11 employer contribution

2010/11 Employer Contribution	\$131.94	PEPM
2011/12 Expected Cost	\$124.79	PEPM
Application of 2009/10 Plan Year Shortfall (termed the “Stabilization Amount”)	\$ 7.24	PEPM
<b>Recommended 2011/12 City Contribution</b>	<b>\$132.03</b>	<b>PEPM</b>
Relative to 2010/11 Rate	+0.1%	

# HMO Request For Proposal Update

# HMO Request For Proposal

## Background

- City & County of San Francisco's Health Service System has asked Mercer to solicit and evaluate proposals for the administration of its non-staff model fully insured HMO plan for the 2011/12 plan year
- RFP requested the following information
  - Fully insured medical quote for actives, early retirees and Medicare eligible retirees for medical, pharmacy and behavioral health
  - Fully insured vision quote which would then tie a vision plan to a member's medical plan election (also requested similar quote from UHC and Kaiser)
  - Plan design changes for compliance with healthcare reform, non-grandfathered status

## HMO Request For Proposal

### Vendors

- RFP was sent to the following vendors
  - Aetna
  - Anthem Blue Cross of California
  - Blue Shield of California
  - Chinese Community Health Care
  - Health Net
  - PacifiCare
- All vendors listed above attended the pre-bidders conference
- Aetna and PacifiCare declined to quote after pre-bidders conference

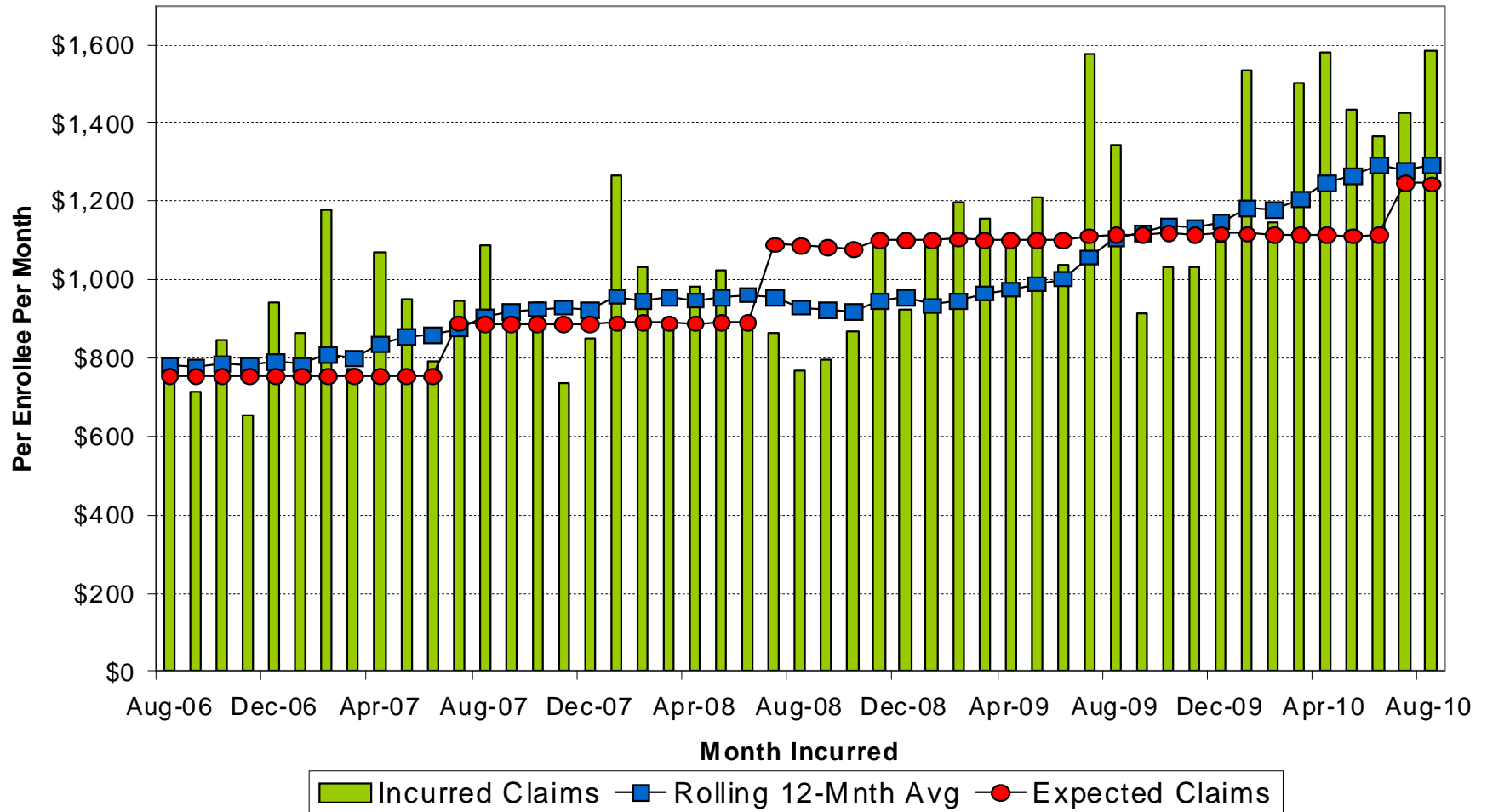
# HMO Request For Proposal

## Proposed timeline

<i>Activity</i>	<i>Date</i>
Pre-bid conference	August 11, 2010 – Complete
RFP issued	September 2 – Complete
Intent to Bid due	September 10 – Complete
Completed electronic proposals due to Mercer	September 29 - Complete
Mercer analyzes proposals	September 29 – October 22
HSS analyzes proposal	October 11 – October 22
Selection Panel Meeting(s)	November 1 – November 11
Finalist Recommendation	November 18
Finalist Interview(s)	November 30
Finalist Presentation to R&B Board / H&B Committee -	December 9
Award of Contract	January 13
Implementation	March 1 – June 30
Effective Date	July 1, 2011

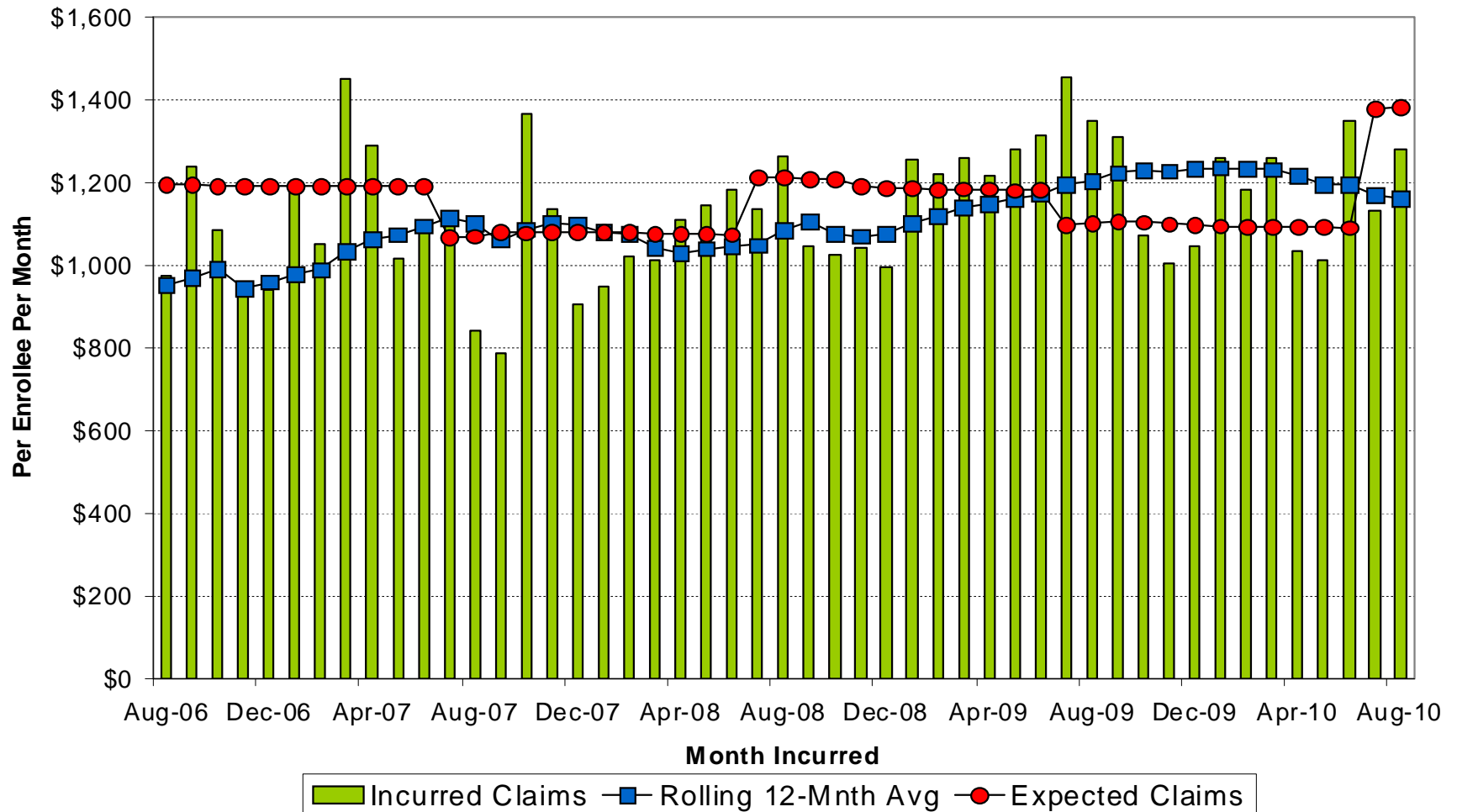
# Appendix

## Employees' Claims Experience

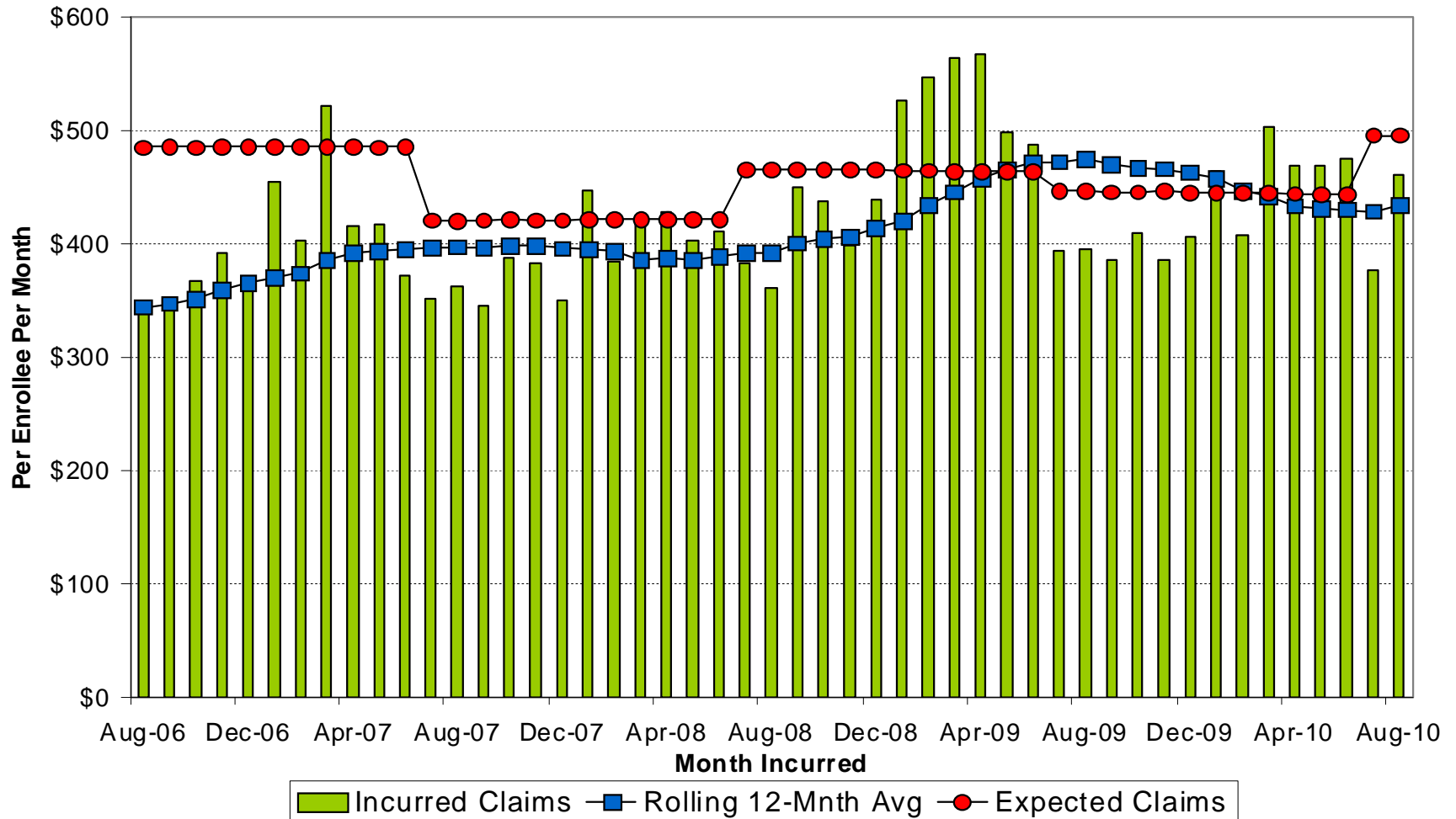




## Early Retirees' Claims Experience



## Medicare Retirees' Claims Experience



# MERCER



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN