

San Francisco Health Service System Health Service Board

Rates & Benefits

Review and Approve Blue Shield of California (BSC) HMO
and PPO Health Plans 2027 Stabilization Reserve Actions

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BSC Self-Funded PPO and Flex-Funded HMO Health Plans 2027 Stabilization Reserve Actions

Agenda

- Introduction—Health Plan Reserves Background
- Rate Stabilization Recommended Actions by Plan
 - Blue Shield of California (BSC) Flex-Funded HMO Plans
 - BSC Self-Funded Non-Medicare PPO Plan
- Recommendations for HSB Action
- Appendix—Historical View of Rate Stabilization Actions for BSC Self-Funded PPO and Flex-Funded HMO Health Plans, Reconciliation Exhibits Glossary

Recommendations for HSB Action

Self-Funded and Flex-Funded Medical Plans

In congruence with the Stabilization Fund Policy, approve the use of one-third of the December 31, 2025, stabilization fund balances in plan year 2027 plan rates to apply proportionately between active employees and non-Medicare retirees as follows:

1. BSC HMO plans: apply a **Deficit** amount of \$11,519,000 (or one-third of \$34,557,000) towards buy-up of rates across all rating tiers for plan year 2027; and
2. BSC Non-Medicare PPO plan: apply a **Surplus** amount of \$518,000 (or one-third of \$1,554,000) towards buy-down of rates across all rating tiers for plan year 2027.

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Introduction—Health Plan Reserves Background

SFHSS Health Plan Reserves Background

Three Reserves for SFHSS Self-Funded/Flex-Funded Plans

Today's Discussion Focuses on Third Below — Stabilization

- 1) Incurred But Not Reported (IBNR):** Actuarial estimate of the unpaid claim 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 annually as of June 30 (last day of fiscal year)** for SFHSS plans (e.g., as of June 30, 2025, for most recent reserve cycle).
- 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 annually as of June 30 (last day of fiscal year)** for SFHSS plans (e.g., as of June 30, 2025, for most recent reserve cycle).
- 3) Stabilization:** Annual determination of the financial gain or loss for the self-funded/flex-funded plans; **calculated annually as of December 31 (last day of plan year)** for SFHSS plans (e.g., as of December 31, 2025, for today's review of the self-funded and flex-funded health plans stabilization amounts).

SFHSS Health Plan Reserves Background

Recommended June 30, 2025, IBNR and Contingency reserves amounts were approved by the Health Service Board (HSB) on January 8, 2026.

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 and flex-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.

This presentation contains exhibits showing the impact of actual 2025 self-funded and flex-funded plans experience relative to original 2025 plan cost expectations from the Spring 2024 Rates & Benefits cycle—along with the resulting December 31, 2025, rate stabilization fund balances and allocations of these balances into 2026 plan year stabilization rate portions of rate cards.

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BSC Flex-Funded HMO Health Plans

BSC Flex-Funded HMO Health Plans

Rate Stabilization Calculation Introduction

The rate stabilization calculations for 2027 rating are primarily based on 2025 plan experience relative to expectations for the BSC Access+ and Trio plans, combined with deficit carry-forward balance from the plans' December 31, 2024, rate stabilization fund amount.

The experience utilized from the 2025 plan year also includes run-out claims paid in 2025 by UnitedHealthcare (UHC) for services delivered during 2024 for covered lives enrolled as non-Medicare “split family” lives in the UHC Select EPO and UHC Doctors EPO plans. These UHC plans were eliminated with lives transitioning to BSC coverage at the start of 2025.

BSC HMO Plans - 2025 Experience Assessment

Expected Versus Actual

The BSC HMO plans had a carry-forward deficit balance for use in rate stabilization calculations after 2026 of \$17,008,000.

For the 2025 plan year, plan experience exceeded expected amounts that were calculated in Spring 2024 for the 2025 plan year. A stabilization rating buy-up of \$9,027,000 applied for the 2025 plan year (as well as the Sutter Legal Settlement buy-down amount of \$1,916,000) for an overall rating buy-up for these plans of \$7,111,000 for plan year 2025. Now that 2025 experience is known, there was an actual rating shortfall before contingency reserve change adjustment of \$8,923,000. Higher-than-expected claim spend contributed to this outcome.

The expected and actual figures are illustrated on the next page. The contingency reserve amount change reflects the 95th percentile confidence interval figure as of June 30, 2025.

BSC HMO Plans 2025 Plan Year Reconciliation

Active Employees and Non-Medicare Retirees

	Expected	Actual
1 Paid Claims — includes capitation and large claim pooling reimbursements for BSC plans IBNR Increase/(Decrease)		\$410,064,139 <u>\$1,663,743</u>
Total Incurred Claims Spend	\$404,285,197	\$411,727,882
2 Administration Expense — includes BSC Pooling, Legislative Fees	\$18,137,663	\$18,098,439
3 Rx Rebates	<u>(\$29,694,950)</u>	<u>(\$32,476,053)</u>
4 Total Cost (1+2+3)	\$392,727,909	\$397,350,268
5 Total Contributions	<u>\$399,838,588</u>	<u>\$388,427,202</u>
6 Revenue Shortfall/(Surplus) (4-5)	(\$7,110,679)	\$8,923,066
7 Increase/(Decrease) in Contingency Reserve		<u>\$1,515,163</u>
8 Total Shortfall/(Surplus) (Actual column: 6+7)		\$10,438,229
9 Aon Recommended Carry Forward Shortfall/(Surplus) (Actual 8 – Expected 6; rounded to nearest \$000)		<u>\$17,549,000</u>

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

Today's Recommendation—BSC HMO Plans

Rate Stabilization Reserve Calculation

Stabilization deficit balance as of December 31, 2024	\$25,512,000
Offset deficit amount applied in 2026 rate buy-up per policy (1/3)	\$8,504,000
Prior carry-forward stabilization deficit balance	\$17,008,000
Recommended increase to the deficit based on 2025 experience	\$17,549,000
Stabilization deficit balance as of December 31, 2025	\$34,557,000
Calculated amount per amortization policy to apply to 2027 rate buy-up per policy (1/3 of stabilization deficit balance)	\$11,519,000
Updated carry-forward stabilization deficit for use after 2027	\$23,038,000

Today's Recommendation

In congruence with the Stabilization Fund Policy, approve the use of one-third of the December 31, 2025, stabilization reserve **deficit** or \$11,519,000 (one-third of \$34,557,000) be applied towards buy-up of rates across all rating tiers for the BSC HMO plans for plan year 2027, and apply proportionately between active employees and Non-Medicare retirees.

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BSC Self-Funded Non-Medicare PPO Plan

BSC Self-Funded Non-Medicare PPO Plan

Rate Stabilization Calculation Introduction

The rate stabilization calculations for 2027 rating are based on 2025 plan experience relative to expectations for the Non-Medicare PPO Plan, combined with deficit carry-forward balance from the plan's December 31, 2024, rate stabilization fund amount.

The experience utilized from the 2025 plan year also includes run-out claims paid in 2025 by UnitedHealthcare (UHC) for services delivered during 2024 for covered lives enrolled as non-Medicare “split family” lives in the UHC non-Medicare PPO plan. This UHC plan was eliminated with lives transitioning to BSC coverage at the start of 2025.

BSC Non-Medicare PPO Plan - 2025 Experience Assessment

Expected Versus Actual

The Non-Medicare PPO plan had a carry-forward surplus balance for use in rate stabilization calculations after 2026 of \$8,817,000.

For the 2025 plan year, plan experience was substantially higher than expectations, as reviewed during the March 12 HSB meeting. A stabilization rating buy-down of \$2,020,000 applied for the 2025 plan year (as well as the Sutter Legal Settlement buy-down amount of \$312,000) for an overall rating buy-down for this plan of \$2,332,000 for plan year 2025. Plan experience during 2025 has greatly reduced the carry-forward surplus balance from year-end 2024 to year-end 2025.

The expected and actual figures are illustrated on the next page. The contingency reserve amount change reflects the 95th percentile confidence interval figure as of June 30, 2025.

BSC Non-Medicare PPO Plan 2025 Plan Year Reconciliation

Active Employees and Non-Medicare Retirees

	Expected	Actual
1 Paid Claims IBNR Increase/(Decrease)		\$81,314,191 <u>\$778,658</u>
Total Incurred Claims Spend	\$64,180,433	\$82,092,849
2 Administration Expense — includes PCORI Fee	\$1,306,897	\$1,546,203
3 Rx Rebates	<u>(\$3,866,529)</u>	<u>(\$4,879,937)</u>
4 Total Cost (1+2+3)	\$61,620,801	\$78,759,115
5 Total Contributions	<u>\$59,288,842</u>	<u>\$69,390,385</u>
6 Revenue Shortfall/(Surplus) (4-5)	\$2,331,959	\$9,368,730
7 Increase/(Decrease) in Contingency Reserve		<u>\$226,016</u>
8 Total Shortfall/(Surplus) (Actual column: 6+7)		\$9,594,746
9 Aon Recommended Carry Forward Shortfall/(Surplus) (Actual 8 – Expected 6; rounded to nearest \$000)		\$7,263,000

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

Today’s Recommendation—BSC Non-Medicare PPO Plan

Rate Stabilization Reserve Calculation

Stabilization surplus balance as of December 31, 2024	(\$13,226,000)
Offset surplus amount applied in 2026 rate buy-down per policy (1/3)	(\$4,409,000)
Prior carry-forward stabilization surplus balance	(\$8,817,000)
Recommended deficit based on 2025 experience	\$7,263,000
Stabilization surplus balance as of December 31, 2025	(\$1,554,000)
Calculated amount per amortization policy to apply to 2027 rate buy-down per policy (1/3 of stabilization surplus balance)	(\$518,000)
Updated carry-forward stabilization surplus for use after 2027	(\$1,036,000)

Today’s Recommendation

In congruence with the Stabilization Fund Policy, approve the use of one-third of the December 31, 2025, stabilization reserve **surplus** amount of \$518,000 (one-third of \$1,554,000) be applied towards buy-down of rates across all rating tiers for the Non-Medicare PPO Plan (including Choice Not Available) for plan year 2027, and apply proportionately between active employees and non-Medicare retirees.

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Recommendations for HSB Action

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Self-Funded and Flex-Funded Medical Plans

In congruence with the Stabilization Fund Policy, approve the use of one-third of the December 31, 2025, stabilization fund balances in plan year 2027 plan rates to apply proportionately between active employees and non-Medicare retirees as follows:

1. BSC HMO plans: apply a **Deficit** amount of \$11,519,000 (or one-third of \$34,557,000) towards buy-up of rates across all rating tiers for plan year 2027; and
2. BSC Non-Medicare PPO plan: apply a **Surplus** amount of \$518,000 (or one-third of \$1,554,000) towards buy-down of rates across all rating tiers for plan year 2027.

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Appendix

- Historical View of Rate Stabilization Actions for BSC Self-Funded PPO and Flex-Funded HMO Health Plans
- Reconciliation Exhibits Glossary

Rate Stabilization History—BSC HMOs

Column reference --->	B	C	D	E	F	G	H	I	J	K
Year for Rating Application	Starting Point Stabilization Reserve / Deficit Carry Forward as of date	Starting Point Stabilization Reserve / (Deficit) Carry Forward (col K from prior year)	Expected Revenue Surplus / (Shortfall)	Actual Revenue Surplus / (Shortfall) - Item #6 from Stabilization Calc Exhibit	Transfer from (Increase) / Decrease in Contingency Reserve	Increase / (Decrease) to Stabilization Reserve (E+F-D)	Updated Stabilization Reserve / (Deficit) (G+C)	Revised Stabilization Reserve / Deficit as of date	Reserve / (Deficit) Amount Applied in Year for Rating Application	Reserve / (Deficit) Amount Applied to Carry Forward (H-J)
2016	12/31/2013	\$2,053,000	\$0	(\$14,559,000)	(\$949,000)	(\$15,508,000)	(\$13,455,000)	12/31/2014	(\$4,485,000)	(\$8,970,000)
2017	12/31/2014	(\$8,970,000)	(\$8,844,000)	(\$14,536,000)	(\$799,000)	(\$6,491,000)	(\$15,461,000)	12/31/2015	(\$5,154,000)	(\$10,307,000)
2018	12/31/2015	(\$10,307,000)	\$4,485,000	\$4,341,000	(\$183,000)	(\$327,000)	(\$10,634,000)	12/31/2016	(\$3,545,000)	(\$7,089,000)
2019	12/31/2016	(\$7,089,000)	\$5,154,000	\$974,000	\$1,784,000	(\$2,396,000)	(\$9,485,000)	12/31/2017	(\$3,162,000)	(\$6,323,000)
2020	12/31/2017	(\$6,323,000)	\$3,545,000	\$4,912,000	(\$731,000)	\$636,000	(\$5,687,000)	12/31/2018	(\$1,896,000)	(\$3,791,000)
2021	12/31/2018	(\$3,791,000)	\$3,162,000	\$14,559,000	\$80,000	\$11,477,000	\$7,686,000	12/31/2019	\$2,562,000	\$5,124,000
2022	12/31/2019	\$5,124,000	\$1,896,000	\$11,591,000	(\$252,000)	\$9,443,000	\$14,567,000	12/31/2020	\$4,856,000	\$9,711,000
2023	12/31/2020	\$9,711,000	(\$2,562,000)	\$7,046,000	\$456,000	\$10,064,000	\$19,775,000	12/31/2021	\$6,592,000	\$13,183,000
2024	12/31/2021	\$13,183,000	(\$4,856,000)	(\$27,294,000)	(\$822,000)	(\$23,260,000)	(\$10,077,000)	12/31/2022	(\$3,359,000)	(\$6,718,000)
2025	12/31/2022	(\$6,718,000)	(\$6,592,000)	(\$29,434,000)	\$2,479,000	(\$20,363,000)	(\$27,081,000)	12/31/2023	(\$9,027,000)	(\$18,054,000)
2026	12/31/2023	(\$18,054,000)	(\$8,489,000)	(\$15,988,000)	\$41,000	(\$7,458,000)	(\$25,512,000)	12/31/2024	(\$8,504,000)	(\$17,008,000)
2027	12/31/2024	(\$17,008,000)	\$7,111,000	(\$8,923,000)	(\$1,515,000)	(\$17,549,000)	(\$34,557,000)	12/31/2025	(\$11,519,000)	(\$23,038,000)

NOTE: separate from Stabilization Fund Use, the Sutter Legal Settlement buy-down amounts for the BSC HMO/UHC EPO plans are \$11,848,356 in 2024 and \$1,916,321 in 2025.

Rate Stabilization History—Non-Medicare PPO Plan

Column reference --->	B	C	D	E	F	G	H	I	J	K
Year for Rating Application	Starting Point Stabilization Reserve / Deficit Carry Forward as of date	Starting Point Stabilization Reserve / (Deficit) Carry Forward (col K from prior year)	Expected Revenue Surplus / (Shortfall)	Actual Revenue Surplus / (Shortfall) - Item #6 from Stabilization Calc Exhibit	Transfer from (Increase) / Decrease in Contingency Reserve	Increase / (Decrease) to Stabilization Reserve (E+F-D)	Updated Stabilization Reserve / (Deficit) (G+C)	Revised Stabilization Reserve / Deficit as of date	Reserve / (Deficit) Amount Applied in Year for Rating Application	Reserve / (Deficit) Amount Applied to Carry Forward (H-J)
2014	12/31/2011	(\$76,000)	\$966,000	\$8,136,000	\$0	\$7,170,000	\$7,094,000	12/31/2012	\$2,365,000	\$4,729,000
2015	12/31/2012	\$4,729,000	(\$38,000)	\$17,525,000	\$0	\$17,563,000	\$22,292,000	12/31/2013	\$7,431,000	\$14,861,000
2016	12/31/2013	\$14,861,000	(\$2,364,000)	\$7,586,000	\$963,000	\$10,913,000	\$25,774,000	12/31/2014	\$13,991,000	\$11,783,000
2017	12/31/2014	\$11,783,000	(\$7,431,000)	(\$8,016,000)	\$181,000	(\$404,000)	\$11,379,000	12/31/2015	\$7,586,000	\$3,793,000
2018	12/31/2015	\$3,793,000	(\$13,991,000)	(\$13,699,000)	\$444,000	\$736,000	\$4,529,000	12/31/2016	\$4,529,000	\$0
2019	12/31/2016	\$0	(\$7,586,000)	(\$6,064,000)	\$139,000	\$1,661,000	\$1,661,000	12/31/2017	\$1,661,000	\$0
2020	12/31/2017	\$0	(\$4,529,000)	(\$4,549,000)	(\$331,000)	(\$351,000)	(\$351,000)	12/31/2018	(\$117,000)	(\$234,000)
2021	12/31/2018	(\$234,000)	(\$1,661,000)	(\$3,048,000)	(\$612,000)	(\$1,999,000)	(\$2,233,000)	12/31/2019	(\$744,000)	(\$1,489,000)
2022	12/31/2019	(\$1,489,000)	\$117,000	\$1,698,000	\$154,000	\$1,735,000	\$990,000	12/31/2020	\$330,000	\$660,000
2023	12/31/2020	\$660,000	\$744,000	\$138,000	(\$1,264,000)	(\$1,870,000)	(\$1,210,000)	12/31/2021	(\$403,000)	(\$807,000)
2024	12/31/2021	(\$807,000)	(\$330,000)	(\$1,381,000)	(\$380,000)	(\$1,431,000)	(\$2,238,000)	12/31/2022	(\$746,000)	(\$1,492,000)
2025	12/31/2022	(\$1,492,000)	\$403,000	\$5,563,000	\$2,393,000	\$7,553,000	\$6,061,000	12/31/2023	\$2,020,000	\$4,041,000
2026	12/31/2023	\$4,041,000	(\$2,197,000)	\$7,442,000	(\$454,000)	\$9,185,000	\$13,226,000	12/31/2024	\$4,409,000	\$8,817,000
2027	12/31/2024	\$8,817,000	(\$2,332,000)	(\$9,369,000)	(\$226,000)	(\$7,263,000)	\$1,554,000	12/31/2025	\$518,000	\$1,036,000

NOTE: separate from Stabilization Fund Use, the Sutter Legal Settlement buy-down amounts for the Non-Medicare PPO plan are \$2,943,342 in 2024 and \$311,959 in 2025.

Reconciliation Exhibits Glossary

- 1 Estimated Incurred Claims including claim payments for medical, pharmacy, and capitation in January–December 2024.
- 2 Administration Expense — Cost of administering January–December 2025 claims payments for medical and pharmacy, including federal Patient Centered Outcomes Research Institute (PCORI) fee paid by SFHSS for self-funded medical plans.
- 3 Rx Rebates — Rebates from drug manufacturers for active employees and non-Medicare 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.
- 9 Actual shortfall/(surplus) minus expected shortfall/(surplus) — Amount added to existing stabilization balance per HSB policy and amortized over three years.