

San Francisco Health Service System Health Service Board

Rates & Benefits

UnitedHealthcare (UHC) City Plan PPO Rate
Stabilization Reserve as of December 31, 2018

February 14, 2019

Health Plan Reserve Prelude

The Health Service Board (HSB) has three distinct health plan reserve policies, and as such maintains three distinct reserves on each self-funded / flex-funded health plan:

- (1) Incurred But Not Reported (IBNR):** Actuarial estimate of the unpaid claims 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 as of June 30 each year for San Francisco Health Service System (SFHSS) plans
- (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 as of June 30 each year for SFHSS plans
- (3) Rate Stabilization:** Annual determination of the financial gain or loss for the self-funded / flex-funded plans (see next page for further explanation); calculated as of December 31 each year for SFHSS plans

Today's Discussion—City Plan Rate Stabilization Reserve

Information on the June 30, 2018 IBNR and Contingency reserves was presented by Aon to the HSB on January 10, 2019.

Today's discussion focuses on the UHC City Plan Rate Stabilization reserve amount that is recommended by Aon as of December 31, 2018.

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 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.

City Plan Rate Stabilization Reserve Summary

In June 2017, the HSB approved using the entire \$4,529,000 City Plan rate stabilization reserve available at that time to buy down 2018 active and early retiree premiums for City Plan in 2018 plan rating. This is the \$4,529,000 figure that we show later in this document for expected revenue shortfall in City Plan for the 2018 plan year.

After the 2017 plan year concluded, we determined there was \$1,661,000 available in rate stabilization reserve to apply in 2019 rating. In June 2018, the HSB approved using the entire \$1,661,000 available to buy down 2019 active and early retiree premiums for City Plan and City Plan—Choice Not Available. This served to lower total premium rates by approximately 4% in 2019, versus if no rate stabilization reserves applied to 2019 City Plan rates.

Further information on both items above is presented in the Appendix of this document.

City Plan Rate Stabilization Reserve Summary

At the beginning of every rate and benefits cycle, the claims experience for the prior calendar year is evaluated. Based on the 2018 City Plan claims experience, there is a projected rate stabilization **deficit** balance of \$351,000 to carry into the 2020 plan year and beyond.

This calculation will be discussed in this presentation. We ask the HSB to approve today the use of one-third of this rate stabilization deficit amount, or \$117,000, to be applied in 2020 plan year rating for City Plan and City Plan—Choice Not Available.

This figure (\$117,000) represents about 0.3% of early estimated 2020 plan year rates. We will present 2020 City Plan rating recommendations during the May HSB meeting.

City Plan PPO Plan Year Reconciliation

San Francisco Health Service System January 2018 – December 2018 Plan Reconciliation, Actual vs Expected		Expected	Actual
1	Estimated Incurred Claims Including Vision Premium	\$33,200,000	\$37,415,000
2	Administrative Expense	\$889,000	\$956,000
	Affordable Care Act (ACA) Expense (PCORI)	\$6,000	\$6,000
	Total Expense	\$895,000	\$962,000
3	Prescription Drug Rebates	(\$1,044,000)	(\$1,228,000)
4	Total Cost ((1) + (2) + (3))	\$33,051,000	\$37,149,000
5	Total Contributions	\$28,522,000	\$32,600,000
6	Revenue Shortfall / (Surplus)	\$4,529,000	\$4,549,000
7	Change In Contingency Reserve (Increase To Reserve)		\$331,000
8	Total Deficit ((Actual 6) + (Actual 7))		\$4,880,000
9	Net To Be Applied When Determining The Stabilization Carry Forward ((Expected 6) – (Actual 8))		(\$351,000)
10	Aon Recommended Increase / (Decrease) to December 31, 2017 Stabilization Reserve to Calculate December 31, 2018 Amount		(\$351,000)

City Plan PPO Plan Year Reconciliation

Notes on Specific Exhibit Items:

- 1) Claim payments for medical, pharmacy and vision services incurred between January 1, 2018 and December 31, 2018.
- 2) Cost of administering January 2018 – December 2018 claims payments for medical, pharmacy and vision benefits.
 - In 2018, the Affordable Care Act (ACA) expense reflects the Patient Centered Outcomes Research Institute (PCORI) fees paid for UHC City Plan active employees and early retirees.
- 3) Pharmacy rebates from drug manufacturers.

City Plan PPO Plan Year Reconciliation

Notes on Specific Exhibit Items (continued):

- 4) Annual premium revenue collected.
- 5) Difference in cost versus premium revenue collected (budgeted deficit of \$4,529,000 for January 2018 – December 2018).
- 6) A contingency reserve is an explicit reserve held to cover excess losses:
Change equals the difference of the June 30, 2018 reserve and the June 30, 2017 reserve, or \$5,886,198 minus \$5,555,678.
- 7) Difference between expected results and actual results:
This amount is added to existing stabilization reserve and amortized over three years.
- 8) Based on SFHSS funding policy:
This full amount is to be added to stabilization reserve.

Aon Recommendation

Rate Stabilization Reserve Calculation—City Plan

Stabilization reserve as of December 31, 2017 (surplus carry forward)	\$1,661,000
Aon recommended decrease to the reserve based on 2018 experience	<u>(\$351,000)</u>
Stabilization reserve as of December 31, 2018 (surplus carry forward)	\$1,310,000
Less amount applied in 2019 rates per policy	(\$554,000)
Less increment additionally applied to 2019 rates	<u>(\$1,107,000)</u>
Estimated value of stabilization reserve as of December 31, 2019	(\$351,000)
Calculated amount per amortization policy to apply to 2020 rates (33% of stabilization reserve)	(\$117,000)
Remaining deficit carry forward in stabilization reserve after 2020	(\$234,000)

Aon recommends per the requirements of the HSB approved claims stabilization policy, that the **deficit** amount of \$117,000 be amortized across all rating tiers for the City Plan PPO for plan year 2020. The remaining deficit carry forward balance for plan year 2020 and beyond is \$234,000.

Appendix

City Plan Rate Stabilization Reserve

Presented at June 8, 2017 Meeting

- At the February 9, 2017 HSB meeting, the Board was presented with the UnitedHealthcare (UHC) rate stabilization reserve calculation.
- At that time there was a total surplus carry forward of \$4,529,000.
- Based on the Health Service System's Self-Funded Plan's Stabilization Policy, one-third (1/3) of any surplus or deficit is applied to the following year's rate projections and the two subsequent years.
- On February 9, 2017, the HSB approved that \$1,510,000 (or one-third of \$4,529,000) will be applied to the 2018 rate projections leaving a surplus carry forward balance of \$3,019,000 to be applied in future years.
- At the June 8, 2017 HSB meeting, the Board elected an additional buy down on 2018 UHC City Plan rates of \$3,019,000 (applied to active employees), leaving no projected carry forward surplus balance to apply into 2019-2020 plan year rating.

City Plan Rate Stabilization Reserve

Presented at June 14, 2018 Meeting

- At the February 8, 2018 HSB meeting, the Board was presented with the UnitedHealthcare (UHC) rate stabilization reserve calculation.
- At that time there was a total surplus carry forward of \$1,661,000.
- Based on the Health Service System's Self-Funded Plan's Stabilization Policy, one-third (1/3) of any surplus or deficit is applied to the following year's rate projections and the two subsequent years.
- On February 8, 2018, the HSB approved that \$554,000 (or one-third of \$1,661,000) will be applied to the 2019 rate projections leaving a surplus carry forward balance of \$1,107,000 to be applied in future years.
- At the June 14, 2018 HSB meeting, the Board elected an additional buy down on 2019 UHC rates of \$1,107,000 (applied proportionately to active employees and early retirees), leaving no projected carry forward surplus balance to apply into 2020-2021 plan year rating.