

# San Francisco Health Service System Health Service Board

## **Rates and Benefits Committee**

### Delta Dental of California Self-Funded PPO Rate Stabilization Reserve Presentation

May 10, 2018

**Prepared by:**  
Health & Benefits



# Delta Dental

## Active Employee PPO Rate Stabilization

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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 Delta Dental of California (Delta Dental) self-funded active employee PPO plan rate stabilization reserve to reflect impact of calendar year 2017 experience. All other dental plans offered to SFHSS active employees and retirees are fully insured—thus we focus only on the active employee dental PPO plan for dental plan rate stabilization reserves.

# Delta Dental

## Active Employee PPO Rate Stabilization

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Today we present our recommendation for buy-down in 2019 rates, in the amount of **\$4,227,000**, as a result of application of the Health Service Board's (HSB's) stabilization policy.

During every Rates and Benefits cycle, the claims experience for the prior calendar year is evaluated. Based on 2017 claims experience, **\$6,292,000** should be added to the prior Delta Dental active employee PPO carry-forward rate stabilization reserve balance. The calculation of this figure is shown on the next page.

Historical information on Delta Dental active employee PPO plan stabilization reserve changes and amounts used in rating is also contained in the Appendix to this document. The reserve has grown from \$0 as of December 31, 2013 to \$12,681,000 as of December 31, 2017.

# Delta Dental Active PPO Plan—2017 Reconciliation\*

## January 2017 through December 2017 Plan Reconciliation (Actual versus Expected)

|   | Expected     | Actual        |
|---|--------------|---------------|
| Paid Claims   | \$46,436,000 | \$43,092,000  |
| IBNR Increase / (Decrease)  | —            | \$187,000     |
| 1–Total Projected Incurred Claims   | \$46,436,000 | \$43,279,000  |
| 2–Administration Expense—Delta Dental Fees  | \$1,550,000  | \$1,616,000   |
| 3–Total Cost (1+2)  | \$47,986,000 | \$44,895,000  |
| 4–Total Contributions   | \$45,611,000 | \$48,264,000  |
| 5–Revenue Shortfall / (Surplus) (3-4)   | \$2,375,000  | \$(3,369,000) |
| 6–Increase / (Decrease) in Contingency Reserve  |              | \$(548,000)   |
| 7–Total Shortfall / (Surplus) (Actual column: 5+6)  |              | \$(3,917,000) |
| 8–Adjustment to Stabilization Carry-Forward (Actual 7 – Expected 5):<br>Aon Recommended Surplus to Add to December 31, 2016 Carry-Forward Stabilization Reserve Balance to Calculate December 31, 2017 Amount |              | \$(6,292,000) |

\* See Appendix for descriptions of items listed above

# Aon Recommendation

## Stabilization Reserve Calculation—Delta Dental Active Employee PPO Plan

|  |               |
|--|---------------|
| Stabilization reserve balance as of December 31, 2016  | \$9,583,000   |
| Offset reserve amount applied in 2018 rate buy-down per policy (1/3)   | (\$3,194,000) |
| Prior carry-forward stabilization reserve balance  | \$6,389,000   |
| Recommended increase to the reserve based on 2017 experience   | \$6,292,000   |
| Stabilization reserve balance as of December 31, 2017  | \$12,681,000  |
| Calculated amount per amortization policy to apply to 2019 rate buy-down per policy (1/3 of stabilization reserve balance) | (\$4,227,000) |
| Updated carry-forward stabilization reserve for use after 2019   | \$8,454,000   |

Aon recommends, per the requirements of HSB-approved rate stabilization policy, that \$4,227,000 be applied towards buy-down across all rating tiers for the Delta Dental active employee PPO plan for plan year 2019. The remaining Delta Dental active employee PPO plan carry-forward reserve balance for plan year 2020 and beyond is \$8,454,000.

# Appendix

# Delta Dental Active PPO Rate Stabilization History

## Starting With December 31, 2013 (\$0 reserve as of that date)

| 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 [12/31/13]   | \$3,861,000 [2014]   | \$3,861,000 [12/31/14]  | \$1,287,000 [2016]   | \$2,574,000 [12/31/14]  |
| \$2,574,000 [12/31/14]   | \$4,551,000 [2015]   | \$7,125,000 [12/31/15]  | \$2,375,000 [2017]   | \$4,750,000 [12/31/15]  |
| \$4,750,000 [12/31/15]   | \$4,833,000 [2016]   | \$9,583,000 [12/31/16]  | \$3,194,000 [2018]   | \$6,389,000 [12/31/16]  |
| \$6,389,000 [12/31/16]   | \$6,292,000 [2017]   | \$12,681,000 [12/31/17]   | \$4,227,000 [2019]   | \$8,454,000 [12/31/17]  |
| \$8,454,000 [12/31/17]   | To be determined after 2018 experience completes                               |   |  |   |

\*HSB amortization decisions by rating year:

- 2016-2018: 1/3 of new stabilization reserve per HSB policy
- 2019: Aon recommends 1/3 of new stabilization reserve per HSB policy

# Reconciliation Calculation Notes

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- 1 Estimated Incurred Claims including claim payments during January–December 2017.
- 2 Administration Expense—Delta Dental fees for administering January–December 2017 claims payments.
- 4 Total Contributions—annual premium revenue collected.
- 5 Revenue Shortfall / (Surplus)—difference in cost versus premium revenue collected.
- 6 Contingency Reserve—explicit reserve held to cover excess losses (amount presented in January 2018 HSB meeting).
- 8 Actual shortfall / (surplus) minus expected shortfall / (surplus)—amount added existing stabilization reserve per HSB policy and amortized over three years.