San Francisco Health Service System
Health Service Board

Rates & Benefits

UnitedHealthcare (UHC) City Plan PPO Rate Stabilization Reserve as of December 31, 2018

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Health Plan Reserve Prelude

The Health Service Board (HSB) has three distinct health plan reserve policies, and as such maintains three distinct reserves on each self-funded / flex-funded health plan:

(1) Incurred But Not Reported (IBNR): Actuarial estimate of the unpaid claims liability for run-out claims where services were incurred on or before a given date, but those claims have not yet been paid as of that date; calculated as of June 30 each year for San Francisco Health Service System (SFHSS) plans

(2) Contingency: Statistically determined amount which protects against potential for funding estimate shortfalls which could occur when the actual claims incurred over a plan year would exceed projected claims when developing premium equivalents; calculated as of June 30 each year for SFHSS plans

(3) Rate Stabilization: Annual determination of the financial gain or loss for the self-funded / flex-funded plans (see next page for further explanation); calculated as of December 31 each year for SFHSS plans

Today's Discussion—City Plan Rate Stabilization Reserve

Information on the June 30, 2018 IBNR and Contingency reserves was presented by Aon to the HSB on January 10, 2019.

Today's discussion focuses on the UHC City Plan Rate Stabilization reserve amount that would be applied to the 2020 rates as a buy-up, based on the recommendation by Aon as of December 31, 2018.

The HSB's Self-Funded Plans' Stabilization Policy requires an annual determination of the financial gain or loss over a calendar year for each self-funded health plan. The difference between the expected and actual plan costs for the just-completed plan year is added to the existing stabilization reserve balance, and per policy is amortized over a three-year rating period.

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City Plan Rate Stabilization Reserve Summary

In June 2017, the HSB approved using the entire $4,529,000 City Plan rate stabilization reserve available at that time to buy down 2018 active and early retiree premiums for City Plan in 2018 plan rating. This is the $4,529,000 figure that we show later in this document for expected revenue shortfall in City Plan for the 2018 plan year.

After the 2017 plan year concluded, we determined there was $1,661,000 available in rate stabilization reserve to apply in 2019 rating. In June 2018, the HSB approved using the entire $1,661,000 available to buy down 2019 active and early retiree premiums for City Plan and City Plan—Choice Not Available. This served to lower total premium rates by approximately 4% in 2019, versus if no rate stabilization reserves applied to 2019 City Plan rates.

Further information on City Plan rate stabilization reserve history is presented in the Appendix of this document.

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City Plan Rate Stabilization Reserve Summary

At the beginning of each rates and benefits cycle, the claims experience for the prior calendar year is evaluated. Based on 2018 City Plan claims experience, we project a rate stabilization **deficit** balance of $351,000 to carry into the 2020 plan year and beyond as a buy-up. One-third, or $117,000, would apply for 2020 rating.

This calculation was presented to the HSB in the February 14, 2019 meeting, and is repeated in the Appendix to this document.

The remaining discussion in this document will focus on the allocation of the rate stabilization deficit amount between active employees and early retirees.

February 14 HSB Meeting Follow Up—City Plan

HSB Self-Funded Plans' Stabilization Policy Allocation Commentary

Per the HSB Self-Funded Plans' Stabilization Policy, "allocation of the cumulative revenue excess or shortfall across categories of membership (employees/non-Medicare retirees/Medicare retirees) is proportional and is based on the aggregate of the projected claims costs, administration costs, fully insured premium costs (if applicable), and Contingency Reserve increase/decrease over the plan year in question."

Aon has historically applied this statement to recommend proportional distribution of stabilization reserve surplus/deficit amounts among major population segments (e.g., active employees and early retirees) for self-funded and flex-funded plans, including UHC City Plan.

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February 14 HSB Meeting Follow Up—City Plan

At the February 14, 2019 HSB meeting, the HSB asked Aon for an illustration of how alternative distributions of City Plan rate stabilization deficit would impact projected 2020 health plan contributions for active employees and early retirees. Based on a set of reasonable preliminary health plan rating assumptions, found on the next slide, for the 2020 plan year, we illustrate in following pages the differences in allocation of the rate stabilization deficit amount would have by these scenarios:

(1) The $117,000 rate stabilization deficit be applied all to active employees

(2) The $117,000 rate stabilization deficit be applied proportionately between active employees and early retirees (per Policy)

(3) The $117,000 rate stabilization deficit be applied all to early retirees

February 14 HSB Meeting Follow Up—City Plan

As mentioned in the previous slide, Aon has calculated very preliminary 2020 rating illustrations based on a number of rating assumptions which will be used in the various stabilization scenarios in the potential 2020 plan rating. Assumptions in the illustrations that follow on the next slide include:

- 7% increases (e.g., national trend estimate) to City Plan rates before stabilization amounts are applied, as well as active employee employer contributions (which are based on BSC Access+ plan costs as the “second highest cost plan” for most City Plan enrolled employees);
- Actual 10-County Amount for 2020 plan year ($705.92 monthly); and
- City Plan early retiree family tier cost ratio adjustments for 2020 based on last year’s HSB approved action to migrate these rate ratios over three years to match those for early retirees in BSC plans.

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February 14 HSB Meeting Follow Up—City Plan

Early Illustrative 2020 Rating—Based on Rate Stabilization Application

Comparison of 2019 actual rating, three 2020 illustrative scenarios (based on assumptions outlined prior)—all dollars rounded to nearest dollar monthly for ease of comparison across scenarios

- Active employee example is for 93/93/83 employer contribution formula

	ACTIVE EMPLOYEES (93/93/83 EMPLOYER CONTRIBUTION)			EARLY RETIREES (ALL NON-MEDICARE)		
	EE Only	EE + 1	EE + 2+	Ret Only	Ret + 1	Ret + 2+
Actual 2019 member contribution (monthly)	$266	$465	$885	$203	$707	$1,470
Initial projected 2020 member contribution (monthly)						
▪ All rate stabilization deficit applied to active employees	$341	$608	$1,103	$252	$712	$1,420
▪ Proportional sharing of rate stabilization deficit across groups	$339	$604	$1,096	$251	$712	$1,422
▪ All rate stabilization deficit applied to early retirees	$335	$597	$1,086	$249	$712	$1,425
Change in monthly employee contribution, 2019 to 2020						
▪ All rate stabilization deficit applied to active employees	$75	$143	$218	$49	$5	($50)
▪ Proportional sharing of rate stabilization deficit across groups	$73	$139	$211	$48	$5	($48)
▪ All rate stabilization deficit applied to early retirees	$69	$132	$201	$46	$5	($45)

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February 14 HSB Meeting Follow Up—City Plan

General Observations on Rate Stabilization Dollar Shift by Population

Active Employees:

- More rate stabilization deficit applied to active employees results in higher contributions paid.

Early Retirees:

- More rate stabilization deficit applied to early retirees actually **slightly decreases** the Retiree Only tier member contribution, due to how the Charter formula works for determination of employer contributions for early retirees.
- Impact on early retiree family tiers will vary depending on degree of offset between application of rate stabilization deficits and impact of changing rate ratios between 2019 and 2020 for City Plan early retiree families.
- In the end, the "Actuarial Difference" component of the early retiree employer contribution Charter formula suppresses the degree of the impact of alternative approaches to application of rate stabilization monies in rates.

February 14 HSB Meeting Follow Up—City Plan

As a result of the prior illustration, we recommend the HSB apply the $117,000 rate stabilization deficit portion for 2019 rating proportionately to active employees and early retirees for these reasons:

- The three-scenario illustration demonstrates only small impacts to projected, preliminary 2020 member contributions for City Plan by application scenario;
- As illustrated in our February 14, 2019 City Plan 2018 claim experience presentation, experience from both active employees and early retirees resulted in high loss ratios in 2018; and
- We thus suggest adhering to the Policy provision that states rate stabilization surplus/deficit amounts be shared proportionately among major population segments.

Please note that the $117,000 rate stabilization deficit amount represents about 0.3% of early estimated 2020 plan year rates. We will present actual 2020 City Plan rating recommendations during the May HSB meeting.

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Aon Recommendation

Rate Stabilization Reserve Calculation—City Plan

Stabilization reserve as of December 31, 2017 (surplus carry forward)	$1,661,000
Aon recommended decrease to the reserve based on 2018 experience	($351,000)
Stabilization reserve as of December 31, 2018 (surplus carry forward)	$1,310,000
Less amount applied in 2019 rates per policy	($554,000)
Less increment additionally applied to 2019 rates	($1,107,000)
Estimated value of stabilization reserve as of December 31, 2019	($351,000)
Calculated amount per amortization policy to apply to 2020 rates (33% of stabilization reserve)	($117,000)
Remaining deficit carry forward in stabilization reserve after 2020	($234,000)

Aon recommends per the requirements of the HSB approved claims stabilization policy, that the **deficit** amount of $117,000 be amortized across all rating tiers for the City Plan PPO for plan year 2020, proportionately among active employees and early retirees. The remaining deficit carry forward balance for plan year 2020 and beyond is $234,000.

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Appendix

City Plan PPO Plan Year Reconciliation

#	San Francisco Health Service System January 2018 – December 2018 Plan Reconciliation, Actual vs Expected	Expected	Actual
1	Estimated Incurred Claims Including Vision Premium	$33,200,000	$37,415,000
2	Administrative Expense	$889,000	$956,000
	Affordable Care Act (ACA) Expense (PCORI)	$6,000	$6,000
	Total Expense	$895,000	$962,000
3	Prescription Drug Rebates	($1,044,000)	($1,228,000)
4	Total Cost ((1) + (2) + (3))	$33,051,000	$37,149,000
5	Total Contributions	$28,522,000	$32,600,000
6	Revenue Shortfall / (Surplus)	$4,529,000	$4,549,000
7	Change In Contingency Reserve (Increase To Reserve)		$331,000
8	Total Deficit ((Actual 6) + (Actual 7))		$4,880,000
9	Net To Be Applied When Determining The Stabilization Carry Forward ((Expected 6) – (Actual 8))		($351,000)
10	Aon Recommended Increase / (Decrease) to December 31, 2017 Stabilization Reserve to Calculate December 31, 2018 Amount		($351,000)

City Plan PPO Plan Year Reconciliation

Notes on Specific Exhibit Items:

1) Claim payments for medical, pharmacy and vision services incurred between January 1, 2018 and December 31, 2018.
2) Cost of administering January 2018 – December 2018 claims payments for medical, pharmacy and vision benefits.
   – In 2018, the Affordable Care Act (ACA) expense reflects the Patient Centered Outcomes Research Institute (PCORI) fees paid for UHC City Plan active employees and early retirees.
3) Pharmacy rebates from drug manufacturers.

City Plan PPO Plan Year Reconciliation

Notes on Specific Exhibit Items (continued):

4) Annual premium revenue collected.

5) Difference in cost versus premium revenue collected (budgeted deficit of $4,529,000 for January 2018 – December 2018).

6) A contingency reserve is an explicit reserve held to cover excess losses: *Change equals the difference of the June 30, 2018 reserve and the June 30, 2017 reserve, or $5,886,198 minus $5,555,678.*

7) Difference between expected results and actual results:
This amount is added to existing stabilization reserve and amortized over three years.

8) Based on SFHSS funding policy:
This full amount is to be added to stabilization reserve.

City Plan Rate Stabilization Reserve History

Rate Stabilization Reserve Surplus / (Deficit) as of December 31	
December 31, 2011	($76,000)
December 31, 2012	$7,094,000
December 31, 2013	$22,292,000
December 31, 2014	$25,774,000
December 31, 2015	$11,379,000
December 31, 2016	$4,529,000
December 31, 2017	$1,661,000
December 31, 2018	($351,000)
Surplus / (Deficit) Amount Applied to Rating	
2014 Plan Year	$2,365,000
2015 Plan Year	$7,431,000
2016 Plan Year	$13,991,000
2017 Plan Year	$7,586,000
2018 Plan Year	$4,529,000
2019 Plan Year	$1,661,000
Percentage Buy-Down Applied in Rating	
2014 Plan Year	4% on all groups
2015 Plan Year	14% on all groups
2016 Plan Year	40% actives / 37% early retiree
2017 Plan Year	36% actives / 20% early retiree
2018 Plan Year	20% actives / 5% early retiree
2019 Plan Year	4% on all groups

City Plan's Rate Stabilization reserve built up starting in 2012 as a result of surpluses generated by the UHC Medicare plans—contributing to significant rate suppression for City Plan from 2015 through 2019. However, into 2020 rating, the stabilization position is now in deficit.

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City Plan Rate Stabilization Reserve History

Presented at June 8, 2017 Meeting

- At the February 9, 2017 HSB meeting, the Board was presented with the UnitedHealthcare (UHC) rate stabilization reserve calculation.
- At that time there was a total surplus carry forward of $4,529,000.
- Based on the Health Service System’s Self-Funded Plan’s Stabilization Policy, one-third (1/3) of any surplus or deficit is applied to the following year’s rate projections and the two subsequent years.
- On February 9, 2017, the HSB approved that $1,510,000 (or one-third of $4,529,000) will be applied to the 2018 rate projections leaving a surplus carry forward balance of $3,019,000 to be applied in future years.
- At the June 8, 2017 HSB meeting, the Board elected an additional buy down on 2018 UHC City Plan rates of $3,019,000 (applied to active employees), leaving no projected carry forward surplus balance to apply into 2019-2020 plan year rating.

City Plan Rate Stabilization Reserve History

Presented at June 14, 2018 Meeting

- At the February 8, 2018 HSB meeting, the Board was presented with the UnitedHealthcare (UHC) rate stabilization reserve calculation.
- At that time there was a total surplus carry forward of $1,661,000.
- Based on the Health Service System's Self-Funded Plan's Stabilization Policy, one-third (1/3) of any surplus or deficit is applied to the following year's rate projections and the two subsequent years.
- On February 8, 2018, the HSB approved that $554,000 (or one-third of $1,661,000) will be applied to the 2019 rate projections leaving a surplus carry forward balance of $1,107,000 to be applied in future years.
- At the June 14, 2018 HSB meeting, the Board elected an additional buy down on 2019 UHC rates of $1,107,000 (applied proportionately to active employees and early retirees), leaving no projected carry forward surplus balance to apply into 2020-2021 plan year rating.

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