

Medical/Rx Rates – Effective July 1, 2016

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Introduction

- The City of Boston retained Segal Consulting to review its health benefits renewals and develop working rates for the year beginning July 1, 2016 (FY 2017).
- This report includes an analysis of the plans offered on a fiscal year basis and are provided by Harvard Pilgrim Health Care (HPHC), Blue Cross Blue Shield of Massachusetts (BCBSMA), and Neighborhood Health Plan (NHP).
- The City offers the following non-Medicare plans:
 - HPHC HMO Plan
 - BCBSMA PPO Plan (*Blue Care Elect*)
 - NHP HMO Plan (*fully-insured*)
- The following Medicare plans are offered on a fiscal year basis:
 - BCBSMA Master Medical Carve Out A&B Plan
 - BCBSMA Managed Blue for Seniors
- The Carve Out A&B Plan is scheduled to be discontinued effective July 1, 2017 per the PEC agreement.
- Manage Blue for Seniors is a fully-insured Medicare HMO that is not based on the City's experience.

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 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 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.

NHP HMO Plan

FY 2017 Fully-Insured Premium Rates

	Renewal Enrollment	Current FY 2016 Rates	Proposed FY 2017 Rates
NHP HMO			
Individual	1,111	\$619.74	\$654.45
Family	1,001	\$1,642.31	\$1,734.29
Estimated Annual Premium		\$27,990,000	\$29,557,000
Change From Current Rates - \$			\$1,567,000
Change From Current Rates - %			5.60%

Notes:

Based on current enrollment as reported by NHP.

HPHC HMO Plan

FY 2017 Projected Working Rates

	Medical	Prescription Drug	Other	Total
Incurred Claims (YE 10/31/15, Paid to 12/31/15) *	\$187,099,702	\$39,248,235	\$3,087,396	
Completion Factor ¹	1.013	1.000	1.007	
Estimated Incurred Claims	\$189,524,402	\$39,248,235	\$3,109,292	
Member Months *	422,140	422,140	422,140	
Per Member Per Month	\$448.96	\$92.97	\$7.37	
Plan Change Factor ²	0.994	1.000	0.994	
Annual Trend Assumption ³	7.0%	13.0%	7.0%	
Trend Adjustment	1.119	1.226	1.119	
PMPM Projected Claim Cost	\$499.54	\$113.98	\$8.20	
Assumed Members	34,799	34,799	34,799	
Projected Claim Cost By Benefit	\$208,602,964	\$47,596,576	\$3,422,290	
Total Projected Claim Cost				\$259,622,000
Estimated Rebates (City's 100% share) ⁴				(\$3,034,000)
Administrative Base Expense ⁵				\$7,033,000
Other Program Expenses (e.g., Risk Sharing, DM) ⁴				\$3,527,000
Fitness Reimbursement ⁴				\$384,000
Federal Health Reform (ACA) Fees ⁶				\$548,000
MA Pediatric Immunization Program Assessment ^{4,7}				\$721,000
FY 2017 Projected Incurred Expenses				\$268,801,000
Current FY 2016 Working Rate Premium⁸				\$251,159,000
FY 2017 Segal Est. Required Rate Change				7.0%

Notes:

* Includes POS Plan claims and enrollment prior to July 1, 2015. This is consistent with the enrollment assumption used in the July 1, 2015 rate calculation.

1. Adjustment to reflect claims incurred during the experience period ended October 31, 2015 and not paid as of December 31, 2015.
2. Reflects adjustment factor for negotiated office visit copayment changes.
3. Reflects a blend of Segal and HPHC trend factors.
4. Based on billing statement amounts through November 30, 2015 as provided by the City.
5. Reflects the HPHC administrative fee effective July 1, 2016.
6. Reflects an estimated PCORI fee of \$2.24 PMPY effective July 1, 2016; and the CY 2016 Transitional Reinsurance fee of \$2.25 PMPM applicable to 6 months of the rating period.
7. Based on the surcharge on hospital and ambulatory surgical center claims incurred during February to April 2015.
8. Reflects both the City and employee/retiree share of the working rates and is based on enrollment as of November 2015 as reported by HPHC.

BCBSMA Carve Out A&B Plan

FY 2017 Projected Working Rates

	Medical	Prescription Drug	Other	Total
Incurred Claims (YE 9/30/15, Paid to 11/30/15)	\$6,806,918	\$14,655,838	\$0	
Completion Factor ¹	1.0166	1.0000	1.0000	
Estimated Incurred Claims	\$6,919,685	\$14,655,838	\$0	
Member Months	49,238	49,238	49,238	
Per Member Per Month (PMPM)	\$140.54	\$297.65	\$0.00	
Plan Change Factor	1.000	1.000	1.000	
Annual Trend Assumption	2.0%	13.0%	2.0%	
Trend Adjustment	1.035	1.238	1.035	
PMPM Projected Claim Cost	\$145.49	\$368.64	\$0.00	
Assumed Members	3,913	3,913	3,913	
Projected Claim Cost By Benefit	\$6,831,677	\$17,309,664	\$0	
Total Projected Claim Cost				\$24,141,000
Administrative Expense ²				\$1,154,000
Federal Health Reform (ACA) Fees ³				\$9,000
FY 2017 Projected Incurred Expenses				\$25,304,000
Current FY 2016 Working Rate Premium⁴				\$23,760,000
FY 2017 Segal Est. Required Rate Change				6.5%

Notes:

1. Adjustment to reflect claims incurred during the experience period ended September 30, 2015 and not paid as of November 30, 2015.
2. Reflects the BCBSMA Carve Out A&B administrative fee effective July 1, 2016.
3. Reflects an estimated PCORI fee of \$2.24 PMPY effective July 1, 2016.
4. Reflects both the City and retiree share of the working rates and is based on enrollment as of November 2015 as reported by BCBSMA.

BCBSMA PPO Plan

FY 2017 Projected Working Rates

	Medical	Prescription Drug	Other ²	Total
Incurred Claims (YE 9/30/15, Paid to 11/30/15)	\$33,953,468	\$7,408,864	\$396,475	
Completion Factor ¹	1.0141	1.0000	1.0000	
Estimated Incurred Claims	\$34,432,033	\$7,408,864	\$396,475	
Member Months	39,996	39,996	39,996	
Per Member Per Month (PMPM)	\$860.89	\$185.24	\$9.91	
Plan Change Factor ³	0.997	1.000	1.000	
Annual Trend Assumption	7.0%	13.0%	7.0%	
Trend Adjustment	1.126	1.238	1.126	
PMPM Projected Claim Cost	\$965.83	\$229.42	\$11.16	
Assumed Members	3,238	3,238	3,238	
Projected Claim Cost By Benefit	\$37,528,327	\$8,914,160	\$433,590	
Total Projected Claim Cost				\$46,876,000
Administrative Expense ⁴				\$1,073,000
Federal Health Reform (ACA) Fees ⁵				\$51,000
FY 2017 Projected Incurred Expenses				\$48,000,000
Current FY 2016 Working Rate Premium⁶				\$35,277,868
FY 2017 Segal Est. Required Rate Change				36.1%

Notes:

* Includes POS Plan claims and enrollment prior to July 1, 2015. This is consistent with the enrollment assumption used in the July 1, 2015 rate calculation.

1. Adjustment to reflect claims incurred during the experience period ended September 30, 2015 and not paid as of November 30, 2015.

2. Includes POS plan capitations, assessments, and rebates not included in base claim amounts. These are assumed to be accounted for in the medical and prescription drug claims under the PPO.

3. Reflects adjustment factor for negotiated office visit copayment changes effective July 1, 2015.

4. Reflects the BCBSMA PPO Plan administrative fee effective July 1, 2016.

5. Reflects an estimated PCORI fee of \$2.24 PMPY effective July 1, 2016; and the CY 2016 Transitional Reinsurance fee of \$2.25 PMPM applicable to 6 months of the rating period.

6. Reflects both the City and employee/retiree share of the working rates and is based on enrollment as of November 2015 as reported by BCBSMA.

Trust Fund Reserve Maintenance

Multi-Year Plan

Plan as of February 1, 2016* (\$ presented in millions)

	Actuals - Accounting Statements			Projections			
	FY 2013**	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
1. Premium Revenue	\$310.05	\$310.97	\$311.24	\$311.08	\$335.01	\$362.67	\$392.26
2. Estimated Interest Revenue	\$0.09	\$0.08	\$0.12	\$0.09	\$0.08	\$0.07	\$0.06
3. Projected Total Expenses (Claims + Administration)	-\$285.22	-\$302.88	-\$323.63	-\$319.41	-\$342.09	-\$367.74	-\$395.32
4. Projected Net Impact on Assets	\$24.92	\$8.17	-\$12.27	-\$8.24	-\$7.00	-\$5.00	-\$3.00
<u>Catastrophic Claims Reserve</u>							
5. Reserve Assets at Fiscal Year End	\$66.99	\$75.16	\$62.89	\$54.65	\$47.65	\$42.65	\$39.65
6. Target Reserve	\$28.52	\$30.29	\$32.36	\$31.94	\$34.21	\$36.77	\$39.53
7. Target Reserve Position: Surplus (Shortfall)	\$38.47	\$44.87	\$30.53	\$22.71	\$13.44	\$5.88	\$0.12
8. Estimated Premium Increase Indications					7.7%	8.3%	8.2%

* HPHC Medicare Enhance experience is included in the actuals, but not included in the projections.

** HPHC HMO & POS Plans changed to self-funded for FY 2013 and the growth of net assets reflects the funding of reserves.

Notes

(1) Premium Revenue = Estimated to cover projected expenses and steadily decrease reserve to target by FY 2019 without creating significant premium increases

(2) Estimated Interest Revenue = Assumes 0.15% interest on average reserve assets

(3) Projected Total Expenses = Assumes 7.5% annual increases

(4) Net Impact on Assets = Net increase or decrease to Reserve Assets (5)

(5) Reserve Assets at Fiscal Year End = Total Assets less IBNR and represent previous year's Reserve Assets plus Projected Net Impact on Assets (4)

(6) Target Reserve = The City's policy is to maintain reserves of 5% to 15% of the annual Total Expense (3). This target represents the mid-point of 10%.

(7) Reserve Position = Reserve Assets at Fiscal Year End (5) less Target Reserve (6)

(8) Estimated Premium Increase = assumes 7.5% annual cost increases and the premium adjustments to steadily decrease reserves

Goal:
Target Reserve
Position = \$0

Trust Fund Reserve Maintenance

FY 2017 PPO Plan Options

- Significant adjustments made to the PPO Plan rates (including the current and prior rates) require that the City focus on this plan when making reserve maintenance adjustments. Historic and anticipated adjustments may lead to greater than expected rate increases in subsequent years.

	Current FY 2016 Rates		Projected FY 2017 Plan Costs		Alt. #1 - \$7 Million Spend		Alt. #2 - \$8 Million Spend		Alt. #3 - \$9.2 Million Spend	
	Current FY 2016 Working Rates	Current FY 2016 Employee Share	Segal Projected FY 2017 Working Rates	Projected Cost FY 2017 Employee Share	Alternative FY 2017 Working Rates	Alternative FY 2017 Employee Share	Alternative FY 2017 Working Rates	Alternative FY 2017 Employee Share	Alternative FY 2017 Working Rates	Alternative FY 2017 Employee Share
PPO Plan (Blue Care Elect)										
Individual	\$1,038.18	\$295.88	\$1,412.58	\$409.65	\$1,206.48	\$349.88	\$1,177.10	\$341.36	\$1,141.79	\$331.12
Family	\$2,561.82	\$730.12	\$3,485.68	\$1,010.85	\$2,977.24	\$863.40	\$2,904.69	\$842.36	\$2,817.52	\$817.08
% Change from Current			36.1%	38.5%	16.2%	18.3%	13.4%	15.4%	10.0%	11.9%
Total Working Rate Premium	\$35,278,000		\$48,000,000		\$41,000,000		\$40,000,000		\$38,800,000	
Projected Reserve Spend					(\$7,000,000)		(\$8,000,000)		(\$9,200,000)	
Projected FY 2020 Reserves*										
Target Reserve					10.0%		10.0%		10.0%	
Projected Reserve Spend					0.0%		0.8%		1.7%	
Projected Total Reserve					10.0%		9.2%		8.3%	

*** Projected FY 2020 Reserves Notes:**

- Assumes expenses increase annually by 7.5%.
- Alternative #1 projects spending down the estimated surplus over 3 years through FY 2019 and no additional reserve spend.
- Alternatives #2 and #3 project spending down the estimated surplus and using additional reserves over 4 years through FY 2020.
- Reserves for Alternative #2 are projected to represent 9.2% (or 0.8% below target) of FY 2020 total expenses for all non-Medicare plans.
- Reserves for Alternative #3 are projected to represent 8.3% (or 1.7% below target) of FY 2020 total expenses for all non-Medicare plans.

Additional Notes:

- Based on November 2015 enrollment of 1,324 individuals and 611 families as reported by BCBSMA.
- FY 2017 reflects the increase in PPO Plan employee/retiree share of premium to 29.0% effective July 1, 2016.