

City of Boston

PEC Meeting – February 12, 2019

Medical/Rx Rates – Effective July 1, 2019

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Introduction

- The City of Boston retained Segal Consulting to review its health benefit renewals and develop working rates for the year beginning July 1, 2019 (FY 2020).
- This report includes an analysis of the plans offered on a fiscal year basis provided by Harvard Pilgrim Health Care (HPHC), Blue Cross Blue Shield of Massachusetts (BCBS), and AllWays Health Partners.
- The City offers the following non-Medicare plans:
 - HPHC HMO Plan
 - AllWays HMO Plan
 - BCBS PPO Plan
- BCBS Managed Blue for Seniors is the only Medicare plan offered on a fiscal year basis.
 - Managed Blue for Seniors is a fully insured Medicare HMO that is not based on the City's experience.
 - This rate is increasing 5.1% to \$432.43 effective July 1, 2019.
 - BCBS reports that there are 403 participants enrolled in this plan.
- The City's other Medicare plans are rated on a calendar year basis and are not included in this report.

Introduction

- The projections in this report are estimates of future costs and are based on information available to Segal Consulting at the time the projections were made. Segal Consulting 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.

HPHC HMO Plan

FY 2020 Projected Working Rates

	Medical	Prescription Drug	Other	Total
Incurred Claims (YE 9/30/18, Paid to 11/30/18)	\$197,763,620	\$42,284,262	\$9,860,680	
Completion Factor ¹	1.0083	1.0000	1.0014	
Estimated Incurred Claims	\$199,398,578	\$42,284,262	\$9,874,473	
Member Months	404,958	404,958	404,958	
Per Member Per Month (PMPM)	\$492.39	\$104.42	\$24.38	
Plan Change Factor	1.000	1.000	1.000	
Annual Trend Assumption	7.0%	8.0%	7.0%	
Trend Adjustment	1.126	1.144	1.126	
PMPM Projected Claim Cost	\$554.29	\$119.47	\$27.45	
Assumed Members	33,557	33,557	33,557	
Total Projected Claim Cost	\$223,201,988	\$48,108,822	\$11,053,248	\$282,364,000
Estimated Rebates (City's 100% share) ²				(\$6,172,000)
Administrative Base Expense ³				\$7,366,000
Other Program Expenses (e.g., Risk Sharing, DM) ⁴				\$3,090,000
Fitness Reimbursement ⁴				\$440,000
MA Pediatric Immunization Program Assessment ^{4,5}				\$1,373,000
Target Reserve Adjustment ⁶				\$1,879,000
FY 2020 Projected Incurred Expenses				\$290,340,000
Current FY 2019 Working Rate Premium⁷				\$281,489,000
FY 2020 Segal Est. Required Rate Change				3.1%

Notes:

1. Adjustment to reflect claims incurred during the experience period ended September 30, 2018 and not paid as of November 30, 2018.
2. Based on estimated rebates through December 2018 as reported by HPHC.
3. Reflects the HPHC Standard HMO Plan administrative fee resulting from the RFP process.
4. Based on billing statement amounts through November 2018 as provided by the City.
5. Based on the surcharge on hospital and ambulatory surgical center claims paid by the City and invoiced during August to October 2018.
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 2018 as reported by HPHC.

AllWays HMO Plan

FY 2020 Projected Working Rates

	Medical	Prescription Drug	Other	Total
Incurred Claims (YE 9/30/18, Paid to 11/30/18)	\$26,620,990	\$6,162,768	\$870,552	
Completion Factor ¹	1.0227	1.0000	1.0000	
Estimated Incurred Claims	\$27,225,286	\$6,162,768	\$870,552	
Member Months	63,229	63,229	63,229	
Per Member Per Month (PMPM)	\$430.58	\$97.47	\$13.77	
Plan Change Factor	1.000	1.000	1.000	
Annual Trend Assumption	7.0%	8.0%	7.0%	
Trend Adjustment	1.126	1.144	1.126	
PMPM Projected Claim Cost	\$484.71	\$111.52	\$15.50	
Assumed Members	5,595	5,595	5,595	
Total Projected Claim Cost	\$32,543,112	\$7,487,424	\$1,040,594	\$41,071,000
Estimated Rebates (City's 90% share) ²				(\$1,319,000)
Administrative Expense ³				\$1,679,000
State Assessments (including, Uncompensated Care Pool)				\$551,000
Target Reserve Adjustment ⁴				\$270,000
FY 2020 Projected Incurred Expenses				\$42,252,000
Current FY 2019 Working Rate Premium⁵				\$42,407,000
FY 2020 Segal Est. Required Rate Change				-0.4%

Notes:

1. Adjustment to reflect claims incurred during the experience period ended September 30, 2018 and not paid as of November 30, 2018.
2. Based on rebates through September 2018 as reported by AllWays.
3. Reflects the FY 2020 PMPM administrative fee.
4. Adjustment to maintain target reserves of 10% of projected total costs.
5. Reflects both the City and employee/retiree share of the working rates and is based on enrollment as of December 2018 as reported by AllWays.

BCBS PPO Plan

FY 2020 Projected Working Rates

	Medical	Prescription Drug	Total
Incurred Claims (YE 9/30/18, Paid to 11/30/18)	\$34,797,122	\$7,271,805	
Completion Factor ¹	1.0120	1.0000	
Estimated Incurred Claims	\$35,214,687	\$7,271,805	
Member Months	35,297	35,297	
Per Member Per Month (PMPM)	\$997.67	\$206.02	
Plan Change Factor	1.000	1.000	
Annual Trend Assumption	7.0%	8.0%	
Trend Adjustment	1.126	1.144	
PMPM Projected Claim Cost	\$1,123.07	\$235.72	
Assumed Members	2,906	2,906	
Total Projected Claim Cost	\$39,163,772	\$8,220,020	\$47,384,000
Administrative Expense ²			\$999,000
Target Reserve Adjustment ³			\$318,000
FY 2020 Projected Incurred Expenses			\$48,701,000
Current FY 2019 Working Rate Premium ⁴			\$38,750,000
FY 2020 Segal Est. Required Rate Change			25.7%

Notes:

1. Adjustment to reflect claims incurred during the experience period ended September 30, 2018 and not paid as of November 30, 2018.
2. Reflects the BCBS PPO Plan administrative fee resulting from the RFP process.
3. Adjustment to maintain target reserves of 10% of projected total costs.
4. Reflects both the City and employee/retiree share of the working rates and is based on enrollment as of December 2018 as reported by BCBS.

Trust Fund Reserve Maintenance

Multi-Year Plan

Plan as of January 2019 (\$ presented in millions)

	Actuals - Accounting Statements			Projections*						
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
1. Premium Revenue	\$330.22	\$344.42	\$369.21	\$409.34	\$409.95	\$440.52	\$472.40	\$507.43	\$544.69	\$585.38
2. Estimated Interest Revenue	\$0.24	\$0.54	\$0.34	\$0.43	\$0.44	\$0.40	\$0.36	\$0.32	\$0.30	\$0.29
3. Projected Total Expenses (Claims + Administration)	-\$344.52	-\$337.16	-\$344.73	-\$400.18	-\$420.37	-\$449.05	-\$479.70	-\$512.47	-\$547.49	-\$584.93
4. Targeted Reserve Change**				-\$5.55	-\$2.02	-\$2.87	-\$3.06	-\$3.28	-\$3.50	-\$3.74
5. Projected Net Impact on Assets	-\$14.06	\$7.80	\$24.82	\$4.04	-\$12.00	-\$11.00	-\$10.00	-\$8.00	-\$6.00	-\$3.00
<u>Catastrophic Claims Reserve</u>										
6. Reserve Assets at Fiscal Year End	\$48.78	\$56.58	\$81.40	\$85.44	\$78.99	\$70.01	\$62.88	\$57.94	\$55.22	\$55.72
7. Targeted Reserve Change**				\$5.55	\$2.02	\$2.87	\$3.06	\$3.28	\$3.50	\$3.74
8. Adjusted Reserve Assets at Fiscal Year End	\$48.78	\$56.58	\$81.40	\$90.99	\$81.01	\$72.88	\$65.94	\$61.22	\$58.72	\$59.46
9. Target Reserve	\$34.45	\$33.72	\$34.47	\$40.02	\$42.04	\$44.91	\$47.97	\$51.25	\$54.75	\$58.49
10. Target Reserve Position: Surplus (Shortfall)	\$14.33	\$22.86	\$46.93	\$50.97	\$38.97	\$27.97	\$17.97	\$9.97	\$3.97	\$0.97
11. Estimated Composite Premium Increase Indications					1.8%	7.5%	7.2%	7.4%	7.3%	7.5%

* Excludes the fully insured prescription drug component (PDP) of the 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 0.50% interest on average reserve assets
- (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)
- (11) Estimated Composite Premium Increase = assumes a combined 7% annual cost increase and the premium adjustments to steadily decrease reserves

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 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
\$12 Million Year 1 Spend (7-Year Plan)							
Required Premium	\$381.29	\$407.98	\$436.54	\$467.10	\$499.80	\$534.79	\$572.23
Reserve Spend	(\$12.00)	(\$11.00)	(\$10.00)	(\$8.00)	(\$6.00)	(\$3.00)	\$0.00
Premium Revenue	\$369.29	\$396.98	\$426.54	\$459.10	\$493.80	\$531.79	\$572.23
Change in Premium Revenue	1.8%	7.5%	7.4%	7.6%	7.6%	7.7%	7.6%

Notes:

Based on December 2018 enrollment as reported by the carriers.

Premium Revenue for FY 2019 estimated at \$362.65 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.

Non-Medicare Plans

FY 2020 Projected Working Rates

100% MONTHLY PREMIUM

Plan	Coverage Tier	Current Enrollment	FY 2019 Current Rates	FY 2019 Current Plan Ratio	FY 2020					
					Projected Cost		Composite		Composite with \$12 Million Surplus Spend	
					Rates	% Change	Rates	% Change	Rates	% Change
HPHC HMO	Individual	6,614	\$837.33	1.0	\$863.66	3.1%	\$880.38	5.1%	\$852.67	1.8%
	Family	7,950	\$2,254.00		\$2,324.87		\$2,369.90		\$2,294.67	
AllWays HMO	Individual	1,701	\$698.00	0.8	\$695.45	-0.4%	\$733.89		\$710.67	
	Family	1,268	\$1,850.67		\$1,843.90		\$1,945.83		\$1,884.00	
BCBS PPO	Individual	1,227	\$1,286.34	1.5	\$1,616.67	25.7%	\$1,352.48		\$1,309.69	
	Family	520	\$3,174.64		\$3,989.89		\$3,337.87		\$3,232.81	

EMPLOYEE MONTHLY PREMIUM SHARE

Plan	Coverage Tier	Employee Share (%)	FY 2019 Current EE Share	FY 2019 Current Plan Ratio	FY 2020					
					Projected Cost		Composite		Composite with \$12 Million Surplus Spend	
					EE Share	\$ Change	EE Share	\$ Change	EE Share	\$ Change
HPHC HMO	Individual	19.5%	\$163.28	1.0	\$168.41	\$5.13	\$171.67	\$8.39	\$166.27	\$2.99
	Family		\$439.53		\$453.35	\$13.82	\$462.13	\$22.60	\$447.46	\$7.93
AllWays HMO	Individual	19.5%	\$136.11	0.8	\$135.61	-\$0.50	\$143.11	\$7.00	\$138.58	\$2.47
	Family		\$360.88		\$359.56	-\$1.32	\$379.44	\$18.56	\$367.38	\$6.50
BCBS PPO	Individual	29.5%	\$379.47	2.3	\$476.92	\$97.45	\$398.98	\$19.51	\$386.36	\$6.89
	Family		\$936.52		\$1,177.02	\$240.50	\$984.67	\$48.15	\$953.68	\$17.16

Notes

- "Composite with \$12 Million Surplus Spend" rates assume \$12 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.
- Subscriber enrollment as of December 2018 as reported by the carriers.