
City of Boston

PEC Meeting – February 11, 2020

Medical/Rx Rates – Effective July 1, 2020

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Introduction

- The City of Boston retained Segal to review its health benefit renewals and develop working rates for the year beginning July 1, 2020 (FY 2021).
- This report includes an analysis of the plans offered on a fiscal year basis provided by Harvard Pilgrim Health Care (HPHC), AllWays Health Partners, and Blue Cross Blue Shield of Massachusetts (BCBS).
- The City offers the following non-Medicare plans:
 - HPHC HMO Plan
 - AllWays HMO Plan
 - BCBS PPO Plan

Introduction

Composite Rate Increases

- The BCBS PPO is the only plan that offers a national network and the flexibility of an out-of-network benefit.
 - This plan attracts a more costly population (e.g., adverse selection), including non-Medicare retirees that live out-of-state.
- The AllWays HMO has become the low cost plan option and attracts the enrollment of the City's younger, healthier, and less costly employees.
- The higher (BCBS PPO) and lower (AllWays HMO) rates are more a result of the health and demographics of the enrolled population than the actuarial value of the plan design.
- To offset some of this adverse selection, the City began to use composite rate increases, which:
 - involves implementing the same rate increase for all three non-Medicare plans; and
 - maintains the same relationship in the working rates between the plans.
- The City moved in the direction of composite rate increases for the non-Medicare plans effective July 1, 2017.
 - At that time, the AllWays HMO remained fully-insured which made implementing a composite increase for all three non-Medicare plans infeasible.
- The City began using composite rate increases for the non-Medicare plans effective July 1, 2018.

Introduction

Trust Fund

- The Trust was created to fund the payment of claims and expenses for the City’s self-funded health plans.
 - Initially, only the City’s BCBS plans were self-funded. The City’s other non-Medicare health plans have since transitioned to self-funded: HPHC effective July 1, 2012 and AllWays (NHP at the time) effective July 1, 2018.
- Trust Fund reserves are separated into categories:
 - Incurred But Not Reported (IBNR) Reserve = to account for the time lag from when services occur and when the claims are paid.
 - Target Reserve = to protect the health plan from the risk of unexpected unfavorable claims experience. The City’s policy is to maintain reserves equal to 5% to 15% of total expenses.
 - Surplus Reserve = reserve in excess of the IBNR reserve and the target reserve of 10% (mid-point of the City’s policy).
- The Reserve Maintenance Plan’s current objective is to spend down the Surplus Reserves responsibly over time to avoid creating additional rate instability.
 - To spend down the surplus, the City non-Medicare plans’ working rates have been set lower than projected costs.

Historic Rate Changes	7/1/2017*	7/1/2018	7/1/2019	7/1/2020 (Proposed)
Composite Rate Change	8.2%	4.4%	5.1%	7.6%
Composite Rate Change with Surplus Spend	6.4%	2.5%	1.8%	4.6%
Surplus Spend Target	\$6,000,000	\$7,000,000	\$12,000,000	\$11,000,000

* As noted, July 1, 2017 rates were not set on a “pure” composite basis, but are being shown as such for comparison purposes.

Introduction

- The projections in this report are estimates of future costs and are based on information available to Segal at the time the projections were made. Segal has not audited the information provided. Projections are not a guarantee of future results. Actual experience may differ due to, but not limited to, such variables as changes in the regulatory environment (e.g., the Affordable Care Act or other legislation), local market pressure, health trend rates and claims volatility. The accuracy and reliability of health projections decrease as the projection period increases.
- The projections do not reflect the potential impact of any future changes due to health care reform legislation, other than those previously adopted.
- Generally, we suggest plans consider applying a claims fluctuation margin to projected self-funded incurred costs when developing working rates or maintaining a reserve approximately equal to 5% of total projected incurred costs. The City's target reserve levels satisfy this recommendation.
- The projection of the retiree costs takes into account only the dollar value of providing benefits for current retirees during the period referred to in the projection. It does not reflect the present value of any future retiree benefits for active, disabled or terminated employees during a period other than that which is referred to in the projection, nor does it reflect any anticipated increase in the number of those eligible for retiree benefits, or any changes that may occur in the nature of benefits over time.

Trust Fund Reserve Maintenance

Multi-Year Plan

Plan as of January 2020 (\$ presented in millions)

	Actuals - Trust Fund Reports			Projections*					
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
1. Premium Revenue	\$344.93	\$368.27	\$415.42	\$420.05	\$430.50	\$463.95	\$498.17	\$534.52	\$573.21
2. Estimated Interest Revenue	\$0.54	\$1.28	\$2.74	\$1.58	\$1.53	\$1.48	\$1.43	\$1.42	\$1.44
3. Projected Total Expenses (Claims, Premium, + Admin)	-\$337.16	-\$344.73	-\$417.18	-\$426.63	-\$441.54	-\$471.44	-\$503.40	-\$537.53	-\$574.00
4. Targeted Reserve Change**				-\$0.94	-\$1.49	-\$2.99	-\$3.20	-\$3.41	-\$3.65
5. Projected Net Impact on Assets	\$8.31	\$24.82	\$0.98	-\$5.94	-\$11.00	-\$9.00	-\$7.00	-\$5.00	-\$3.00
<u>Catastrophic Claims Reserve</u>									
6. Reserve Assets at Fiscal Year End	\$57.09	\$81.91	\$82.89	\$76.95	\$66.89	\$59.38	\$55.37	\$53.57	\$53.98
7. Targeted Reserve Change**				\$0.94	\$1.49	\$2.99	\$3.20	\$3.41	\$3.65
8. Adjusted Reserve Assets at Fiscal Year End	\$57.09	\$81.91	\$82.89	\$77.89	\$68.38	\$62.37	\$58.57	\$56.98	\$57.63
9. Target Reserve	\$33.72	\$34.47	\$41.72	\$42.66	\$44.15	\$47.14	\$50.34	\$53.75	\$57.40
10. Target Reserve Position: Surplus (Shortfall)	\$23.37	\$47.44	\$41.17	\$35.23	\$24.23	\$15.23	\$8.23	\$3.23	\$0.23

* Includes the fully insured prescription drug component (PDP) of the HPHC Medicare Enhance, BCBS Medex, and Tufts Medicare Supplement Plans.

** Prior to FY 2018, the City was funding the Target Reserve Change with the surplus.

Notes

- (1) Premium Revenue = Estimated to cover projected expenses and steadily decrease reserve to target by FY 2025 without creating significant premium increases
- (2) Estimated Interest Revenue = Assumes interest on average reserve assets based on 3-year historic average
- (3) Projected Total Expenses = Assumes combined 7.0% annual increase
- (4) and (7) Targeted Reserve Change = Adjustment to fund and maintain the Target Reserve equal to 10% of annual Total Expenses
- (5) Net Impact on Assets = Net increase or decrease to Reserve Assets (6)
- (6) Reserve Assets at Fiscal Year End = Total Assets less IBNR and represent previous year's Adjusted Reserve Assets (8) plus the current year's Projected Net Impact on Assets (5)
- (8) Adjusted Reserve Assets at Fiscal Year End = Reserve Assets at Fiscal Year End (6) plus the Targeted Reserve Change (7)
- (9) Target Reserve = Represents the mid-point (10%) of the City's policy is to maintain reserves of 5% to 15% of the annual Projected Total Expense (3)
- (10) Target Reserve Position = Adjusted Reserve Assets at Fiscal Year End (8) less Target Reserve (9)

Goal:
Target Reserve
Position = \$0

Trust Fund Reserve Maintenance

Multi-Year Plan

Projected Composite Rate Impact on Non-Medicare Plans (*\$ presented in millions*)

	Projections					
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
\$11 Million Year 1 Spend (6-Year Plan)						
Required Premium	\$394.11	\$417.59	\$447.11	\$478.70	\$512.50	\$548.66
Reserve Spend	(\$11.00)	(\$9.00)	(\$7.00)	(\$5.00)	(\$3.00)	\$0.00
Premium Revenue	\$383.11	\$408.59	\$440.11	\$473.70	\$509.50	\$548.66
Change in Premium Revenue	4.6%	6.7%	7.7%	7.6%	7.6%	7.7%

Notes:

Based on December 2019 enrollment as reported by the carriers.

Premium Revenue for FY 2020 estimated at \$366.38 million based on current rates and December enrollment.

Required Premium assumes a combined 7.0% annual increase in expenses.

Exhibit reflects the estimated premium rate changes if the surplus is only spent on the non-Medicare plans.

Exhibit reflects estimated savings associated with the FY2021-25 collective bargaining agreement.

FY 2021 Projected Rates

Non-Medicare Plans: 100% Premium Rates

100% MONTHLY PREMIUM

Plan	Coverage Tier	Current Enrollment	FY 2020 Current Rates	FY 2020 Current Plan Ratio	FY 2021					
					Projected Cost		Composite		Composite with \$11 Million Surplus Spend	
					Rates	% Change	Rates	% Change	Rates	% Change
HPHC HMO	Individual	6,622	\$852.67	1.0	\$908.76	6.6%	\$917.20	7.6%	\$891.15	4.6%
	Family	7,786	\$2,294.67		\$2,445.63		\$2,468.34		\$2,399.15	
AllWays HMO	Individual	1,908	\$710.67	0.8	\$703.78	-1.0%	\$764.45		\$742.95	
	Family	1,299	\$1,884.00		\$1,865.75		\$2,026.59		\$1,969.50	
BCBS PPO	Individual	1,189	\$1,309.69	1.5	\$1,635.86	24.9%	\$1,408.82		\$1,369.33	
	Family	513	\$3,232.81		\$4,037.92		\$3,477.49		\$3,380.00	

Notes

- “Composite with \$11 Million Surplus Spend” rates assume \$11 million in Trust Fund surplus will be used to offset rates.
- Plan Ratios are based on the difference between each plan's individual tier rates.
- Subscriber enrollment as of December 2019 as reported by the carriers.
- “Composite with \$11 Million Surplus Spend” rates have been adjusted for the City’s system requirement that the member share be divisible by 13.

FY 2021 Projected Rates

Non-Medicare Plans: Employee/Retiree Premium Share

EMPLOYEE MONTHLY PREMIUM SHARE

Plan	Coverage Tier	Employee Share (%)		FY 2020 Current EE Share	FY 2020 Current Plan Ratio	FY 2021					
		FY 2020	FY 2021			Projected Cost		Composite		Composite with \$11 Million Surplus Spend	
						EE Share	\$ Change	EE Share	\$ Change	EE Share	\$ Change
HPHC HMO	Individual Family	19.5%	20.0%	\$166.27	1.0	\$181.75	\$15.48	\$183.44	\$17.17	\$178.23	\$11.96
				\$447.46		\$489.13	\$41.67	\$493.67	\$46.21	\$479.83	\$32.37
AllWays HMO	Individual Family	19.5%	20.0%	\$138.58	0.8	\$140.76	\$2.18	\$152.89	\$14.31	\$148.59	\$10.01
				\$367.38		\$373.15	\$5.77	\$405.32	\$37.94	\$393.90	\$26.52
BCBS PPO	Individual Family	29.5%	30.0%	\$386.36	2.3	\$490.76	\$104.40	\$422.65	\$36.29	\$410.80	\$24.44
				\$953.68		\$1,211.38	\$257.70	\$1,043.25	\$89.57	\$1,014.00	\$60.32

Notes

- “Composite with \$11 Million Surplus Spend” rates assume \$11 million in Trust Fund surplus will be used to offset rates.
- Plan Ratios are based on the difference between each plan's individual tier rates.
- "Employee Monthly Premium Share" refers to both the employee and retiree shares of the working rate.
- “Composite with \$11 Million Surplus Spend” rates have been adjusted for the City’s system requirement that the member share be divisible by 13.

HPHC HMO Plan

FY 2021 Projected Working Rate Calculation

	Medical	Prescription Drug	Other	Total
Incurring Claims (YE 9/30/19, Paid to 11/30/19)	\$210,110,842	\$47,643,593	\$10,887,522	
Completion Factor ¹	1.0092	1.0000	1.0012	
Estimated Incurred Claims	\$212,045,747	\$47,643,593	\$10,900,213	
High Cost Claimant Adjustment ²	<u>(\$2,500,000)</u>			
Net Estimated Incurred Claims	\$209,545,747	\$47,643,593	\$10,900,213	
Member Months	400,729	400,729	400,729	
Per Member Per Month (PMPM)	\$522.91	\$118.89	\$27.20	
Plan Change Factor ³	0.999	0.960	1.000	
Annual Trend Assumption	7.0%	7.5%	7.0%	
Trend Adjustment	1.126	1.135	1.126	
PMPM Projected Claim Cost	\$587.88	\$129.53	\$30.62	
Assumed Members	33,033	33,033	33,033	
Total Projected Claim Cost	\$233,032,729	\$51,343,773	\$12,137,663	\$296,514,000
Estimated Rebates (City's 100% share) ⁴				(\$10,133,000)
Administrative Base Expense ⁵				\$7,288,000
Other Program Expenses (e.g., Risk Sharing, DM) ⁶				\$3,547,000
Fitness Reimbursement ⁶				\$510,000
MA Pediatric Immunization Program Assessment ^{6,7}				\$993,000
Federal Health Reform (ACA) Fees ⁸				\$81,000
Target Reserve Adjustment ⁹				\$1,914,000
FY 2021 Projected Incurred Expenses				\$300,714,000
Current FY 2020 Working Rate Premium¹⁰				\$282,152,000
FY 2021 Segal Est. Required Rate Change				6.6%

Notes:

1. Adjustment to reflect claims incurred during the experience period ended September 30, 2019 and not paid as of November 30, 2019.
2. Adjustment to remove higher than typical large claimant experience that is estimated to not be reoccurring.
3. Reflects the plan changes negotiated in the PEC agreement effective July 1, 2020. Prescription drug factor also reflects HPHC's estimate for savings from improved PBM contractual pricing terms with OptumRx effective January 1, 2020.
4. Based on estimated rebates through September 2019 and the estimated increase in rebates associated with improved PBM pricing terms with OptumRx as reported by HPHC.
5. Reflects the proposed administrative fee for FY 2021.
6. Based on billing statement amounts through June 2019 as provided by the City. Billing amounts through October were consistent with these amounts. We are reviewing the billing amounts through December 2019 and, if these amounts vary enough to warrant it, will update this estimate.
7. Based on the surcharge on hospital and ambulatory surgical center claims paid by the City and invoiced during March to May 2019.
8. Reflects the estimated PCORI fee.
9. Adjustment to maintain target reserves of 10% of projected total costs.
10. Reflects both the City and employee/retiree share of the working rates and is based on enrollment as of December 2019 as reported by HPHC.

AllWays HMO Plan

FY 2021 Projected Working Rate Calculation

	Medical	Prescription Drug	Total
Incurred Claims (YE 9/30/19, Paid to 11/30/19)	\$29,490,313	\$7,714,638	
Completion Factor ¹	1.0322	1.0000	
Estimated Incurred Claims	\$30,438,980	\$7,714,638	
Member Months	69,248	69,248	
Per Member Per Month (PMPM)	\$439.56	\$111.41	
Plan Change Factor ²	0.999	0.988	
Annual Trend Assumption	7.0%	7.5%	
Trend Adjustment	1.126	1.135	
PMPM Projected Claim Cost	\$494.20	\$124.87	
Assumed Members	5,977	5,977	
Total Projected Claim Cost	\$35,446,264	\$8,956,527	\$44,403,000
Estimated Rebates (City's 100% share) ³			(\$1,751,000)
Administrative Expense ⁴			\$1,995,000
State Assessments (including, Uncompensated Care Pool)			\$245,000
Federal Health Reform (ACA) Fees ⁵			\$15,000
Target Reserve Adjustment ⁶			\$290,000
FY 2021 Projected Incurred Expenses			\$45,197,000
Current FY 2020 Working Rate Premium⁷			\$45,639,000
FY 2021 Segal Est. Required Rate Change			-1.0%

Notes:

1. Adjustment to reflect claims incurred during the experience period ended September 30, 2019 and not paid as of November 30, 2019.
2. Reflects the plan changes negotiated in the PEC agreement effective July 1, 2020.
3. Based on rebates through September 2019 as reported by AllWays.
4. Reflects the proposed PMPM administrative fee for FY 2021.
5. Reflects the estimated PCORI fee.
6. Adjustment to maintain target reserves of 10% of projected total costs.
7. Reflects both the City and employee/retiree share of the working rates and is based on enrollment as of December 2019 as reported by AllWays.

BCBS PPO Plan

FY 2021 Projected Working Rate Calculation

	Medical	Prescription Drug	Total
Incurred Claims (YE 9/30/19, Paid to 11/30/19)	\$34,112,949	\$7,384,589	
Completion Factor ¹	1.0130	1.0000	
Estimated Incurred Claims	\$34,556,417	\$7,384,589	
Member Months	34,521	34,521	
Per Member Per Month (PMPM)	\$1,001.03	\$213.92	
Plan Change Factor ²	0.997	0.983	
Annual Trend Assumption	7.0%	7.5%	
Trend Adjustment	1.126	1.135	
PMPM Projected Claim Cost	\$1,123.07	\$238.62	
Assumed Members	2,869	2,869	
Total Projected Claim Cost	\$38,664,990	\$8,215,331	\$46,880,000
Administrative Expense ³			\$998,000
Federal Health Reform (ACA) Fees ⁴			\$7,000
Target Reserve Adjustment ⁵			\$313,000
FY 2021 Projected Incurred Expenses			\$48,198,000
Current FY 2020 Working Rate Premium⁶			\$38,588,000
FY 2021 Segal Est. Required Rate Change			24.9%

Notes:

1. Adjustment to reflect claims incurred during the experience period ended September 30, 2019 and not paid as of November 30, 2019.
2. Reflects the plan changes negotiated in the PEC agreement effective July 1, 2020.
3. Reflects the proposed administrative fee for FY 2021.
4. Reflects the estimated PCORI fee.
5. Adjustment to maintain target reserves of 10% of projected total costs.
6. Reflects both the City and employee/retiree share of the working rates and is based on enrollment as of December 2019 as reported by BCBS.