

San Francisco Health Service System Health Service Board

Rates and Benefits Committee

Dental Plans 2019 Rating Recommendations

May 10, 2018

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Health & Benefits



Introduction

This presentation outlines 2019 rating recommendations for the active employee and retiree dental plans offered by San Francisco Health Service System (SFHSS). We also include recent claim experience for the self-funded Delta Dental of California (Delta Dental) active employee PPO plan.

This document is segmented into two sections:

- Claim experience review and 2019 recommendations for the self-funded Delta Dental active employee PPO plan; and
- Fully insured rating recommendations for 2019 for the two dental HMO plans offered to active employees and all dental plans offered to retirees.

Active Employee Delta Dental PPO

Overview—Active Employee Delta Dental PPO

After a thorough review of Delta Dental active employee self-funded plan experience and historical pricing methodology, Aon recommends methodology changes for the pricing of this plan into 2019.

The stabilization reserve was introduced to the Delta Dental plan in 2014, and has subsequently grown to be about \$12.7M in 2017 (which is 28% of the plan's 2017 total cost). This indicates that significant surplus has been generated between 2013 and 2017. Thus, we suggest a goal of decreasing the stabilization reserve for this plan over time, while preserving the sustainability of this valuable benefit.

In addition to methodology changes, Aon also recommends that two components recommended by Delta Dental be added in 2019 to enhance the member experience in this plan, as well as potential benefit enhancements.

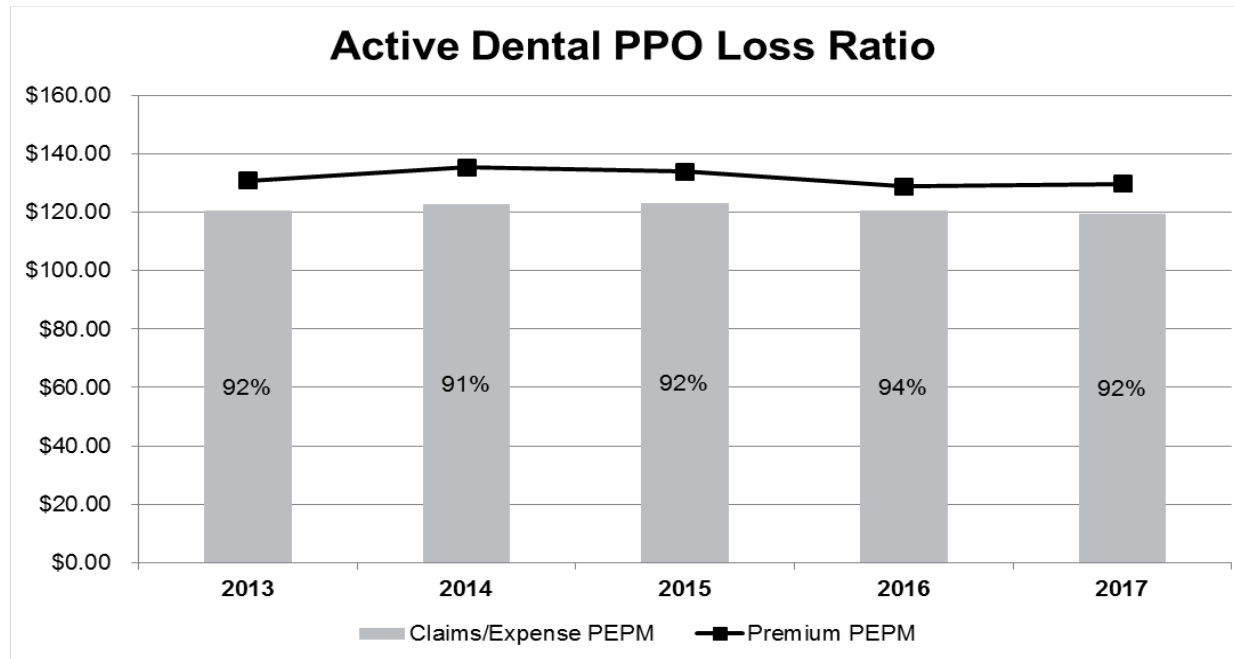
Delta Dental Active PPO—2017 Claim Experience

Loss ratios continue to be favorable in 2017 (incurred claim/fee loss ratio = 92%, paid claim/fee loss ratio = 93%)—similar to 2016 results

Month	EE	EE+1	EE+2	Total Subscribers	Total Dependents	Average Contract Size	EE Rate	EE+1 Rate	EE+2+ Rate	Monthly Premium	Admin	Paid Claims	Paid Loss Ratio	Incurred Claims	Incurred Loss Ratio	
Jan-17	11,491	8,155	11,194	30,840	40,462	2.31	\$64.51	\$135.48	\$193.54	\$4,012,662	\$134,154	\$3,547,190	92%	\$3,957,255	102%	
Feb-17	11,544	8,146	11,202	30,892	40,485	2.31	\$64.51	\$135.48	\$193.54	\$4,016,410	\$134,380	\$3,598,709	93%	\$3,341,687	87%	
Mar-17	11,568	8,123	11,235	30,926	40,532	2.31	\$64.51	\$135.48	\$193.54	\$4,021,229	\$134,528	\$4,345,008	111%	\$3,958,554	102%	
Apr-17	11,585	8,131	11,247	30,963	40,591	2.31	\$64.51	\$135.48	\$193.54	\$4,025,732	\$134,689	\$3,391,999	88%	\$3,387,473	87%	
May-17	11,649	8,136	11,245	31,030	40,582	2.31	\$64.51	\$135.48	\$193.54	\$4,030,151	\$134,981	\$3,321,711	86%	\$3,600,458	93%	
Jun-17	11,668	8,125	11,242	31,035	40,547	2.31	\$64.51	\$135.48	\$193.54	\$4,029,306	\$135,002	\$4,094,232	105%	\$3,677,112	95%	
Jul-17	11,631	8,079	11,190	30,900	40,332	2.31	\$64.51	\$135.48	\$193.54	\$4,010,623	\$134,415	\$3,156,545	82%	\$3,450,993	89%	
Aug-17	11,662	8,072	11,209	30,943	40,367	2.30	\$64.51	\$135.48	\$193.54	\$4,015,352	\$134,602	\$4,340,483	111%	\$3,752,140	97%	
Sep-17	11,667	8,076	11,190	30,933	40,305	2.30	\$64.51	\$135.48	\$193.54	\$4,012,539	\$134,559	\$3,004,087	78%	\$3,201,898	83%	
Oct-17	11,688	8,090	11,204	30,982	40,348	2.30	\$64.51	\$135.48	\$193.54	\$4,018,500	\$134,772	\$3,208,557	83%	\$3,356,162	87%	
Nov-17	11,705	8,123	11,208	31,036	40,375	2.30	\$64.51	\$135.48	\$193.54	\$4,024,842	\$135,007	\$3,749,095	97%	\$3,346,859	87%	
Dec-17	11,679	8,099	11,222	31,000	40,373	2.30	\$64.51	\$135.48	\$193.54	\$4,022,623	\$134,850	\$3,333,780	86%	\$3,842,484	99%	
				30,957	40,442	2.31				\$48,239,969	\$1,615,938	\$43,091,396		\$42,873,075		
											Claims + Fees →		\$44,707,334	93%	\$44,489,013	92%

Historical Self-Funded Plan Performance

From 2013 to 2017 the Active Dental incurred claim / fee loss ratios were 91% to 94%, leading to significant surplus generation each year.



In 2014 the Delta Dental Stabilization policy was established to formally capture and reinvest this surplus. The stabilization balance has grown to \$12,681,000—or 28% of claim expense—at the end of 2017 (see next page).

Delta Dental Active PPO Rate Stabilization History

Starting With December 31, 2013 (no reserve as of that date)

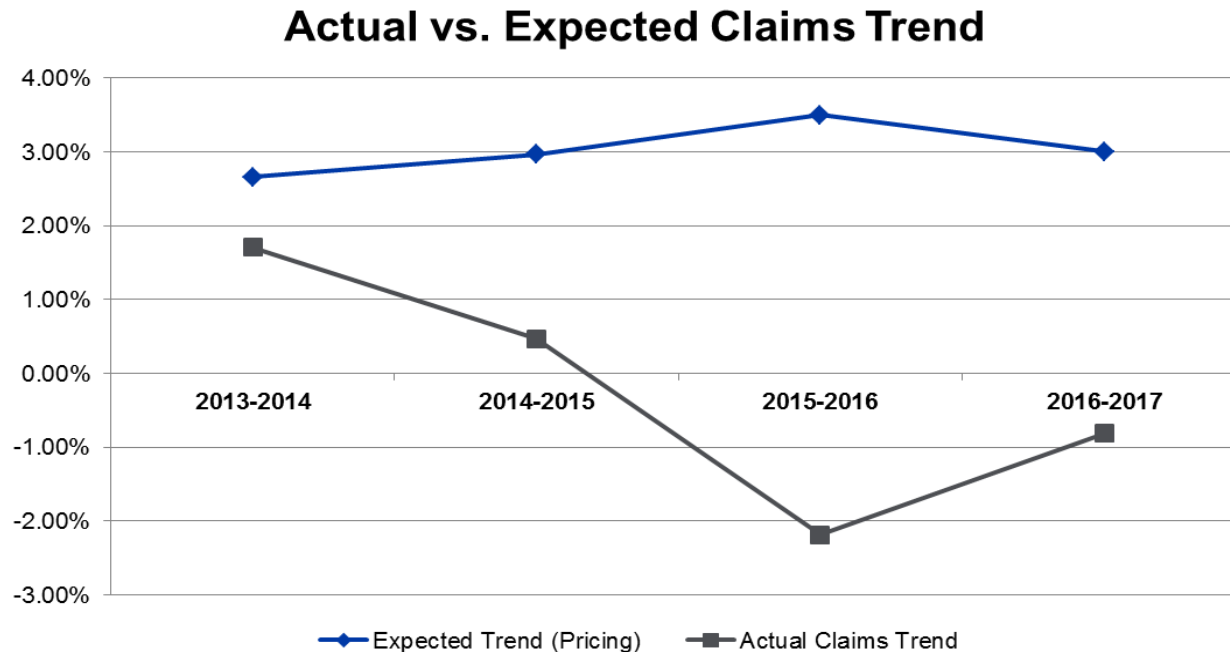
A	B	C	D	E
Starting Point Stabilization Reserve / (Deficit) Carry Forward [As Of Date] (column E of prior row)	Experience Adjustment Favorability / (Unfavorability) [Experience Year]	New Stabilization Reserve / (Deficit) [As Of Date] (column A + column B)	Amortized Reserve / (Deficit) Amount Applied to Rating [Rating Year]* (see decisions below)	Ending Point Stabilization Reserve / (Deficit) Carry Forward [As Of Date] → START OF NEXT ROW (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 the Health Service Board (HSB) Self-Funded Stabilization Policy
- 2019: amount shown is Aon recommendation for distribution of 1/3 of the projected stabilization reserve per the HSB Stabilization Policy

Actual Versus Expected Dental Cost Trends

From 2013-2017 dental trends were expected to be between 2.5% and 3.5% per year, which aligns with market expectations and industry norms.



Actual incurred claims per employee per month are in fact lower in 2017 than in 2013. This favorable cost trend has driven the large plan surplus.

Recommendation—Rating Methodology

Aon's recommendation is to make two methodology changes to the historical pricing methodology as we enter 2019:

- 1. Trend:** Reduce annual trend used in rating from 3% to 2%
 - Recognize lower actual trends, but don't deviate significantly from market expectations
- 2. Margin:** Eliminate the 2% pricing margin which has been included in rating since 2016
 - Current stabilization balance provides ample solvency protection, as does the Contingency reserve
 - Dental benefits have an annual benefit maximum, which significantly reduces the potential for volatility

Recommendation—Design Changes and Programs

In addition to the rating changes outlined earlier, we also recommend these five 2019 changes and additions to the active dental PPO plan:

- **SmileWay Program:** Allows members with specific chronic conditions (diabetes, heart disease, HIV/AIDS, rheumatoid arthritis, or stroke) to receive an annual periodontal scaling and root planning procedure as well as more frequent teeth cleaning/periodontal maintenance services.
- **Cost Estimator Tool:** Provides members the ability to model the estimated cost of specific services in advance.
- **Accident Benefit Rider:** Additional coverage for dental services for conditions caused directly or independently of all other causes by external, violent, and accidental means.
- Adult orthodontic lifetime maximum increases by \$1,000 in each provider tier category (to match child orthodontia maximum levels).
- Remove 6-month waiting period for prosthodontic and orthodontic coverage.

Potential Active Employee Dental PPO Plan Enhancements

Delta Dental has developed projected cost impacts for the five potential changes that SFHSS could consider for the 2019 plan year on the active employee PPO program (PEPM = Per Employee Per Month).

- \$0.10 PEPM = about \$38,000 in 2019 (for 31,631 current employees)
 - Every 1% of claims in 2019 = about \$450,000
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Add SmileWay Benefit	+1.5% claim increase plus \$0.10 PEPM fee increase
Introduce Cost Estimator Tool	Included in \$0.10 PEPM fee increase with SmileWay
Add Accident Benefit Rider	+1.5% claim increase
Increase adult orthodontia maximums to match child maximums (\$1,000 increase)	+2.0% claim increase
Remove 6-month waiting period for prosthodontic and orthodontic coverage	+0.7% claim increase

Delta Dental—2019 Administrative Fees

Delta Dental is proposing a per employee per month (PEPM) fee increase into 2019, then fees would hold through the end of 2021 as illustrated below.

Year	Administrative Fee / PEPM (2019-2021)
2012–2015	\$4.38
2016–2018	\$4.35
2019–2021 (current service basis)	\$4.52
2019–2021 (including Cost Estimator Tool and SmileWay enhancements)	\$4.62

Delta Dental Active PPO—2019 Projected Rates

- Aon recommends a 4.1% total rate decrease for 2019 versus 2018—which includes adoption of all plan changes and program enhancements listed in prior pages
- Claims for February 2016 through January 2018 with a 2% annual trend assumption were used to project 2019 claims
- Rates incorporate use of \$4,227,000 in rate stabilization reserves

	EE Only	EE+1	EE+2+
March 2018 Enrollment (31,631 total enrolled employees)	11,851	8,327	11,453
2019 Self-Insured Pre-Stabilization Offset Rates (Monthly)	\$66.04	\$138.69	\$198.12
Claims Stabilization Buy-Down (1/3 of 12/31/17 reserve)	(\$5.56)	(\$11.69)	(\$16.69)
2019 Self-Insured Recommended Rates (Monthly)	\$60.48	\$127.00	\$181.43
2019 Self-Insured Recommended Rates (Bi-Weekly)	\$27.91	\$58.62	\$83.74
2018 Self-Insured Active Delta Dental PPO Rates (Monthly)	\$63.04	\$132.38	\$189.11
<i>Change From Current</i>	-4.1%	-4.1%	-4.1%

Delta Dental Active PPO

2019 Recommendation Summary

Summary of Recommended HSB Actions, Active Dental PPO:

- Adopt changes in active employee Delta Dental PPO rating methodology—eliminate use of claim margin, change annual claim trend assumption from 3% to 2%.
- Adopt these benefit design changes and program enhancements:
 - SmileWay program for individuals with specific chronic conditions;
 - Cost Estimator Tool;
 - Accident Benefit Rider;
 - Adult orthodontic lifetime maximum increases by \$1,000 in each provider tier category (to match child orthodontia maximum levels); and
 - Remove 6-month waiting period for prosthodontic and orthodontic coverage.

Delta Dental Active PPO

2019 Recommendation Summary

Summary of Recommended HSB Actions, Active Dental PPO (continued):

- Accept Delta Dental's base administrative fee increase from current \$4.35 PEPM to proposed \$4.62 PEPM for plan years 2019 through 2021 that includes the SmileWay and Cost Estimator Tool enhancements.
- Accept Aon's recommendation for 2019 active employee Delta Dental PPO total rate decrease of 4.1% versus 2018 total rates which reflects adoption of the changes above.

Fully Insured Dental Plans

Fully Insured Dental Plans—2019 Rating

SFHSS offers five fully-insured dental plans to its members:

- **Active employees:** DeltaCare USA and UnitedHealthcare (UHC) dental HMOs.
- **Retirees:** Delta Dental PPO, DeltaCare USA dental HMO, and UHC dental HMO.

For each of these five fully-insured dental plans, rates will remain at 2018 levels into the 2019 plan year, based on rating renewals prepared by Delta Dental of California and UHC.

Delta Dental's SmileWay program can be added to Retiree PPO plan for a 1.9% total premium increase (Cost Estimator Tool is already included).

Delta Dental plan quotations are guaranteed through December 31, 2021. UHC plan quotations are guaranteed through December 31, 2019.

Delta Dental of California

Retiree PPO Plan Rating Action

The monthly rates below are guaranteed through December 31, 2021:

Rate Tier	Monthly Rates: Current Design		
	2018	2019	Rate Change
Retiree Only	\$45.77	\$45.77	No Change
Retiree + 1	\$91.04	\$91.04	No Change
Retiree + 2+	\$135.88	\$135.88	No Change

Rate Tier	Monthly Rates: With SmileWay Benefit		
	2018	2019	Rate Change
Retiree Only	\$45.77	\$46.64	+1.9%
Retiree + 1	\$91.04	\$92.77	+1.9%
Retiree + 2+	\$135.88	\$138.47	+1.9%

DeltaCare USA

Dental HMO Plan Rating Action

The monthly rates below are guaranteed through December 31, 2021:

Actives Rate Tier	2018	2019	Rate Change
Employee Only	\$26.95	\$26.95	No Change
Employee + 1	\$44.46	\$44.46	No Change
Employee + 2+	\$65.76	\$65.76	No Change

Retirees Rate Tier	2018	2019	Rate Change
Retiree Only	\$32.85	\$32.85	No Change
Retiree + 1	\$54.21	\$54.21	No Change
Retiree + 2+	\$80.19	\$80.19	No Change

UnitedHealthcare

Dental HMO Plan Rating Action

The monthly rates below are guaranteed through December 31, 2019:

Actives Rate Tier	2018	2019	Rate Change
Employee Only	\$27.80	\$27.80	No Change
Employee + 1	\$45.90	\$45.90	No Change
Employee + 2+	\$67.86	\$67.86	No Change

Retirees Rate Tier	2018	2019	Rate Change
Retiree Only	\$16.47	\$16.47	No Change
Retiree + 1	\$27.20	\$27.20	No Change
Retiree + 2+	\$40.22	\$40.22	No Change

Delta Dental Active PPO

2019 Recommendation Summary

Summary of Recommended HSB Actions, Insured Dental Plans:

■ **Delta Dental Retiree PPO:**

- Adopt the SmileWay benefit enhancement and accept the 1.9% rate increase into 2019 (with these new rates guaranteed by Delta Dental from 2019 to 2021).

■ **DeltaCare USA Insured Dental HMO Plans** (active employees and retirees):

- Accept the rate renewals as presented in this document (no change to rates from 2018 to 2019, with three-year rate lock through end of 2021).

■ **UHC Insured Dental HMO Plans** (active employees and retirees):

- Accept the rate renewals as presented in this document (no change to rates from 2018 to 2019).