

San Francisco Health Service System Health Service Board

Rates & Benefits

UnitedHealthcare (UHC) City Plan PPO Rate
Stabilization Reserve as of December 31, 2019

February 13, 2020

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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) self-funded and flex-funded health 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 self-funded and flex-funded health plans.
- (3) Rate Stabilization:** Annual determination of the financial gain or loss for the self-funded and 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, 2019 IBNR and Contingency Reserves was presented by Aon to the HSB on January 9, 2020.

Today's discussion focuses on the UHC PPO City Plan Rate Stabilization Reserve amount that is recommended by Aon as of December 31, 2019.

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.

Recent UHC PPO City Plan Rate Stabilization Actions

For several years through 2019 plan year rating, in an effort to promote long-term sustainability of the City Plan, the Health Service Board (HSB) chose to apply Rate Stabilization funds in full towards City Plan active employee and early retiree rates. This included applying the entire Rate Stabilization Reserve amount available for 2019 plan year rating as a rate buy-down (\$1,661,000) in 2019 rates.

As of December 31, 2018, there was a Rate Stabilization Deficit for UHC PPO City Plan of \$351,000. One-third of this deficit (\$117,000) was applied as a rating buy-up in 2020 UHC PPO City Plan rates.

Further information on both recent Rate Stabilization Fund actions documented above is presented in the Appendix to this document.

City Plan Rate Stabilization Reserve Summary

At the beginning of every rate and benefits cycle, the claims experience for the prior calendar year is evaluated. Based on the 2019 City Plan claims experience, there is a projected Rate Stabilization **Deficit** balance of \$2,233,000 to carry into the 2021 plan year and beyond.

This calculation will be discussed in following pages. We ask the HSB to approve today the use of one-third of this Rate Stabilization **Deficit** amount, or \$744,000, to be applied in 2021 plan year rating for the City Plan and the City Plan—Choice Not Available as a buy-up to rates.

This \$744,000 rating buy-up figure represents approximately 2% of early estimated 2021 plan year rates, over and above health care cost trend that will also incorporate into 2021 City Plan rate calculations. We will present 2021 City Plan rating recommendations during the May 14, 2020 HSB meeting.

City Plan PPO Plan Year Reconciliation

San Francisco Health Service System January 2019 – December 2019 Plan Reconciliation, Actual vs Expected			Expected	Actual
1	Estimated Incurred Claims (Excludes Shared Savings Fee Portion to UHC)		\$35,624,000	\$39,487,000
2	Base Administrative Fee Expense		\$980,000	\$1,004,000
	Plus Shared Savings Program Fees Paid to UHC		\$520,000	\$501,000
	Affordable Care Act (ACA) Expense (PCORI)		\$6,000	\$6,000
	Total Fee Expense		\$1,506,000	\$1,511,000
3	Prescription Drug Rebates		(\$995,000)	(\$1,020,000)
4	Total Cost ((1) + (2) + (3))		\$36,135,000	\$39,978,000
5	Total Contributions		\$34,474,000	\$36,930,000
6	Revenue Shortfall / (Surplus)		\$1,661,000	\$3,048,000
7	Change In Contingency Reserve (Increase To Reserve)			\$612,000
8	Total Deficit ((Actual 6) + (Actual 7))			\$3,660,000
9	Net To Be Applied When Determining The Stabilization Carry Forward ((Expected 6) – (Actual 8))			(\$1,999,000)
10	Aon Recommended Increase / (Decrease) to December 31, 2018 Stabilization Reserve to Calculate December 31, 2019 Amount			(\$1,999,000)

NOTE: Descriptions for items above contained in Appendix to this document

Aon Recommendation

Rate Stabilization Reserve Calculation—UHC PPO City Plan

Stabilization Reserve as of December 31, 2018 (deficit carry forward)	(\$351,000)
Aon recommended decrease to the Reserve from 2019 experience	<u>(\$1,999,000)</u>
Stabilization Reserve as of December 31, 2019 (deficit carry forward)	(\$2,350,000)
Plus Deficit amount applied in 2020 rates per policy	<u>\$117,000</u>
Estimated value of Stabilization Reserve as of December 31, 2020	(\$2,233,000)
Calculated amount per amortization policy to apply to 2021 rates (33% of Stabilization Reserve)	(\$744,000)
Remaining Deficit carry forward in Stabilization Reserve after 2021	(\$1,489,000)

Aon recommends per the requirements of the HSB-approved claims stabilization policy, that the **Deficit** amount of \$744,000 be amortized as a rating buy-up across all rating tiers for the City Plan PPO for plan year 2021. The remaining Deficit carry forward balance for plan year 2021 and beyond is \$1,489,000.

Appendix

Appendix—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 as a buy-down, 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.

Appendix—City Plan Rate Stabilization Reserve History

Presented at June 13, 2019 Meeting

- At the February 14, 2019 HSB meeting, the Board was presented with the UnitedHealthcare (UHC) Rate Stabilization Reserve calculation.
- At that time there was a calculated rate stabilization Deficit of \$351,000 to carry forward into future year rating.
- 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 14, 2019, the HSB approved that \$117,000 of this Deficit (or one-third of \$351,000) will be applied to the 2020 rate projections as a buy-up, leaving a Deficit carry forward balance of \$234,000 to be applied in future years.

Appendix—City Plan PPO Plan Year Reconciliation

Notes on Specific Reconciliation Exhibit Items:

- 1) Claim payments for medical, and pharmacy services incurred between January 1, 2019 and December 31, 2019.
- 2) Cost of administering January 2019 – December 2019 claims payments for medical and pharmacy benefits.
 - In 2019, 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.
 - For this exhibit, we have shown as a separate line item the portion of fees UHC collects for administration of three shared savings programs for SFHSS, where historically these UHC fee portions have been captured in claim totals in (1).
- 3) Pharmacy rebates from drug manufacturers.

Appendix—City Plan PPO Plan Year Reconciliation

Notes on Specific Reconciliation Exhibit Items (continued):

- 4) Annual premium revenue collected.
- 5) Difference in cost versus premium revenue collected (budgeted deficit of \$1,661,000 for January 2019 – December 2019).
- 6) A Contingency Reserve is an explicit reserve held to cover excess losses:
Change equals the difference of the June 30, 2019 Reserve and the June 30, 2018 Reserve, or \$6,497,653 minus \$5,886,198.
- 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.