

# San Francisco Health Service System Health Service Board

## **Rates & Benefits**

Blue Shield of California Flex-Funded  
Rate Stabilization Reserve Presentation

March 14, 2019

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Health Solutions



# BSC HMO Plan Rate Stabilization

## Overview and Recommendation

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The Health Service Board's (HSB's) 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 Flex-Funded HMO Plan (BSC plan) rate stabilization reserve to reflect the impact of calendar year 2018 experience.

Presently, the BSC plan rate stabilization reserve is in a **deficit** position, and has been since December 31, 2014 (see Appendix). Today we present our recommendation for a buy-up in 2020 rates, in the amount of \$1,896,000, as a result of application of the HSB Self-Funded Plans' Stabilization policy given the **deficit** position.

This is preliminarily expected to represent approximately 0.6% of total 2020 premium rates for the BSC plans (with actual calculations to be presented to the HSB in May 2019). This compares to approximately 1.1% buy-up in 2019 total premium rates for the BSC plans.

# BSC HMO Plan Rate Stabilization

## Summary

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In March 2018, the December 31, 2017 Stabilization Reserve recommendation was presented to the HSB. A BSC HMO plan rate stabilization **deficit** balance of \$9,485,000 existed as of December 31, 2017.

In May 2018, the HSB approved applying \$3,162,000 (or one-third of \$9,485,000) to buy-up 2019 active employee and early retiree premiums. This action left a BSC rate stabilization **deficit** carry-forward balance of \$6,323,000.

At the beginning of every Rates & Benefits cycle, the claims experience for the prior calendar year is evaluated. Actual 2018 surplus generated by the BSC plans was higher than expected surplus. Thus, based on 2018 claims experience, \$636,000 should be deducted from the prior BSC rate stabilization deficit, to reduce the **deficit** carry-forward balance, thereby reducing the amount of the required buy up from 2019 rating to 2020 rating.

The calculation as well as resulting impact on the projected BSC Stabilization Reserve (specifically for BSC<sub>7</sub> **deficit**) balance is presented on the following pages.

# BSC HMO Plan 2018 Experience Reconciliation

## Combined Access+ and Trio Plans for Active Employees and Early Retirees

| January 2018 – December 2018 Plan Reconciliation (Actual vs Expected)                           | Expected              | Actual                |
|---|-----------------------|-----------------------|
| 1 Estimated Incurred Claims—includes capitation, pharmacy cost, and fee for service claims cost | \$ 297,993,000        | \$ 289,259,000        |
| IBNR Increase / (Decrease)  | \$ –                  | \$ (391,000)          |
| Potential Claims Cost Payout  | \$ –                  | \$ –                  |
| Total Claims Spend  | \$ 297,993,000        | \$ 288,868,000        |
| 2 Administration Expense—BSC Retention  | \$ 17,960,000         | \$ 18,648,000         |
| PCORI—Patient Centered Outcome Research Institute Fee   | Included              | \$ 45,000             |
| Total Administrative Expense  | \$ 17,960,000         | \$ 18,693,000         |
| 3 Rx Rebates  | <u>\$ (6,000,000)</u> | <u>\$ (6,336,000)</u> |
| 4 Total Cost (1+2+3)  | \$ 309,953,000        | \$ 301,225,000        |
| 5 Total Contributions   | \$ 313,498,000        | \$ 306,137,000        |
| 6 Revenue Shortfall / (Surplus) (4-5)   | \$ (3,545,000)        | \$ (4,912,000)        |
| 7 Increase / (Decrease) in Contingency Reserve  |                       | \$ 731,000            |
| 8 Total Shortfall / (Surplus) (Actual column: 6+7)  |                       | \$ (4,181,000)        |
| 9 Adjustment to Stabilization Carry-Forward (Actual 8 – Expected 6):                            |                       |                       |
| Aon Recommended Decrease to December 31, 2017 Carry-Forward                                     |                       |                       |
| Stabilization <b>Deficit</b> Balance to Calculate December 31, 2018 Amount                      |                       | \$ (636,000)          |

# Aon Recommendation

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## Rate Stabilization Reserve Calculation—BSC HMO Plan

|  |                      |
|--|----------------------|
| Stabilization <b>deficit</b> balance as of December 31, 2017   | \$9,485,000          |
| Offset deficit amount applied in 2019 rate buy-up per policy (1/3)   | <u>(\$3,162,000)</u> |
| Prior carry-forward stabilization <b>deficit</b> balance   | \$6,323,000          |
| Recommended increase to the <b>deficit</b> based on 2018 experience  | <u>(\$636,000)</u>   |
| Stabilization <b>deficit</b> balance as of December 31, 2018   | \$5,687,000          |
| Calculated amount per amortization policy to apply to 2020 rate buy-up per policy (1/3 of stabilization deficit balance) | <u>(\$1,896,000)</u> |
| Updated carry-forward stabilization <b>deficit</b> for use after 2020  | \$3,791,000          |

Aon recommends, per the requirements of Health Service Board approved rate stabilization policy, that the **deficit** amount of \$1,896,000 be applied towards buy-up across all rating tiers for the BSC HMO plans for plan year 2020, applied proportionately per Policy between active employees and early retirees. The remaining BSC HMO plan carry-forward **deficit** balance for plan year 2021 and beyond is \$3,791,000.

# 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 2018.
- 2 Administration Expense—cost of administering January–December 2018 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 2019 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 Plan Rate Stabilization Reserve History

## Rate Stabilization Reserve Surplus / (Deficit) as of December 31

|                   |                    |
|-------------------|--------------------|
| December 31, 2012 | Not Yet Applicable |
| December 31, 2013 | \$3,080,000        |
| December 31, 2014 | (\$13,455,000)     |
| December 31, 2015 | (\$15,461,000)     |
| December 31, 2016 | (\$10,634,000)     |
| December 31, 2017 | (\$9,485,000)      |
| December 31, 2018 | (\$5,687,000)      |

## Surplus / (Deficit) Amount Applied to Rating

|                |               |
|----------------|---------------|
| 2015 Plan Year | \$1,027,000   |
| 2016 Plan Year | (\$4,485,000) |
| 2017 Plan Year | (\$5,154,000) |
| 2018 Plan Year | (\$3,545,000) |
| 2019 Plan Year | (\$3,162,000) |

## Percentage Buy-Up / Buy-Down Applied in Rating

|                |                        |
|----------------|------------------------|
| 2015 Plan Year | Small buy-down (<0.5%) |
| 2016 Plan Year | Buy-up (about 1.5%)    |
| 2017 Plan Year | Buy-up (almost 2%)     |
| 2018 Plan Year | Buy-up (about 1.3%)    |
| 2019 Plan Year | Buy-up (about 1.1%)    |

*BSC's Rate Stabilization reserve started in 2013 with start of flex funding—inadequate rates relative to eventual actual experience in 2014-2015 generated the deficit which has been slowly decreasing since the end of 2015*



# BSC Plan Rate Stabilization Reserve History

Presented at March 9, 2017 Meeting

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## Aon Rate Stabilization Calculation [1]

|   |                      |
|---|----------------------|
| Stabilization <b>deficit</b> balance carry-forward as of December 31, 2015                    | \$10,307,000         |
| Aon recommended increase to stabilization <b>deficit</b>                                      | \$327,000            |
| Total stabilization <b>deficit</b> balance as of December 31, 2016                            | <u>\$10,634,000</u>  |
| Stabilization policy requires 33% of balance to be applied to the 2018 rates                  | <u>(\$3,545,000)</u> |
| Remaining carry-forward in stabilization <b>deficit</b> balance for plan years 2019 and after | \$7,089,000          |

**[1] 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 Plan Rate Stabilization Reserve History

Presented at March 8, 2018 Meeting

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## Aon Rate Stabilization Calculation <sup>[1]</sup>

|   |                      |
|---|----------------------|
| Stabilization <b>deficit</b> balance carry-forward as of December 31, 2016                    | \$7,089,000          |
| Aon recommended increase to stabilization <b>deficit</b>                                      | \$2,396,000          |
| Total stabilization <b>deficit</b> balance as of December 31, 2017                            | <u>\$9,485,000</u>   |
| Stabilization policy requires 33% of balance to be applied to the 2019 rates                  | <u>(\$3,162,000)</u> |
| Remaining carry-forward in stabilization <b>deficit</b> balance for plan years 2020 and after | \$6,323,000          |

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