

San Francisco Health Service System Health Service Board

Rates & Benefits

Review Self-Funded Non-Medicare PPO Plan 2022
Claims and Utilization Experience and Approve the Use
of One-Third of the Stabilization Reserve Deficit as of
December 31, 2022

April 13, 2023

Self-Funded Non-Medicare PPO Plan 2022 Experience and December 31, 2022 Rate Stabilization Fund

Agenda

- **Preface – Non-Medicare PPO Plan 2022 Experience**
- **2022 Plan Experience Observations**
- **December 31, 2022 Rate Stabilization Fund Use Recommendation**
- **Appendix**
 - Detailed Month-By-Month 2022 Plan Year Experience Exhibits
 - Non-Medicare PPO Plan Rate Stabilization History
 - Non-Medicare PPO Plan Reconciliation Notes

Today's Recommendation

Non-Medicare PPO Plan Rate Stabilization Reserve

In congruence with the Stabilization Fund Policy, approve the use of one third of the December 31, 2022 stabilization reserve **Deficit** amount of \$746,000 (or one-third of \$2,238,000) be applied towards buy-up of rates across all rating tiers for the Non-Medicare PPO Plan (including Choice Not Available) for plan year 2024, and apply proportionately between active employees and early retirees.

The remaining Deficit carry forward balance for plan year 2025 is \$1,492,000.

This presentation will explain the derivation of this result and recommendation.

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Preface – Non-Medicare PPO Plan 2022 Experience

Preface – Non-Medicare PPO Plan 2022 Experience

This presentation captures calendar year 2022 claims, fees, and other associated costs relative to total cost rates for the self-funded Non-Medicare PPO plan.

In 2022, the administrator for the Non-Medicare PPO plan changed for most members to Blue Shield of California (BSC). UnitedHealthcare (UHC) remains the plan administrator of this PPO plan in 2022 for Non-Medicare “split retiree family” covered lives within retiree families where one or more family member is enrolled in the UHC Medicare Advantage PPO plan. Member and covered life counts as of December 2022 based on carrier reporting are:

	Members (e.g., employees and retirees)	Covered Lives (members and dependents)
BSC administration	1,947	3,017
UHC administration	41	336
Total Non-Medicare PPO Plan	1,988	3,353

The following pages show key observations captured from the experience charts that follow in this document. All data provided for the self-funded Non-Medicare PPO plan in this presentation were sourced from BSC and UHC.

Preface – Non-Medicare PPO Plan 2022 Experience

This presentation contains information on the San Francisco Health Service System (SFHSS) Self-Funded Non-Medicare PPO Plan claim and utilization experience during calendar year 2022 for active employees, early retirees, and their dependents enrolled in the Plan during 2022.

Comparative year-over-year data in Section 2 (Plan Experience Observations) of this document reflects a comparison of claims incurred and paid in 2022 to claims incurred and paid in 2021 within the Non-Medicare PPO Plan (where UHC was sole plan administrator in 2021).

- “High-Cost Claims” within this presentation are defined as individuals who exceeded \$50,000 in medical/pharmacy claims in a calendar year.

The Non-Medicare PPO Plan is self-funded – meaning claims generated by member use of the plan flow through to the Trust for medical and prescription drug expenses.

- Total cost rates, then, reflect a best future estimate for that plan year of claim expenses plus associated plan administrator administrative fees.

Preface – Non-Medicare PPO Plan 2022 Experience

The 2022 plan year Non-Medicare PPO Plan experience contained in this presentation will serve as a basis for underwriting the Non-Medicare PPO Plan proposed rates for the 2024 plan year.

- Aon will also account in 2024 plan rating for an adjustment for Sutter settlement dollars applicable to the Non-Medicare PPO Plan (separately presented today for HSB approval).
- The Non-Medicare PPO Plan rate stabilization fund balance that will be presented in today's meeting after this presentation will apply to 2024 Non-Medicare PPO Plan rating.

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2022 Plan Experience Observations

Self-Funded Non-Medicare PPO Plan – 2022 Claims & Utilization Experience

2022 Plan Experience Observations

Overall Cost Observations – Cost Increases Consistent with National Trend

- **Medical claims** per covered life for the entire plan population (active employees and early retirees, administered by both UHC and BSC) increased 8.0% from 2021 to 2022, influenced by escalation in large claimants as seen on the following page.
- **Prescription drug** per covered life claims for the entire population increased 3.1% for the 2022 plan year versus 2021 experience (attributing to BSC cost per script favorability).
- Overall combined medical/prescription drug paid claim experience in the Non-Medicare PPO Plan (capturing both UHC and BSC administered covered lives) exhibited an average increase of 7.0% from 2021 to 2022.

	Medical	Prescription Drug	Total Medical/Rx
2021 Paid Claims (UHC)	\$890	\$245	\$1,135
2022 Paid Claims (BSC+UHC)	\$961	\$253	\$1,214
Annualized % Change			
2021 – 2022	8.0%	3.1%	7.0%

2022 Plan Experience Observations

PPO Data, Blue Shield+UHC in 2022 Versus UHC in 2021

High-Cost Claimants (Individuals \$50K in a year) Have Magnifying Influence on Overall Spend

- 176 total PPO covered lives in 2022 exceeded \$50K in claims—60 more than in 2021
 - BSC PPO lives: 148 individuals (5.0% of covered lives) in the High-Cost Claimant category generated 60% of 2022 paid claims
 - UHC PPO lives: 28 individuals (7.7% of covered lives) in the High-Cost Claimant category generated 39% of 2022 paid claims
- Key 2022 diagnostic categories for high-cost claimants continue to be cancer and musculoskeletal

	2021 HCCs (UHC)	2022 HCCs (BSC)	2022 HCCs (UHC)
Number of Medical HCCs (\$50K+)	116	148	28
% of Plan Members Who Are HCCs	3.6%	5.0%	7.7%
Average HCC Claimant Cost	\$162,361	\$152,287	\$147,435
HCC Portion of Total Net Paid	59%	60%	39%

2022 Plan Experience Observations

PPO Data, Blue Shield in 2022

Disease Prevalence Comparison, BSC PPO Population vs. BSC HMO Population

- The chart below demonstrates the added influence chronic conditions have for the BSC PPO population relative to those electing the BSC Access+/Trio HMO plans (percentage prevalence by chronic condition category for BSC PPO and HMO plan SFHSS lives):

Chronic Condition Category	Percentage Prevalence, BSC PPO	Percentage Prevalence, BSC HMOs
Musculoskeletal	43.6%	26.2%
Mental Health	23.2%	7.1%
Hypertension	13.1%	9.5%
Diabetes	10.6%	8.1%
Lipid Disorders	9.8%	6.6%
Cancer	9.6%	5.1%
Cardiovascular Disorders	7.0%	4.7%
Vascular Disease	5.0%	3.1%
Obesity	2.4%	1.6%
Asthma	2.4%	2.3%

2022 Plan Experience Observations

Prescription Drug PMPM Cost Is Lower Under BSC in 2022 vs. UHC in 2021

- BSC data shown below is for January-September 2022 timeframe—first nine months of PPO under BSC plan administration—compared to full 2021 UHC data
- Favorable BSC Rx experience vs. UHC 2021 data is primarily attributable to lower cost per script, as utilization per member is similar in 2022 vs. 2021
- Specialty medications account for 45% of total 2022 net pharmacy claims paid
- Top BSC PPO Rx spend classes in 2022 include antivirals, dermatologicals, cancer therapies, and diabetic medications

Prescription Drug Measures	2021 Data, UHC PPO	Jan-Sept 2022, BSC PPO Data	Change
Paid Claims PMPM	\$245	\$227	-7.3%
Paid Claim per Script	\$178	\$164	-7.9%
Scripts Per Member Per Year	16.8	16.6	-1.2%
% of Scripts Dispensed as Generic	82.0%	85.1%	3.1%
% of Scripts Dispensed at Home Delivery	4.4%	4.4%	0.0%

2022 Plan Experience Observations

Looking Ahead to 2024 Non-Medicare PPO Plan Rating

- The Non-Medicare PPO Plan population continues to be the highest average cost population (with the highest health risk scores) of any non-Medicare health plan population for SFHSS.
- In the next section of this presentation, we will the recommendation for the Non-Medicare PPO Plan Rate Stabilization Reserve as of December 31, 2022 to apply in 2024 PPO Plan rating, based on comparison of 2022 plan cost expectations developed in Spring 2021 to actual plan experience now that 2022 has completed.
- During the May 11, 2023 HSB meeting, Aon will present Non-Medicare PPO Plan (including “Choice Not Available”) active employee and early retiree rate recommendations for the 2024 plan year.

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Non-Medicare PPO Plan December 31, 2022 Rate Stabilization Fund Recommendation

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, 2022, 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, 2022, 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, 2022, for today's review of the Self-Funded Non-Medicare PPO Plan stabilization amount).

Today's Discussion

Non-Medicare PPO Plan Rate Stabilization Reserve

Information on the June 30, 2022 IBNR and Contingency Reserves was presented by Aon to the HSB on January 12, 2023.

Today's discussion focuses on the self-funded Non-Medicare PPO Plan Rate Stabilization Reserve amount that is recommended by Aon as of December 31, 2022. The Non-Medicare PPO Plan was administered by BSC for most covered lives in 2022, with UHC administering this plan for Non-Medicare covered lives of "split retiree families" with one or more family members enrolled in the UHC Medicare Advantage PPO plan.

The Non-Medicare PPO Plan rate stabilization actions described in this presentation will apply in 2024 Non-Medicare PPO Plan rating.

Recent Non-Medicare PPO Plan Rate Stabilization Actions

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.

For several years through 2019 plan year rating, in an effort to promote long-term sustainability of the Non-Medicare PPO Plan, the Health Service Board (HSB) chose to apply Rate Stabilization funds in full towards active employee and early retiree rates.

For both the 2020 and 2021 plan years, a Rate Stabilization Deficit existed for the Non-Medicare PPO Plan — generating rating buy-up amounts of \$117,000 in 2020 rating and \$744,000 in 2021 rating.

Recent Non-Medicare PPO Plan Rate Stabilization Actions

Due to favorability in 2020 Non-Medicare PPO Plan experience as a result of COVID-19 pandemic claim suppression observed primarily in the second calendar quarter of 2020, the Non-Medicare PPO Plan Rate Stabilization balance shifted from deficit to surplus — thus generating a \$330,000 buy-down in 2022 rating..

The stabilization position reverted to a deficit position for 2023 rating, based on 2021 plan year experience results, resulting in a stabilization buy-up in 2023 rating of \$403,000.

The remaining Non-Medicare PPO Plan Rate Stabilization Deficit carry forward after the 2023 rating action described above was \$807,000 — this will be applied in Non-Medicare PPO Plan rating for the 2024 plan year and beyond.

Further information on recent Non-Medicare PPO Plan Rate Stabilization actions is presented in the Appendix to this document.

Non-Medicare PPO 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 2022 Non-Medicare PPO Plan claims experience, there is a projected Rate Stabilization **Deficit** balance of \$2,238,000 to carry into the 2024 plan year and beyond.

This calculation will be discussed in following pages. Per policy, one-third of this Rate Stabilization **Deficit** amount, or \$746,000, is recommended to be applied in 2024 plan year rating for the Non-Medicare PPO Plan (including Choice Not Available) as a buy-up to rates.

This \$746,000 rating buy-up figure represents approximately 1.5% of early estimated 2024 plan year Non-Medicare PPO Plan rates, over and above healthcare cost trend that will also incorporate into 2024 Non-Medicare PPO Plan rate calculations. We will present 2024 Non-Medicare PPO Plan rating recommendations during the May 11, 2023 HSB meeting.

Non-Medicare PPO Plan 2022 Plan Year Reconciliation

January 2022 – December 2022 Plan Reconciliation, Actual vs. Expected		Expected	Actual
1	Estimated Incurred Claims	\$45,338,851	\$49,171,271
2	Base Administrative Fee Expense	\$1,202,280	\$1,067,565
	Affordable Care Act (ACA) Fee – PCORI	<u>\$6,000</u>	<u>\$7,439</u>
	Total Fee Expense	\$1,208,280	\$1,075,004
3	Prescription Drug Rebates	<u>(\$1,627,486)</u>	<u>(\$1,741,417)</u>
4	Total Cost ((1) + (2) + (3))	\$44,919,645	\$48,504,858
5	Total Contributions	<u>\$44,589,645</u>	<u>\$47,123,884</u>
6	Revenue Shortfall/(Surplus) (4-5)	\$330,000	\$1,380,974
7	Increase / (Decrease) in Contingency Reserve		<u>\$380,521</u>
8	Total Shortfall/(Surplus) ((Actual 6) + (Actual 7))		\$1,761,495
9	Adjustment to Stabilization Carry-Forward (Actual 8 – Expected 6): Aon Recommended Deficit Adjustment to December 31, 2021 Carry-Forward Stabilization Balance to Calculate December 31, 2022 Amount (rounded to nearest \$000)		\$1,431,000

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

Today's Recommendation

Rate Stabilization Reserve Calculation – Non-Medicare PPO Plan

Stabilization deficit balance as of December 31, 2021	\$1,210,000
Offset deficit amount applied in 2023 rate buy-up per policy (1/3)	\$403,000
Prior carry-forward stabilization deficit balance	\$807,000
Recommended deficit adjustment based on 2022 experience	\$1,431,000
Stabilization deficit balance as of December 31, 2022	\$2,238,000
Calculated amount per amortization policy to apply to 2024 rate buy-up per policy (1/3 of stabilization deficit balance)	\$746,000
Updated carry-forward stabilization deficit for use after 2024	\$1,492,000

Today's Recommendation

In congruence with the Stabilization Fund Policy, approve the use of one third of the December 31, 2022 stabilization reserve **Deficit** amount of \$746,000 (or one-third of \$2,238,000) be applied towards buy-up of rates across all rating tiers for the Non-Medicare PPO Plan (including Choice Not Available) for plan year 2024, and apply proportionately between active employees and early retirees.

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Appendix

- Non-Medicare PPO Plan Experience Detail
- Non-Medicare PPO Plan Rate Stabilization History
- Non-Medicare PPO Plan Reconciliation Notes

Active Employees

Headcount, Contract Size, and Premiums, and Claim Loss Ratios

Month	EE	EE + 1	EE + 2	Total Employees	Dependents	Average Contract Size	EE Rate	EE + 1 Rate	EE + 2 Rate	Monthly Premium	Paid Claims	Paid Loss Ratio	Incurred Claims	Incurred Loss Ratio
Jan-22	699	196	155	1,050	689	1.66	\$1,330	\$2,576	\$3,637	\$1,998,442	\$1,813,581	91%	\$1,734,994	87%
Feb-22	700	195	156	1,051	690	1.66	\$1,330	\$2,576	\$3,637	\$2,000,834	\$1,516,512	76%	\$1,201,433	60%
Mar-22	697	194	162	1,053	705	1.67	\$1,330	\$2,576	\$3,637	\$2,016,092	\$1,522,646	76%	\$1,987,456	99%
Apr-22	703	194	163	1,060	707	1.67	\$1,330	\$2,576	\$3,637	\$2,027,711	\$1,681,053	83%	\$1,567,300	77%
May-22	699	195	158	1,052	695	1.66	\$1,330	\$2,576	\$3,637	\$2,006,778	\$2,172,059	108%	\$1,781,828	89%
Jun-22	707	200	158	1,065	697	1.65	\$1,330	\$2,576	\$3,637	\$2,030,298	\$2,438,343	120%	\$2,921,332	144%
Jul-22	709	199	159	1,067	700	1.66	\$1,330	\$2,576	\$3,637	\$2,034,020	\$1,761,632	87%	\$3,206,329	158%
Aug-22	724	203	163	1,090	720	1.66	\$1,330	\$2,576	\$3,637	\$2,078,826	\$1,805,446	87%	\$1,771,673	85%
Sep-22	740	203	163	1,106	721	1.65	\$1,330	\$2,576	\$3,637	\$2,100,110	\$3,456,798	165%	\$2,406,229	115%
Oct-22	744	202	168	1,114	733	1.66	\$1,330	\$2,576	\$3,637	\$2,121,042	\$2,206,390	104%	\$3,021,612	142%
Nov-22	733	204	168	1,105	731	1.66	\$1,330	\$2,576	\$3,637	\$2,111,561	\$2,291,667	109%	\$2,707,776	128%
Dec-22	730	207	168	1,105	734	1.66	\$1,330	\$2,576	\$3,637	\$2,115,296	\$3,759,103	178%	\$2,363,651	112%
Totals/Averages				1,077	710	1.66				\$24,641,010	\$26,425,230	107%	\$26,671,611	108%
Surplus/(Deficit)											(\$1,784,219)		(\$2,030,601)	

NOTES: Vision plan costs are excluded from both claims and premium in the chart above; excludes all administration costs.

Loss Ratio = Claims divided by Premiums (higher percentages result from higher claims)

Early Retirees

Headcount and Contract Size

Month	Ret Only	Ret + 1 (both NM)	Ret + 2+ (all NM)	NM Ret Total Retirees	NM Deps of NM Rets	Average Contract Size, NM Retirees	NM Deps of Med Rets
Jan-22	612	217	47	876	348	1.40	286
Feb-22	610	216	49	875	358	1.41	277
Mar-22	608	217	48	873	357	1.41	275
Apr-22	615	218	45	878	350	1.40	278
May-22	606	217	47	870	356	1.41	278
Jun-22	609	215	46	870	348	1.40	274
Jul-22	613	220	51	884	367	1.42	267
Aug-22	613	223	53	889	373	1.42	260
Sep-22	610	220	52	882	369	1.42	255
Oct-22	614	219	54	887	374	1.42	249
Nov-22	608	225	56	889	386	1.43	250
Dec-22	608	220	55	883	379	1.43	252
Totals/Averages				880	364	1.41	267

Table Heading Abbreviations:

NM = Non-Medicare

Med = Medicare

Ret = Retiree

Dep = Dependent

NOTES: Vision plan costs are excluded from both claims and premium in the chart above; excludes all administration costs.

Loss Ratio = Claims divided by Premiums (higher percentages result from higher claims)

Early Retirees

Premiums and Paid/Incurred Claim Loss Ratios

Month	Monthly Premium, NM Retiree Tiers	Est. NM Dep of Med Ret's Premium	Monthly Premium, All NM Members	Paid Claims	Paid Loss Ratio	Incurred Claims	Incurred Loss Ratio
Jan-22	\$1,704,522	\$221,496	\$1,926,017	\$2,054,406	107%	\$1,597,487	83%
Feb-22	\$1,704,815	\$214,526	\$1,919,340	\$1,668,926	87%	\$2,065,922	108%
Mar-22	\$1,700,593	\$212,977	\$1,913,570	\$1,562,605	82%	\$1,960,011	102%
Apr-22	\$1,706,019	\$215,300	\$1,921,319	\$1,773,626	92%	\$1,532,220	80%
May-22	\$1,693,778	\$215,300	\$1,909,078	\$1,488,721	78%	\$1,812,494	95%
Jun-22	\$1,690,730	\$212,202	\$1,902,932	\$2,803,465	147%	\$1,655,929	87%
Jul-22	\$1,727,027	\$206,781	\$1,933,808	\$1,473,715	76%	\$1,635,801	85%
Aug-22	\$1,741,273	\$201,360	\$1,942,633	\$1,715,652	88%	\$1,891,462	97%
Sep-22	\$1,724,888	\$197,487	\$1,922,376	\$2,198,227	114%	\$1,843,757	96%
Oct-22	\$1,735,925	\$192,841	\$1,928,766	\$1,446,490	75%	\$1,692,377	88%
Nov-22	\$1,747,208	\$193,615	\$1,940,823	\$1,895,871	98%	\$1,793,639	92%
Dec-22	\$1,731,008	\$195,164	\$1,926,173	\$1,536,734	80%	\$1,890,768	98%
Totals/Averages	\$20,607,786	\$2,479,049	\$23,086,835	\$21,618,439	94%	\$21,371,866	93%
Surplus/(Deficit)				\$1,468,396		\$1,714,969	

Table Heading Abbreviations:

NM = Non-Medicare

Med = Medicare

Ret = Retiree

Dep = Dependent

NOTES: Vision plan costs are excluded from both claims and premium in the chart above; excludes all administration costs.

Loss Ratio = Claims divided by Premiums (higher percentages result from higher claims)

Non-Medicare PPO Plan Rate Stabilization History

Final 2022 Rating Presented at the May 13, 2021 Meeting

- At the March 11, 2021 HSB meeting, the Board was presented with the Non-Medicare PPO Plan Rate Stabilization Reserve calculation.
- At that time there was a calculated rate stabilization **Surplus Balance** of \$990,000.
- 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 March 11, 2021, the HSB approved that \$330,000 of this **Surplus** (or one-third of \$990,000) will be applied to the 2022 Non-Medicare PPO Plan rate projections as a buy-down, leaving a **Surplus** carry forward balance of \$660,000 to be applied in future years.

Non-Medicare PPO Plan Rate Stabilization History

Final 2023 Rating Presented at the May 12, 2022 Meeting

- At the March 10, 2022 HSB meeting, the Board was presented with the Non-Medicare PPO Plan Rate Stabilization Reserve calculation.
- At that time there was a calculated rate stabilization **Deficit Balance** of \$1,210,000.
- 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 March 10, 2022, the HSB approved that \$403,000 of this **Deficit** (or one-third of \$1,210,000) would be applied to the 2023 Non-Medicare PPO Plan rate projections as a buy-up, leaving a **Deficit** carry forward balance of \$807,000 to be applied in future years.

Non-Medicare PPO Plan Reconciliation Notes

- 1 Estimated Incurred Claims including claim payments for medical, pharmacy, and capitation in January–December 2022.
- 2 Administration Expense — Cost of administering January–December 2022 claims payments for medical and pharmacy, including federal Patient Centered Outcomes Research Institute (PCORI) fee paid by SFHSS.
- 3 Rx Rebates — Rebates from drug manufacturers for active employees and early retirees.
- 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 (amount presented in January 2023 HSB meeting).
- 9 Actual shortfall/(surplus) minus expected shortfall/(surplus) — Amount added to existing stabilization balance per HSB policy and amortized over three years.