San Francisco Health Service System
Health Service Board

Rates & Benefits

Stop Loss Recommendation Presentation

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Health Solutions

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Summary and Recommendation

Many self-funded plan sponsors purchase external reinsurance (or “stop loss” insurance) for catastrophic health plan claims exposure as a financial risk mitigation approach. Such programs offer the plan sponsor the ability to alleviate the financial strain that could present if higher-than-expected large claim experience were to occur.

The San Francisco Health Service System (SFHSS) has several mechanisms now in place to protect the Trust Fund (Trust) and members/employers from unforeseen adverse financial risk to its health plans, including:

- The Health Service Board’s (HSB’s) Contingency Reserve Policy;
- The HSB’s Self-Funded Plans’ Stabilization Policy; and
- Required large claim pooling as part of Blue Shield of California’s (BSC) flex-funded product basis for Access+ and Trio.

Thus, we recommend not purchasing stop loss insurance protection for SFHSS self-funded and flex-funded health care plans. Information that supports our recommendation is presented on the following pages.

Introduction

Presently there are three programs offered through the SFHSS that are self-funded / flex-funded:

- UnitedHealthcare (UHC) City Plan PPO (active employees and non-Medicare retirees)
- Blue Shield of California (BSC) Flex-Funded Plans—Access+ and Trio (active employees and non-Medicare retirees)
- Delta Dental of California (DDCA) PPO (active employees)

As self-funded plans, the risk of excess claims experience over collected premium equivalents is the responsibility of the Trust. For BSC plans, exposure to the Trust is capped at $1 million per plan year per individual given large claim pooling is currently in your flex-funded financial agreement with BSC.

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Stop Loss Reinsurance—General Commentary

In order to obtain the reinsurance coverage, the plan sponsor remits a premium to the reinsurer who reimburses the plan sponsor when claim costs exceed the criteria established in the reinsurance contract.

It is important to understand that reinsurance is an insurance product—so when claims are not excessive, the reinsurer may not issue a payout to cover any claims. If the premium paid to the reinsurer is greater than the reimbursements, over an extended time period, the plan sponsor may consider this approach to financial risk mitigation as an excessive use of available funds and consider alternative approaches to financial risk mitigation. As an insurance product, there are also risk charges and profit margins built into stop loss insurance premiums.

Dental plans are not candidates for stop loss insurance given the plan's financial exposure is limited via annual all-service and lifetime orthodontic dollar maximums.

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SFHSS Contingency Reserve Policy

For very large pools, the most common approach to financial risk mitigation in lieu of external reinsurance is the establishment of contingency reserves. The purpose of the contingency reserve is to absorb excess claims costs in years where the actual claims experience exceeds the projected claims experience. The recommend contingency reserve level as presented to the HSB in January 2019 is found in the Appendix.

The HSB has an established Contingency Reserve Policy which articulates the purpose, use and calculation of the contingency reserves. The SFHSS Trust holds contingency reserves at a 99% confidence interval as established by an external actuary and audited annually by a third party entity.

SFHSS Self-Funded Plans’ Stabilization Policy

In addition, the HSB has a Self-Funded Plans’ Stabilization Policy which establishes that self-funded plans amortize, over three years, any prior plan year underwriting gains or loses into the following years’ premium calculations. The amortization of losses are added into the future rates (buy-up) and conversely, gains are subtracted (buy-down) from future rates. This practice of a three-year amortization of gains and losses helps to smooth the impact of self-funded plan claim experience that deviates from expectations.

Stop Loss Reinsurance—SFHSS-Specific Commentary

As part of BSC's flex-funded product requirements, the Access+ and Trio plans for active employees and early retirees each have an annual $1 million per claimant large claim pooling provision.

In 2019, SFHSS pays BSC a $24.71 per subscriber per month pooling charge which serves as reinsurance protection for participants in the Access+ and Trio plans.

In return, all dollars for claimants exceeding $1 million in a year, beyond that first $1 million per applicable individual, are pooled out of SFHSS-specific claim experience and become the responsibility of BSC.

Stop Loss Reinsurance—Recommendation

As in prior years, Aon's recommends that pursuant to the HSB's Contingency Reserve Policy and Self-Funded Plans' Stabilization Policy, as well as the required large claim pooling as part of Blue Shield's flex-funded product ~~basis~~, provide adequate protection from the risk of unusual large claim experience

Therefore we recommend not purchasing stop loss insurance protection for SFHSS self-funded and flex-funded health care plans.

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Appendix—Contingency Reserves as of June 30, 2018

Contingency reserves, and change from prior levels, are:

		Contingency Reserves			
Self-Funded / Flex-Funded Plan	**Population Covered**	**As of June 30, 2017**	**As of June 30, 2018**	**$ Increase / (Decrease)**	**% Increase / (Decrease)**
Blue Shield of California (BSC) Plans (Access+ and Trio)	Active Employees, Early Retirees	$13,326,881	$14,058,155	$731,274	5.5%
UnitedHealthcare (UHC) City Plan	Active Employees, Early Retirees	$5,555,678	$5,886,198	$330,520	5.9%
Delta Dental of California PPO Plan	Active Employees	$3,086,872	$2,984,855	($102,017)	(3.3%)
All SFHSS Self-Funded / Flex-Funded Plans		$21,969,431	$22,929,208	$959,777	4.4%

The Contingency reserves for the BSC plans, UHC City Plan, and Delta Dental PPO plan are currently fully funded. These reserve figures will be reset as of June 30, 2019, after the close of the current fiscal year