

# San Francisco Health Service System Health Service Board

Rates and Benefits Committee

Blue Shield of California (BSC)

Rate Stabilization Reserve Presentation

March 8, 2018

## BSC HMO Plan Rate Stabilization—Overview and Recommendation

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The San Francisco Health Service System (SFHSS) Self-Funded Plans' Stabilization Policy requires an annual determination of the financial gain or loss for SFHSS self-funded/flex-funded plans. For each plan, the difference between the expected cost and actual cost for a plan year is added to the existing stabilization reserve and amortized over a three-year rating period.

This presentation focuses on the recommended adjustment to the Blue Shield of California (BSC) Flex-Funded HMO Plan rate stabilization reserve to reflect impact of calendar year 2017 experience.

Presently, the BSC plan rate stabilization reserve is in a **deficit** position, and has been since December 31, 2014 (see Appendix). Thus, today we present our recommendation for **buy-up** in 2019 rates, in the amount of \$3,162,000, as a result of application of the HSB stabilization policy given the **deficit** position.

## BSC HMO Plan Rate Stabilization—Summary

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In March 2017, the December 31, 2016 Stabilization Reserve recommendation was presented to the HSB. A BSC HMO plan rate stabilization **deficit** balance of \$10,634,000 existed as of December 31, 2016.

In May 2017, the HSB approved applying \$3,545,000 (or one-third of \$10,634,000) to buy-up 2018 active employee and early retiree premiums. This action left a BSC rate stabilization **deficit** carry-forward balance of \$7,089,000.

At the beginning of every Rates and Benefits cycle, the claims experience for the prior calendar year is evaluated. Based on the 2017 claims experience, \$2,396,000 should be added to the prior BSC rate stabilization **deficit** carry-forward balance. The calculation as well as resulting impact on the projected BSC Stabilization Reserve (specifically for BSC, **deficit**) balance is presented on the following pages.

# BSC HMO Plan—2017 Experience Reconciliation

January 2017 through December 2017 Plan Reconciliation (Actual versus Expected)	Expected	Actual
1—Estimated Incurred Claims—includes capitation, pharmacy cost, and fee for service claims cost	\$ 288,355,000	\$ 292,658,000
IBNR Increase / (Decrease)	\$ -	\$ (160,000)
Potential Claims Cost Payout	\$ -	\$ -
Total Claims Spend	\$ 288,355,000	\$ 292,498,000
2—Administration Expense—BSC Retention	\$ 17,037,000	\$ 17,003,000
PCORI—Patient Centered Outcome Research Institute Fee	\$ 86,000	\$ 87,000
Total Administrative Expense	\$ 17,123,000	\$ 17,090,000
3—Rx Rebates	\$ (3,000,000)	\$ (4,620,000)
4—Total Cost (1+2+3)	\$ 302,478,000	\$ 304,968,000
5—Total Contributions	\$ 307,632,000	\$ 305,942,000
6—Revenue Shortfall/(Surplus) (4-5)	\$ (5,154,000)	\$ (974,000)
7—Increase / (Decrease) in Contingency Reserve		\$ (1,784,000)
8—Total Shortfall/(Surplus) (Actual column: 6+7)		\$ (2,758,000)
9—Adjustment to Stabilization Carry-Forward (Actual 8 – Expected 6): Aon Recommended Increase to December 31, 2016 Carry-Forward Stabilization		\$ 2,396,000
<b>Deficit</b> Balance to Calculate December 31, 2017 Amount		

## Aon Recommendation

### Rate Stabilization Reserve Calculation—BSC HMO Plan

Stabilization <b>deficit</b> balance as of December 31, 2016	\$10,634,000
Offset deficit amount applied in 2018 rate buy-up per policy (1/3)	(\$3,545,000)
Prior carry-forward stabilization <b>deficit</b> balance	\$7,089,000
Recommended increase to the <b>deficit</b> based on 2017 experience	\$2,396,000
Stabilization <b>deficit</b> balance as of December 31, 2017	\$9,485,000
Calculated amount per amortization policy to apply to 2019 rate buy-up per policy (1/3 of stabilization deficit balance)	(\$3,162,000)
Updated carry-forward stabilization <b>deficit</b> for use after 2019	\$6,323,000

Aon recommends, per the requirements of Health Service Board approved rate stabilization policy, that the **deficit** amount of \$3,162,000 be applied towards buy-up across all rating tiers for the BSC HMO plans for plan year 2019. The remaining BSC HMO plan carry-forward **deficit** balance for plan year 2020 and beyond is \$6,323,000.

# Blue Shield of California HMO Plan Year Reconciliation

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## Notes:

- 1 Estimated Incurred Claims including claim payments for medical, pharmacy, and capitation in January–December 2017.
- 2 Administration Expense—cost of administering January–December 2017 claims payments for medical and pharmacy including pooling and applicable health care reform fees.
- 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 2018 HSB meeting).
- 9 Actual shortfall/(surplus) minus expected shortfall/(surplus)—amount added existing stabilization reserve per HSB policy and amortized over three years (for BSC HMO, amount is added to **deficit**).

# Appendix

# BSC HMO Rate Stabilization History

## Starting With Commencement of Flex-Funding on January 1, 2013

A	B	C	D	E
Starting Point Stabilization Reserve / <b>(Deficit)</b> Carry Forward [As Of Date] (column E of prior row)	Experience Adjustment Favorability / <b>(Unfavorability)</b> [Experience Year]	New Stabilization Reserve / <b>(Deficit)</b> [As Of Date] (column A + column B)	Amortized Reserve / <b>(Deficit)</b> Amount Applied to Rating [Rating Year]* (see decisions below)	Ending Point Stabilization Reserve / <b>(Deficit)</b> Carry Forward [As Of Date] --> <b>START OF NEXT ROW</b> (column C – column D)
\$0 [12/31/12]	\$3,080,000 [2013]	\$3,080,000 [12/31/13]	\$1,027,000 + \$8,844,000 [2015]	\$2,053,000 [12/31/13]
\$2,053,000 [12/31/13]	<b>(\$15,508,000)</b> [2014]	<b>(\$13,455,000)</b> [12/31/14]	<b>(\$4,485,000)</b> [2016]	<b>(\$8,970,000)</b> [12/31/14]
<b>(\$8,970,000)</b> [12/31/14]	<b>(\$6,491,000)</b> [2015]	<b>(\$15,461,000)</b> [12/31/15]	<b>(\$5,154,000)</b> [2017]	<b>(\$10,307,000)</b> [12/31/15]
<b>(\$10,307,000)</b> [12/31/15]	<b>(\$327,000)</b> [2016]	<b>(\$10,634,000)</b> [12/31/16]	<b>(\$3,545,000)</b> [2018]	<b>(\$7,089,000)</b> [12/31/16]
<b>(\$7,089,000)</b> [12/31/16]	<b>(\$2,396,000)</b> [2017]	<b>(\$9,485,000)</b> [12/31/17]	<b>(\$3,162,000)</b> [2019]	<b>(\$6,323,000)</b> [12/31/17]
<b>(\$6,323,000)</b> [12/31/17]	To be determined after 2018 experience completes			

### \* HSB Amortization decisions by rating year:

- 2015: 1/3 of new stabilization reserve per HSB policy plus one-time amount of \$8,844,000 derived from transfer of 2% Profit Pledge amount to rate stabilization reserve (see May 2014 SFHSS presentation for details on 2% Profit Pledge)
- 2016-2018: 1/3 of new stabilization reserve per HSB policy
- 2019: amount shown is Aon recommendation for distribution of 1/3 of the projected stabilization reserve per the HSB Stabilization Reserve Policy



# BSC HMO Rate Stabilization History

Presented at March 10, 2016 Meeting

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## Aon Rate Stabilization Calculation\*

Stabilization <b>deficit</b> balance carry-forward as of December 31, 2014	\$8,970,155
Aon recommended increase to stabilization <b>deficit</b>	<u>\$6,491,000</u>
Total stabilization <b>deficit</b> balance as of December 31, 2015	\$15,461,155
Stabilization policy requires 33% of balance to be applied to the 2017 rates	<u>(\$5,153,718)</u>
Remaining carry-forward in stabilization <b>deficit</b> balance for plan years 2018 and after	\$10,307,437

**\* Positive numbers reflect a loss and are added to the rates; negative numbers in parentheses reflect a gain and are subtracted from the rates.**

# BSC HMO Rate Stabilization History

Presented at March 9, 2017 Meeting

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## Aon Rate Stabilization Calculation\*

Stabilization <b>deficit</b> balance carry-forward as of December 31, 2015	\$10,307,437
Aon recommended increase to stabilization <b>deficit</b>	\$327,000
Total stabilization <b>deficit</b> balance as of December 31, 2016	\$10,634,437
Stabilization policy requires 33% of balance to be applied to the 2018 rates	(\$3,544,812)
Remaining carry-forward in stabilization <b>deficit</b> balance for plan years 2019 and after	\$7,089,624

**\* Positive numbers reflect a loss and are added to the rates; negative numbers in parentheses reflect a gain and are subtracted from the rates.**