SAN FRANCISCO
HEALTH SERVICE SYSTEM
Affordable, Quality Benefits & Well-Being

MEMORANDUM

DATE: December 30, 2022

TO: Stephen Follansbee, Chair, and members of the Health Service Board

FROM: Iftikhar Hussain, SFHSS Chief Financial Officer

RE: HSB Governance Terms of Reference and Policies 2023 Summary of Changes

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The Governance Committee met on November 2, 2022, to start the review process and presented recommendations to the full Board on November 10, 2022. The Committee chose four areas to review 1. guidelines to address policy exceptions, 2. Add audit and compliance language, 3. Policy 210 regarding reinsurance ("stop-loss insurance"), and 4. outline a process for accepting legal settlement funds. The Governance Committee met on December 13, 2022, and reviewed, discussed, edited, and approved the proposed changes. The proposed changes were posted on December 30, 2022. The Governance Chair will present the proposed changes to the full Board on January 12, 2023, at the regular Health Service Board meeting for final adoption.

As part of the review of the terms of reference and policies, we are recommending the following changes:

1. Terms of Reference 101
   a. ~~Item 9 under Board governance – added item (f) stating the board must approve exceptions to policies.~~
   b. Item 21 under Organizational Planning and Risk Management – added language to include health plan audits and compliance plans.
2. Policy 210 Contingency Reserve Policy and Methodology
   a. Item 3 under policy objectives – updated to state that the contingency reserve serves the need to purchase external stop loss insurance.
3. Policy 213 – New policy added to cover legal settlements.

The following documents are attached:

1. Letter from Aon Actuarial regarding stop loss insurance needs assessment for SFHSS and HSB

<u>Staff Recommendation:</u> Approve draft language for the Terms of Reference 101 item 21, draft language for Policy 210 item 3, and draft language for a new policy 213: Legal Settlement Policy discussed and edited as a result of this meeting.

San Francisco Health Service System (SFHSS) and Health Service Board (HSB)

Stop Loss Insurance Need Assessment

November 2022

This white paper documents existing risk mitigation techniques in place currently for self-funded and flex funded SFHSS health plans that, in the view of Aon's lead actuary Michael Clarke (the author of this document), leads to the Actuary's recommendation that external stop loss insurance purchase is not prudent for SFHSS health plans.

Current Large Claimant Risk Mitigation Techniques

Fluctuation in SFHSS self-funded and flex funded health plan experience that could occur due to unusual high-cost claimant experience is protected through two reserve policies in place currently:

- Policy #210 – Contingency Reserve Policy; and
- Policy #211 – Rate Stabilization Policy.

The Contingency Reserve Policy requires SFHSS to hold an excess loss reserve to absorb financial strain that could be brought about by adverse claims experience. A Contingency Reserve is funding to cover the risk of claims in excess of the expected claims target. SFHSS holds this reserve at a 99th percentile confidence interval.

The Rate Stabilization Policy applies methodology in rate setting to incorporate the impact of prior year revenue surpluses and shortfalls against projected expense in future self-funded/flex funded plans' premium rate requirements. The purpose of the Rate Stabilization Policy is to even out premium fluctuations that can occur with experience variances year-to-year.

Additionally, Blue Shield of California requires a large claim pooling element to funding of its fee-for-service medical and prescription drug claims within the Access+ and Trio HMO plans—which are, by far, the largest enrolled SFHSS flex funded/self-funded health plans. SFHSS exposure for any individual claimant in a year is capped at $1 million annually—with Blue Shield's large claim pooling taking over to provide reinsurance for amounts per individual annually over $1 million. SFHSS pays a large claim pooling fee each year to Blue Shield in return for the large claim pooling protection. This fee is negotiated between Blue Shield and SFHSS/Aon each year during the annual renewal process.

Stop Loss Insurance Assessment by Flex Funded/Self-Funded Health Plan

Blue Shield HMO Plans

As discussed above, there is a stop loss mechanism in place currently for the Blue Shield Access+ and Trio HMO plans—the required $1 million per individual annually large claim pooling. This is a mandatory feature in Blue Shield flex funded HMO plans. There is also an aggregate not-to-exceed claim liability limit of 125% of expected claims costs (net of large claim pooling reimbursements) that acts as an aggregate stop loss protection to the Access+ and Trio plans. The $1 million level is the highest dollar threshold offered by Blue Shield—and is recommended (versus a lower dollar threshold) to stabilize the pooling fee level charged to SFHSS by Blue Shield for large claim pooling.

Health Net CanopyCare HMO Plan

Health Net does not require individual large claim pooling in their flex funded HMO product but does have the 125% aggregate claim maximum liability protection built into their model. Because over 90% of expected medical plan costs in the Health Net CanopyCare HMO plan are capitated, there is a relatively small fee-for-service claim exposure for medical claims in this plan—and so any stop loss insurance potential would be to protect against very high-cost prescription drug claimants. Because of low enrollment and low claim levels outside of capitation in this plan for SFHSS, it would be very difficult to procure a reasonable stop loss rate in the reinsurance marketplace for this plan. The Aon actuary's view is plan contingency reserves provide adequate risk protection against the rare instance of high-cost claimants that could occur in this plan given the heavy medical emphasis on capitation.

Blue Shield and UnitedHealthcare PPO Plans

The plan that could potentially benefit most from stop loss reinsurance protection is the SFHSS PPO plan (administered by Blue Shield, except for non-Medicare "split family" retiree covered lives administered by UnitedHealthcare). This results from the higher health risk scores evident on average in the PPO plan relative to SFHSS HMO plans, as reported to the HSB each Spring by Rin Coleridge of SFHSS. However, the Aon actuary believes it would be difficult to procure reasonable rates for stop loss protection from the reinsurance marketplace given the high health risk scores for active employee and early retiree covered lives enrolled in the PPO plan—only 3% of overall SFHSS health plan covered lives. From Blue Shield's response to the Fall 2020 SFHSS Non-Medicare RFP, Blue Shield maintains that if Blue Shield Life and Health is not selected as the stop loss carrier and a third-party stop loss vendor is selected, Blue Shield reserves the right to approve or reject any Third Party Stop Loss vendor.

SFHSS and Aon will request a stop loss insurance quotation from Blue Shield as part of diligence during the 2024 plan year renewal request to be released to Blue Shield in late 2022/early 2023, to enable assessment of Blue Shield's quoted rate relative to the assessed large claim risk in the Blue Shield-administered PPO plan (which is the substantial majority of overall covered lives in the SFHSS PPO plan). In absence of plan-provided stop loss insurance, the Aon actuary believes the Contingency Reserve for the PPO plan provides adequate risk protection for unusual PPO plan large claim potential.

Active Employee Delta Dental PPO Plan

The only SFHSS dental plan that is not fully insured is the self-funded active employee Delta Dental PPO Plan. Because dental plan high-claim exposure accrues to the plan member via annual plan limits (versus the employer for medical plans given member out-of-pocket maximums), large claim reinsurance is not needed in self-funded dental PPO plans.