San Francisco Health Service System Health Service Board

City Plan PPO Rate Stabilization Reserve Presentation

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City Plan PPO Rate Stabilization

The Health Service Board (HSB) Self-Funded Plans' Stabilization Policy requires an annual determination of the financial gain or loss for the self-funded plans. The difference between the expected and the actual plan cost is added to the existing stabilization reserve and amortized over a three-year rating period. This policy applies to the self-funded City Plan PPO that is administered by UnitedHealthcare (UHC).

The 2016 amount that can be added to the December 2015 Stabilization Reserve balance is calculated as follows. In 2016, a total of $40,975,000 contributions were received. The total cost of the plan in 2016 was $54,674,000 ($53,131,000 in claims + $2,214,000 in administrative expenses + $83,000 in ACA fees – $754,000 in pharmacy rebates). The result is a 2016 actual revenue shortfall of $13,699,000.

City Plan PPO Rate Stabilization (continued)

On June 30, 2016, Aon calculated the Contingency Reserve for the external audit. The June 30, 2016 reserve ($5,694,340) is $514,424 greater than the 2015 Contingency Reserve ($5,179,816). The 2016 reserve included $958,643 for the self-funded City Plan Medicare Retirees.

Effective 2017, the $958,643 Medicare reserve is no longer required since the New City Plan is fully insured. The $514,424 increase to the June 30, 2016 Contingency Reserve, discussed at the January 9, 2017 HSB meeting, is reduced by the $958,643 Medicare reserve. The remaining $444,000 balance is transferred to the Stabilization Reserve and is used to reduce the $13,699,000 2016 actual revenue shortfall to $13,255,000.

City Plan PPO Rate Stabilization (continued)

When the 2016 rates were approved, a shortfall of $13,991,000 million was expected. The actual 2016 shortfall was $13,255,000 so the balance of $736,000 is added to the 2015 Stabilization Reserve which totaled $3,793,000.

The total Stabilization Reserve balance in 2016 is $4,529,000 which, per HSB policy, is amortized over three years. Thirty three percent of the $4,529,000 is $1,510,000 is available to subsidize the 2018 rates. The remaining $3,019,000 is available for 2019 and beyond.

Detailed rate calculations and notes are found on page 5 – 6. See the appendix for the 2015 Stabilization Reserve calculation.

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City Plan PPO Plan Year Reconciliation

City and County of San Francisco January 2016 through December 2016 Plan Reconciliation Actual Versus Expected	Expected	Actual
1 Estimated Incurred Claims Including Vision and EGWP Premium	$50,533,000	$53,131,000
2 Administrative Expense	$2,283,000	$2,214,000
Affordable Care Act (ACA) Expense (PCORI and Transitional Reinsurance)	$71,000	$83,000
Total Expense	$2,354,000	$2,297,000
3 Rx Rebates (Less Than Expected)	($644,000)	($754,000)
4 Total Cost ((1) + (2) + (3))	$52,243,000	$54,674,000
5 Total Contributions	$38,252,000	$40,975,000
6 Revenue Shortfall / (Surplus)	$13,991,000	$13,699,000
7 Change In Contingency Reserve (Increase To Reserve)		($444,000)
8 Total Deficit ((Actual 6) + (Actual 7))		$13,255,000
9 Net To Be Applied When Determining The Stabilization Carry Forward ((Actual 8) – (Expected 6))		($736,000)
10 Aon Recommended		($736,000)

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City Plan PPO Plan Year Reconciliation (continued)

Notes:

1   Claim payments for medical, pharmacy and vision services incurred between January 2016 and December 2016

2   Cost of administering January 2017 – December 2017 claims payments for medical, pharmacy and vision benefits

3   Rebates from drug manufacturers for the active and early retiree populations

5   Annual premium revenue collected

6   Difference in cost versus premium revenue collected (budgeted a $13,991,000 deficit for January 2016 – December 2016)

City Plan PPO Plan Year Reconciliation (continued)

Notes (continued):

7   A contingency reserve is an explicit reserve held to cover excess losses
Change equals the difference of the June 2016 reserve and the June 2015 reserve, or $5,694,340 minus $5,179,916 and the elimination of the post 65 contingency reserve of $958,643.

9   Actual results minus expected results
This amount is added to existing stabilization reserve and amortized over three years

10 Based on HSS funding policy
This full amount is to be added to stabilization reserve

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Recommendation

Aon Rate Stabilization Calculation

Stabilization reserve as of December 31, 2015 (surplus carry forward)	($3,793,000)
Aon recommended increase to the surplus in reserve	($736,000)
Total carry forward stabilization reserve as of December 31, 2016	($4,529,000)
Calculated amount per amortization policy to apply to 2018 rates (33% of stabilization reserve)	($1,510,000)
Remaining carry forward in stabilization reserve for plan year 2019	($3,019,000)

Aon recommends per the requirements of Health Services Board approved claims stabilization policy that the amount of ($1,510,000) be amortized across all rating tiers for the City Plan PPO for plan year 2018. The remaining carry forward balance for plan year 2019 and beyond is ($3,019,000).

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Appendix

UnitedHealthcare Rate Stabilization Reserve

Presented at June 21, 2016 Meeting

- At the February 11, 2016 Health Service Board meeting, the Board was presented with the UnitedHealthcare (UHC) rate stabilization reserve calculation

- At that time there was a total surplus carry forward of $11,379,000

- 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

- At the February 11, 2016 approved that $3,793,000 (or one-third of $11,379,000) will be applied to the 2017 rate projections leaving a surplus carry forward balance of $7,586,000 to be applied in future years

- At the June 21, 2016 Health Services Board meeting the Board elected an additional buy down the 2017 UHC rates, of $3,793,000 leaving a carry forward surplus balance of $3,793,000
(or $7,586,000 – $3,793,000)