

# City of Boston

*PEC Meeting – February 8, 2022*

## **Non-Medicare Plans Medical/Rx Rates – Effective July 1, 2022**

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# Introduction

## *Non-Medicare Plans and Changes*

- The City of Boston retained Segal to review its health benefit renewals and develop non-Medicare plan working rates for the year beginning July 1, 2022 (FY 2023).
- The City offers the following non-Medicare plans:
  - BCBS Standard HMO Plan
  - AllWays Value HMO Plan
  - BCBS PPO Plan
- The PEC Agreement includes a 1% increase in the employee/retiree share of the premium effective July 1, 2022 as follows:
  - The HMO plans are increasing to 21.5% of the working rate premium
  - The PPO plan is increasing to 31.5% of the working rate premium
- The 1.0% increase in the employee/retiree premium share accounts for a significant portion of the proposed increases in the employee/retiree rates.

# Introduction

## *Rating Approach*

### **History**

- Historically, the working rates for each plan were heavily influenced by the actual claims experience of the individuals enrolled in each plan.
  - As the PPO is the only option for out of area retirees, rates for this plan were higher than the relative value of the PPO plan in relation to the HMO plans.
- To offset some of this adverse selection, the City moved in the direction of composite rate increases for July 1, 2017 (AllWays HMO was fully insured) and began using composite rate increases effective July 1, 2018.
- While the City's decision to employ composite rate increases helped mitigate the growth of this excess rate differential, the issue still remained.
- Last year, the rates effective July 1, 2021 were realigned to reflect more closely the differences between the plan designs of the three plans, as opposed to the actual claims experience of the City members in each plan.

### **Proposed July 1, 2022 Rates**

- Using the composite rate increase, the proposed rates will maintain the relative values to each other determined last year.

# Introduction

## Trust Fund

- The Trust was created to fund the payment of claims and expenses for the City’s self-funded health plans.
- 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 working rates have been set lower than projected costs.

Historic Rate Changes	7/1/2017 *	7/1/2018	7/1/2019	7/1/2020	7/1/2021	7/1/2022
Composite Rate Change	8.2%	4.4%	5.1%	7.6%	3.0%	9.3%
Surplus Spend Target	\$6,000,000	\$7,000,000	\$12,000,000	\$11,000,000	\$14,000,000	\$15,000,000
Composite Rate Change with Surplus Spend	6.4%	2.5%	1.8%	4.6%	BCBS Std HMO: 0.7% AllWays Value HMO: 1.5% BCBS PPO: -14% Composite: -0.7% **	5.2%

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

\*\* As noted, the rate changes varied by plan. The composite change is being shown for comparison purposes. The lower than typical July 1, 2021 rate change was due in part to the estimated savings from the PEC Agreement’s plan changes.

# Introduction

## *Important Notes*

- 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.
- The Coronavirus (COVID-19) pandemic continues to evolve and will likely continue to impact the US economy and health plan claim projections for most Health Plan Sponsors. As a result, projections could be significantly altered by emerging events. At this point, the full impact on Health Plan claim costs are uncertain. Unless specifically noted, this current report does not include any adjustments such as changes in eligibility, income, increases in healthcare costs or decreased investment returns. Additionally, the potential for federal or state fiscal relief is also not contemplated in these budget projections. Given the high level of uncertainty and fluidity of the current events, some plans may seek periodic updated estimates throughout the year to closely monitor health plan budget projections.
- Due to continued uncertainty with the COVID-19 pandemic, the City may want to consider maintaining greater reserves than typically targeted.

# Trust Fund Reserve Maintenance

## Multi-Year Plan – All Plans in the Trust

Plan as of January 2022 (\$ presented in millions)

	Actuals - Trust Fund Reports			Projections*						
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
1. Premium Revenue	\$415.42	\$414.73	\$427.57	\$421.35	\$441.89	\$475.99	\$511.93	\$550.06	\$590.53	\$632.53
2. Estimated Interest Revenue	\$2.74	\$1.51	\$0.77	\$1.08	\$1.04	\$0.99	\$0.93	\$0.91	\$0.92	\$0.95
3. Projected Total Expenses (Claims, Premium, Admin)	-\$417.18	-\$396.42	-\$434.91	-\$429.30	-\$455.33	-\$485.92	-\$518.59	-\$553.48	-\$590.73	-\$630.50
4. Targeted Reserve Change				\$0.56	-\$2.60	-\$3.06	-\$3.27	-\$3.49	-\$3.72	-\$3.98
<b>5. Projected Net Impact on Assets</b>	<b>\$0.98</b>	<b>\$19.82</b>	<b>-\$6.57</b>	<b>-\$6.31</b>	<b>-\$15.00</b>	<b>-\$12.00</b>	<b>-\$9.00</b>	<b>-\$6.00</b>	<b>-\$3.00</b>	<b>-\$1.00</b>
<u>Catastrophic Claims Reserve</u>										
6. Reserve Assets at Fiscal Year End	\$82.89	\$102.71	\$96.14	\$89.83	\$74.27	\$64.87	\$58.93	\$56.20	\$56.69	\$59.41
7. Targeted Reserve Change				-\$0.56	\$2.60	\$3.06	\$3.27	\$3.49	\$3.72	\$3.98
8. Adjusted Reserve Assets at Fiscal Year End	\$82.89	\$102.71	\$96.14	\$89.27	\$76.87	\$67.93	\$62.20	\$59.69	\$60.41	\$63.39
9. Target Reserve	\$41.72	\$39.64	\$43.49	\$42.93	\$45.53	\$48.59	\$51.86	\$55.35	\$59.07	\$63.05
<b>10. Target Reserve Position: Surplus (Shortfall)</b>	<b>\$41.17</b>	<b>\$63.07</b>	<b>\$52.65</b>	<b>\$46.34</b>	<b>\$31.34</b>	<b>\$19.34</b>	<b>\$10.34</b>	<b>\$4.34</b>	<b>\$1.34</b>	<b>\$0.34</b>
11. Estimated Composite Premium Increase Indications					4.9%	7.7%	7.6%	7.4%	7.4%	7.1%

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

### Notes

- (1) Premium Revenue = Estimated to cover projected expenses and steadily decrease reserve to target by FY 2028 without creating significant premium increases
- (2) Estimated Interest Revenue = Assumes interest on average reserve assets based on 2-year historic results to remove influence of the spike in FY 2019
- (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 – Non-Medicare Plans (Excludes Medicare Plans)*

### Projected Rate Impact on Non-Medicare Plans

*(\$ presented in millions)*

	Projections						
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Required Premium	\$407.82	\$436.37	\$466.92	\$499.60	\$534.57	\$571.99	\$612.03
<b>Reserve Spend</b>	<b>-\$15.00</b>	<b>-\$12.00</b>	<b>-\$9.00</b>	<b>-\$6.00</b>	<b>-\$3.00</b>	<b>-\$1.00</b>	<b>\$0.00</b>
Premium Revenue	\$392.82	\$424.37	\$457.92	\$493.60	\$531.57	\$570.99	\$612.03
Change in Premium Revenue	5.3%	8.0%	7.9%	7.8%	7.7%	7.4%	7.2%

Notes:

Based on December 2021 enrollment as reported by the carriers.

Non-Medicare Premium Revenue for FY 2022 estimated at \$373.19 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 2023 Projected Working Rates

## 100% Premium Rates

### 100% MONTHLY PREMIUM

Plan	Coverage Tier	Current Enrollment	FY 2022 Current Rates	FY 2022 Current Plan Ratio	FY 2023					
					Projected Cost		Composite		Composite with \$15 Million Surplus Spend	
					Rates	% Change	Rates	% Change	Rates	% Change
BCBS Standard HMO	Individual	6,215	\$908.73	1.00	\$972.83	7.1%	\$993.05	9.3%	\$955.95	5.2%
	Family	7,445	\$2,407.85		\$2,577.69		\$2,631.28		\$2,534.09	
AllWays Value HMO	Individual	2,260	\$754.00	0.83	\$761.53	1.0%	\$823.96	9.3%	\$793.30	5.2%
	Family	1,455	\$1,998.83		\$2,018.80		\$2,184.30		\$2,103.58	
BCBS PPO	Individual	1,194	\$1,135.90	1.25	\$1,594.86	40.4%	\$1,241.30	9.3%	\$1,195.59	5.2%
	Family	517	\$3,010.03		\$4,226.22		\$3,289.33		\$3,168.29	

### Notes

- “Proposed Rates with \$15 Million Surplus Spend” assume \$15 million in Trust Fund surplus will be used to offset rates.
- Subscriber enrollment as of December 2021 as reported by the carriers.
- Proposed rates have been adjusted for the City’s system requirement that the member share be divisible by 13.

# FY 2023 Projected Working Rates

## *Employee/Retiree Premium Share*

### EMPLOYEE MONTHLY PREMIUM SHARE

Plan	Coverage Tier	Employee Share (%)		FY 2022 Current EE Share	FY 2022 Current Plan Ratio	FY 2023					
		FY 2022	FY 2023			Projected Cost		Composite		Composite with \$15 Million Surplus Spend	
						EE Share	\$ Change	EE Share	\$ Change	EE Share	\$ Change
BCBS Standard HMO	Individual Family	20.5%	21.5%	\$186.29 \$493.61	1.00	\$209.16	\$22.87	\$213.51	\$27.22	\$205.53	\$19.24
						\$554.20	\$60.59	\$565.73	\$72.12	\$544.83	\$51.22
AllWays Value HMO	Individual Family	20.5%	21.5%	\$154.57 \$409.76	0.83	\$163.73	\$9.16	\$177.15	\$22.58	\$170.56	\$15.99
						\$434.04	\$24.28	\$469.62	\$59.86	\$452.27	\$42.51
BCBS PPO	Individual Family	30.5%	31.5%	\$346.45 \$918.06	1.86	\$502.38	\$155.93	\$391.01	\$44.56	\$376.61	\$30.16
						\$1,331.26	\$413.20	\$1,036.14	\$118.08	\$998.01	\$79.95

#### Notes

- "Proposed Rates with \$15 Million Surplus Spend" assume \$15 million in Trust Fund surplus will be used to offset rates.
- "Employee Monthly Premium Share" refers to both the employee and retiree shares of the working rate.
- Proposed rates have been adjusted for the City's system requirement that the member share be divisible by 13.

# FY 2023 Projected Working Rates

## *Employee/Retiree Premium Share Breakdown*

- The below exhibit breaks down the monthly employee share change into the contributing factors:
  - PEC agreement employee share increase
  - Cost change
  - Surplus spend

Plan	Coverage Tier	Current Enrollment	Proposed Employee Monthly Rate Change Breakdown			
			PEC Agreement Increase in Ee Share*	Cost Change Component*	Surplus Spend	Total Change
BCBS Standard HMO	Individual	6,215	\$9.93	\$17.29	-\$7.98	\$19.24
	Family	7,445	\$26.31	\$45.80	-\$20.89	\$51.22
AllWays Value HMO	Individual	2,260	\$8.24	\$14.34	-\$6.59	\$15.99
	Family	1,455	\$21.84	\$38.02	-\$17.35	\$42.51
BCBS PPO	Individual	1,194	\$12.41	\$32.15	-\$14.40	\$30.16
	Family	517	\$32.89	\$85.19	-\$38.13	\$79.95

\* Based on projected composite rate change

# FY 2023 Projected Working Rate Calculation

## BCBS Standard HMO Rate Calculation

	Medical	Prescription Drug	Total
Incurred Claims (YE 10/31/21, Paid to 12/31/21)	\$231,862,896	\$54,725,033	
Completion Factor <sup>1</sup>	1.0090	1.0000	
Estimated Incurred Claims	\$233,944,838	\$54,725,033	
High Cost Claimant Adjustment <sup>2</sup>	<u>(\$6,000,000)</u>		
Net Estimated Incurred Claims	\$227,944,838	\$54,725,033	
Member Months	387,094	387,094	
Per Member Per Month (PMPM)	\$588.86	\$141.37	
Plan Change Factor <sup>3</sup>	0.989	1.000	
Move to BCBS From HPHC Adjustment <sup>4</sup>	0.977	1.000	
Annual Trend Assumption	7.0%	7.5%	
Trend Adjustment	1.119	1.128	
PMPM Projected Claim Cost	\$636.87	\$159.48	
Assumed Members	31,680	31,680	
Total Projected Claim Cost	\$242,113,656	\$60,629,425	\$302,743,000
Estimated Rebates (City's 100% share) <sup>5</sup>			(\$14,837,000)
Administrative Expense <sup>6</sup>			\$7,309,000
Other Program Expenses <sup>7</sup>			\$5,708,000
ACA PCORI Fee			\$84,000
Target Reserve Adjustment <sup>8</sup>			\$1,837,000
<b>FY 2023 Projected Incurred Expenses</b>			<b>\$302,844,000</b>
<b>Current FY 2022 Working Rate Premium <sup>9</sup></b>			<b>\$282,890,000</b>
<b>FY 2023 Segal Est. Required Rate Change</b>			<b>7.1%</b>

Notes:

1. Adjustment to reflect claims incurred during the experience period ended October 31, 2021 and not paid as of December 31, 2021.
2. Adjustment to remove higher than typical large claimant experience that is assumed not to reoccur.
3. Reflects the plan changes negotiated in the PEC agreement effective July 1, 2021.
4. Reflects the anticipated medical discount savings from the move from HPHC to BCBS effective July 1, 2021.
5. Estimated rebates based the results of the RFP analysis and projected rebates provided by BCBS.
6. Reflects the BCBS PPO and Standard HMO administrative fee resulting from the RFP process.
7. Based on the HPHC and BCBS billing statement amounts, BCBS DM fees (net of allowance), fitness reimbursements, etc.
8. Adjustment to maintain target reserves of 10% of projected total costs.
9. Reflects both the City and employee/retiree share of the working rates and is based on enrollment as of December 2021 as reported by BCBS.

# FY 2023 Projected Working Rate Calculation

## AllWays Value HMO Rate Calculation

	Medical	Prescription Drug	Total
Incurred Claims (YE 10/31/21, Paid to 12/31/21)	\$37,888,497	\$10,909,821	
Completion Factor <sup>1</sup>	1.0240	1.0000	
Estimated Incurred Claims	\$38,796,191	\$10,909,821	
Member Months	77,364	77,364	
Per Member Per Month (PMPM)	\$501.48	\$141.02	
Plan Change Factor <sup>2</sup>	1.000	1.000	
Value Network Adjustment <sup>3</sup>	0.967	1.000	
Annual Trend Assumption	6.5%	7.5%	
Trend Adjustment	1.111	1.128	
PMPM Projected Claim Cost	\$538.41	\$159.08	
Assumed Members	6,673	6,673	
Total Projected Claim Cost	\$43,113,378	\$12,738,802	\$55,852,000
Estimated Rebates (City's 100% share) <sup>4</sup>			(\$2,923,000)
Administrative Expense <sup>5</sup>			\$2,204,000
State Assessments			\$411,000
ACA PCORI Fee			\$18,000
Target Reserve Adjustment <sup>6</sup>			\$339,000
<b>FY 2023 Projected Incurred Expenses</b>			\$55,901,000
<b>Current FY 2022 Working Rate Premium <sup>7</sup></b>			\$55,348,000
<b>FY 2023 Segal Est. Required Rate Change</b>			<b>1.0%</b>

### Notes:

1. Adjustment to reflect claims incurred during the experience period ended October 31, 2021 and not paid as of December 31, 2021.
2. The PEC agreement does not include plan changes for the Value HMO effective July 1, 2021.
3. Reflects the estimated savings associated with moving to the Value Network. AllWays indicated it expects 5% savings from its standard network.
4. Based on rebates through September 2021 as reported by AllWays.
5. Reflects the AllWays Value Network HMO administrative fee resulting from the RFP process.
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 2021 as reported by AllWays.

# FY 2023 Projected Working Rate Calculation

## BCBS PPO Rate Calculation

	Medical	Prescription Drug	Total
Incurred Claims (YE 10/31/21, Paid to 12/31/21)	\$35,774,189	\$8,287,962	
Completion Factor <sup>1</sup>	1.0120	1.0000	
Estimated Incurred Claims	\$36,203,479	\$8,287,962	
Member Months	34,329	34,329	
Per Member Per Month (PMPM)	\$1,054.60	\$241.43	
Plan Change Factor <sup>2</sup>	0.976	1.000	
Prescription Drug Pricing Adjustment <sup>3</sup>	1.000	1.122	
Annual Trend Assumption	7.0%	7.5%	
Trend Adjustment	1.119	1.128	
PMPM Projected Claim Cost	\$1,152.37	\$305.46	
Assumed Members	2,861	2,861	
Total Projected Claim Cost	\$39,563,186	\$10,487,079	\$50,050,000
Estimated Rebates (City's 100% share) <sup>3</sup>			(\$2,443,000)
Administrative Expense <sup>4</sup>			\$916,000
Other Program Expenses <sup>5</sup>			\$220,000
ACA PCORI Fee			\$8,000
Target Reserve Adjustment <sup>6</sup>			\$319,000
<b>FY 2023 Projected Incurred Expenses</b>			<b>\$49,070,000</b>
<b>Current FY 2022 Working Rate Premium <sup>7</sup></b>			<b>\$34,949,000</b>
<b>FY 2023 Segal Est. Required Rate Change</b>			<b>40.4%</b>

### Notes:

1. Adjustment to reflect claims incurred during the experience period ended October 31, 2021 and not paid as of December 31, 2021.
2. Reflects the plan changes negotiated in the PEC agreement effective July 1, 2021.
3. Adjustment to remove Rx rebates "baked-in" into the ingredient cost and reflected in the paid claims. Effective July 1, 2021, rebates will no longer be included in paid claims and the City will receive rebates quarterly. Estimated rebates based on the results of the RFP analysis and projected rebates provided by BCBS.
4. Reflects the BCBS PPO and Standard HMO administrative fee resulting from the RFP process.
5. Based on BCBS billing statement amounts and BCBS disease management fees (net of allowance).
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 2021 as reported by HPHC.