

City of Boston

PEC Meeting – February 18, 2015

Medical/Rx Rates – Effective July 1, 2015

- **Standard HMO Plan** – Harvard Pilgrim Health Care (HPHC)
- **PPO Plan** – Blue Cross Blue Shield of Massachusetts (BCBSMA)
- **Value HMO Plan** – Neighborhood Health Plan (NHP)
- **Carve Out A&B Plan** – Blue Cross Blue Shield of Massachusetts (BCBSMA)

Introduction

- The City of Boston requested Segal Consulting to develop working rates for the year beginning July 1, 2015 (FY 2016).
- The projected rates reflect the collectively bargained plan changes and employee/retiree contribution rate changes effective July 1, 2015, as well as the competitive bids received as a result of the RFP process.
- We anticipate effective July 1, 2015, the following three (3) plans will be offered to actives and non-Medicare retirees:

Plan	Carrier
Standard HMO Plan	Harvard Pilgrim Health Care
PPO Plan	Blue Cross Blue Shield of Massachusetts
Value HMO Plan	Neighborhood Health Plan

- The Carve Out A&B Plan will continue to be offered as a plan option to Medicare retirees through BCBSMA.
- The other Medicare (e.g., Medicare Advantage and Supplemental) plans offered by the City 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 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.

Standard HMO Plan – HPHC

FY 2016 Projected Working Rates

- Projections assume all current HPHC HMO and HPHC POS Plan participants enroll in Standard HMO Plan.

	HPHC HMO			HPHC POS			TOTAL
	Medical	Prescription Drug	Other	Medical	Prescription Drug	Other	
Incurred Claims (YE 10/31/14, Paid to 12/31/14)	\$164,612,010	\$31,521,998	\$2,607,218	\$18,259,797	\$4,564,029	\$288,019	\$221,853,071
Completion Adjustment ¹	<u>\$1,588,274</u>	<u>\$0</u>	<u>\$15,042</u>	<u>\$176,863</u>	<u>\$0</u>	<u>\$1,773</u>	<u>\$1,781,951</u>
Estimated Incurred Claims	\$166,200,284	\$31,521,998	\$2,622,259	\$18,436,660	\$4,564,029	\$289,792	\$223,635,022
Member Months	391,903	391,903	391,903	35,270	35,270	35,270	427,173
Per Member Per Month	\$424.09	\$80.43	\$6.69	\$522.73	\$129.40	\$8.22	\$523.52
Plan Change Factor ²	0.991	1.000	0.991	0.991	1.000	0.991	
Annual Trend Assumption ³	7.0%	9.5%	7.0%	7.0%	9.5%	7.0%	
Trend Adjustment	1.119	1.163	1.119	1.119	1.163	1.119	
PMPM Projected Claim Cost	\$470.44	\$93.57	\$7.42	\$579.87	\$150.53	\$9.11	
Assumed Members	32,378	32,378	32,378	2,962	2,962	2,962	35,340
Projected Claim Cost By Benefit	\$182,783,845	\$36,354,369	\$2,883,910	\$20,610,876	\$5,350,562	\$323,967	\$248,307,529
Total Projected Claim Cost							\$248,307,529
Estimated Rebates (City's 100% share) ⁴							(\$2,416,000)
HPHC Standard HMO Administrative Expense ⁵							\$7,228,000
Other Program Expenses (e.g., Risk Sharing, DM) ⁴							\$1,999,000
Fitness Reimbursement ⁴							\$354,000
Federal Health Reform (ACA) Fees ⁶							\$1,330,000
MA Pediatric Immunization Program Assessment ^{4,7}							\$565,000
FY 2016 Projected Incurred Expenses							\$257,367,529
Current FY 2015 Working Rate Premium⁸							\$237,588,000
FY 2016 Segal Est. Required Rate Change							8.3%

Notes:

1. Adjustment to reflect claims incurred during the experience period ended October 31, 2014 and not paid as of December 31, 2014.
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 December 31, 2014 as provided by the City.
5. Reflects the HPHC Standard HMO Plan fee resulting from the RFP process.
6. Reflects an estimated PCORI fee of \$2.14 PMPY effective July 1, 2015; and Transitional Reinsurance fees of \$3.67 PMPM for CY 2015 and \$2.25 PMPM for CY 2016.
7. Based on the surcharge on hospital and ambulatory surgical center claims incurred during February, March, and April 2014 and paid by the City in August 2014.
8. Reflects both the City and employees' share of the current HPHC HMO Plan working rates and is based on enrollment as of December 2014 as reported by HPHC.

PPO Plan – BCBSMA

FY 2016 Projected Working Rates

- Projections assume all current Blue Care Elect PPO and Blue Choice POS participants enroll in the PPO Plan

	Medical		Prescription Drug
	Blue Choice POS	Blue Care Elect PPO	All Plans
Incurred Claims (YE 10/31/14, Paid to 12/31/14)	\$11,639,592	\$20,179,105	\$7,115,176
Completion Factor ¹	1.0090	1.0114	1.0000
Incurred Claims	\$11,744,146	\$20,408,480	\$7,115,176
Other Claim Based Costs ²	<u>\$630,604</u>	<u>\$0</u>	<u>\$0</u>
Total Claim Cost	\$12,374,750	\$20,408,480	\$7,115,176
Member Months	21,215	21,512	42,727
Per Member Per Month (PMPM)	\$583.30	\$948.70	\$166.53
Plan Change Factor ³	0.991	0.998	1.000
Annual Trend Assumption	7.0%	7.0%	9.5%
Trend Adjustment	1.119	1.119	1.163
Adjusted PMPM Claim Cost	\$647.06	\$1,059.50	\$193.72
Assumed Members	1,702	1,690	
Composite PMPM Medical Claim Cost		\$852.55	
			Combined Costs
Total PMPM Medical/Rx Claim Cost			\$1,046.27
BCBSMA PPO Plan Administrative Fee PMPM ⁴			\$27.87
Federal Health Reform (ACA) Fees ⁵			\$3.14
FY 2016 Projected Total Incurred Costs			
Per Member Per Month			\$1,077.28
Per Employee Per Month (PEPM)			\$1,797.10
Individual Rate Conversion Factor ⁶			0.684
Individual Rate			\$1,228.62
Family Rate			\$3,031.76

Composite Required Rate Change

Blue Choice POS	Blue Care Elect PPO
43.1%	8.6%
Combined 22.7%	

Notes:

1. Adjustment to reflect claims incurred during the experience period ended October 31, 2014 and not paid as of December 31, 2014.
2. Includes capitations, assessments, and rebates not included in base claim amounts.
3. Reflects adjustment factor for negotiated office visit copayment changes.
4. Reflects the Blue Cross Blue Shield of MA PPO Plan administrative fee resulting from the RFP process and presented on a PMPM basis.
5. Reflects an estimated PCORI fee of \$2.14 PMPY effective July 1, 2015; and Transitional Reinsurance fees of \$3.67 PMPM for CY 2015 and \$2.25 PMPM for CY 2016.
6. Adjustment to convert per employee per month (PEPM) costs to a premium rate for an individual.

Carve Out A&B Plan – BCBSMA

FY 2016 Projected Working Rates

	Carve Out A&B	
	Medical	Prescription Drug
Incurred Claims (YE 10/31/14, Paid to 12/31/14)	\$7,297,670	\$14,603,517
Completion Factor	1.0168	1.0000
Incurred Claims	\$7,420,226	\$14,603,517
Member Months	52,290	52,290
Per Member Per Month	\$141.91	\$279.28
Plan Change Factor	1.000	1.000
Annual Trend	6.0%	9.5%
Trend Adjustment	1.102	1.163
Adjusted PMPM Claim Cost	\$156.38	\$324.88
Total PMPM Medical/Rx Claim Cost		\$481.26
BCBSMA Administrative Fee PMPM ¹		\$24.57
Federal Health Reform (ACA) Fees ²		\$0.18
FY 2016 Projected Incurred Costs		
Total PMPM Projected Incurred Costs		\$506.01
Assumed Members		4,219
Projected FY 2016 Projected Incurred Costs		\$25,618,000
Current FY 2015 Rates		\$22,095,000
FY 2016 Segal Est. Required Rate Change		15.9%

Notes:

1. Reflects the Blue Cross Blue Shield of MA proposed administrative fee effective July 1, 2015 presented on a PMPM basis.
2. Reflects an assumed Comparative Effectiveness Research fee of \$2.14 PMPY effective July 1, 2015.

Rate Change History

- Rate change history based on 100% of the working rate or fully-insured premium rate (*i.e.*, include both the City and employee/retiree shares).

Harvard Pilgrim Health Care Plans									
Plan	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
HPHC HMO	10.0%	9.7%	7.0%	8.0%	9.5%	7.3%	-1.2%	3.0%	-2.1%
HPHC POS									1.6%

Blue Cross Blue Shield of MA Plans *									
Plan	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Blue Choice	26.4%	8.6%	-3.8%	2.7%	1.6%	6.8%	0.0%	0.0%	7.4%
Blue Care Elect	N/A	N/A	-2.6%						
Carve Out A&B	5.0%	3.6%	-7.0%	0.0%	7.8%	0.0%	0.0%	-2.5%	0.0%

* BCBSMA rate changes since FY 2009 reflected for the City's reserve maintenance plan that included adjustments to spend down reserves. Rate changes would have been greater in the absence of these adjustments.

Neighborhood Health Plan									
Plan	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
NHP HMO	20.3%	15.0%	7.0%	6.8%	7.8%	4.3%	-4.2%	-0.8%	1.6%

Trust Fund Reserve Maintenance

Multi-Year Plan

Plan as of February 17, 2015* (\$ 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	\$297.97	\$318.74	\$343.13	\$369.12	\$397.31
2. Estimated Interest Revenue	\$0.09	\$0.08	\$0.11	\$0.09	\$0.08	\$0.07	\$0.07
3. Projected Total Expenses (Claims + Administration)	-\$285.22	-\$302.88	-\$307.62	-\$326.83	-\$349.71	-\$374.19	-\$400.38
4. Projected Net Impact on Assets	\$24.92	\$8.17	-\$9.54	-\$8.00	-\$6.50	-\$5.00	-\$3.00
<u>Catastrophic Claims Reserve</u>							
5. Reserve Assets at Fiscal Year End	\$66.99	\$75.17	\$65.63	\$57.63	\$51.13	\$46.13	\$43.13
6. Target Reserve	\$30.29	\$30.76	\$32.68	\$34.97	\$37.42	\$40.04	\$42.84
7. Target Reserve Position: Surplus (Shortfall)	\$36.70	\$44.41	\$32.95	\$22.66	\$13.71	\$6.09	\$0.29
8. Estimated Premium Increase Indications					7.7%	7.6%	7.6%

* Exhibit does not include HPHC Medicare Enhance experience.

** 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 7.0% 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 next year's Projected 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 7.0% annual cost increases and the premium adjustments to steadily decrease reserves

Goal:
Target Reserve
Position = \$0

Trust Fund Reserve Maintenance

FY 2016 Options

- Options #1 and #2 are projected to spend down the targeted \$8 million in reserves.

Plan Name	Carrier	Assumed Enrollment	Projected Aggregate Working Rates	OPTION #1		OPTION #2	
				Percent (%) Working Rate Adjustment	Dollar (\$) Working Rate Adjustment	Percent (%) Working Rate Adjustment	Dollar (\$) Working Rate Adjustment
Standard HMO Plan	HPHC	15,464	\$257,364,000	0.0%	\$0	-0.5%	(\$1,287,000)
PPO Plan	BCBSMA	2,045	\$43,847,000	-18.0%	(\$7,892,000)	-15.5%	(\$6,796,000)
Carve Out A&B Plan	BCBSMA	<u>4,219</u>	\$25,618,000	0.0%	<u>\$0</u>	0.0%	<u>\$0</u>
		21,728			(\$7,892,000)		(\$8,083,000)

Enrollment Notes:

Based on December 2014 enrollment as reported by the health plans.

Assumes all current Blue Choice POS Plan participants enroll in the PPO Plan.

Assumes all current HPHC POS Plan participants enroll in Standard HMO Plan.

Additional Note: The significant adjustments to the PPO Plan rates will require that the City focus on this plan when making reserve maintenance adjustments in the future. These adjustments may lead to greater than expected rate increases in subsequent years.

FY 2016 Rate Summary Exhibit

Rates & Employee/Retiree Shares

➤ Working rates & employee/retiree shares presented on monthly basis

Current Plan	Current Enrollment	Current FY 2015 Rates		Projected FY 2016 Costs		Reserve Maintenance - OPTION #1			Reserve Maintenance - OPTION #2		
		Full (100%) Working Rate	Employee/Retiree Share	New Plan Assumed	Full (100%) Working Rate	Adjusted Full (100%) Working Rate	Employee/Retiree Share	Change in Employee/Retiree Share	Adjusted Full (100%) Working Rate	Employee/Retiree Share	Change in Employee/Retiree Share
HPHC HMO			17.5%				18.5%			18.5%	
Individual	6,296	\$668.67	\$117.08	Standard HMO	\$724.32	\$724.32	\$134.00	\$16.92	\$720.65	\$133.32	\$16.24
Family	7,725	\$1,798.61	\$314.72		\$1,948.32	\$1,948.32	\$360.44	\$45.72	\$1,938.59	\$358.64	\$43.92
HPHC POS			22.5%				18.5%			18.5%	
Individual	797	\$739.89	\$166.44	Standard HMO	\$724.32	\$724.32	\$134.00	(\$32.44)	\$720.65	\$133.32	(\$33.12)
Family	646	\$1,990.27	\$447.80		\$1,948.32	\$1,948.32	\$360.44	(\$87.36)	\$1,938.59	\$358.64	(\$89.16)
Blue Choice			27.5%				28.5%			28.5%	
Individual	523	\$834.80	\$229.56	PPO	\$1,228.62	\$1,007.44	\$287.12	\$57.56	\$1,038.18	\$295.88	\$66.32
Family	361	\$2,153.79	\$592.28		\$3,031.76	\$2,486.04	\$708.52	\$116.24	\$2,561.82	\$730.12	\$137.84
Blue Care Elect			27.5%				28.5%			28.5%	
Individual	889	\$1,160.98	\$319.24	PPO	\$1,228.62	\$1,007.44	\$287.12	(\$32.12)	\$1,038.18	\$295.88	(\$23.36)
Family	272	\$2,693.48	\$740.68		\$3,031.76	\$2,486.04	\$708.52	(\$32.16)	\$2,561.82	\$730.12	(\$10.56)
NHP HMO			17.5%				18.5%			18.5%	
Individual	1,022	\$609.08	\$106.56	Value HMO	\$619.68	\$619.68	\$114.64	\$8.08	\$619.68	\$114.64	\$8.08
Family	976	\$1,614.06	\$282.44		\$1,642.38	\$1,642.38	\$303.84	\$21.40	\$1,642.38	\$303.84	\$21.40
Carve Out A&B			25.0%				26.0%			26.0%	
Individual	4,219	\$436.41	\$109.08	Carve Out A&B	\$506.00	\$506.00	\$131.56	\$22.48	\$506.00	\$131.56	\$22.48

Enrollment Notes:

Current Enrollment reflects December 2014 enrollment as reported by HPHC and BCBSMA and October 2014 enrollment as reported by NHP.

Assumes all current Blue Choice POS Plan participants enroll in the PPO Plan.

Assumes all current HPHC POS Plan participants enroll in Standard HMO Plan.

Reserve Maintenance Notes:

Option #1 and Option #2 reflect an \$8 million target reserve spend.

Value HMO Plan – NHP

FY 2016 Fully-Insured Premium Rates

	Renewal Enrollment	Current FY 2015 Rates	RFP Proposed FY 2016 Rates	Final FY 2016 Rates
HMO Plan				
Individual	1,022	\$609.08	\$620.34	\$619.68
Family	976	\$1,614.06	\$1,643.90	\$1,642.38
Estimated Annual Premium		\$26,374,000	\$26,861,000	\$26,835,000
Change From Current Rates - \$			\$487,000	\$461,000
Change From Current Rates - %			1.85%	1.75%

Notes:

Based on October 2014 enrollment as reported by NHP.