


**CITY AND COUNTY OF SAN FRANCISCO**  
**BOARD OF SUPERVISORS**  
**BUDGET AND LEGISLATIVE ANALYST**

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July 3, 2014

**TO:** Budget and Finance Sub-Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** July 9, 2014 Budget and Finance Sub-Committee Meeting

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**Items 3 and 4**  
**Files 14-0703 and 14-0705**

**Department**  
 Health Service System (HSS)

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed ordinance (File 14-0703) would amend Administrative Code Section 16.703, establishing the Health Service System's 2015 health, vision, and dental plans and premiums.
- The proposed resolution (File 14-0705) would approve the 2015 employers' contribution of \$567.80 per member per month to the Health Service System Trust Fund.

### Key Points

- Each year, the Health Service Board adopts the annual health, vision, and dental plans, and the respective plan premiums and premium equivalents paid by employers and members. In accordance with the City's Charter, the Health Service Board is required to conduct a survey of the ten most populous California counties each year to determine the average of the health premium contributions made by the ten counties. Based on this survey, the average 2015 contribution is \$567.80 per member per month, which is \$8.15 or 1.5 percent more than the ten-county average contribution of \$559.65 in 2014.
- However, in the June 2014 collective bargaining the 10-County Average Survey was eliminated in the calculation of premiums for active employees in exchange for a percentage based employee premium contribution for most unions. The 10-County Average Survey is still used as a basis for calculating all retiree premiums.

### Fiscal Impact

- The 2015 monthly health premiums for active employee-only coverage is proposed to be (a) \$1,227.55 for the City Plan, an 18% decrease from 2014, (b) \$565.11 for Kaiser, a 2% decrease from 2014 and (c) \$647.37 for Blue Shield, unchanged from 2014.
- The total costs for the City, employees, retirees and their dependents of \$588,433,205 in 2015 for health, vision, dental, long-term disability and life insurance is a \$16,308,919, or 2.7% decrease from \$604,742,124 in 2014.
- The Affordable Care Act imposes two fees and one tax on health plans that have been incorporated into the HSS 2015 monthly premiums, which will increase premiums by the City and covered employees by an estimated \$15.1 million in 2015. These amounts are included in the monthly premiums noted above.

### Recommendation

- Approve the proposed resolution and proposed ordinance.

## MANDATE STATEMENT/BACKGROUND

The Health Service Board oversees the Health Service System (HSS). The HSS administers non-pension benefits, including health, dental, vision, and other benefits that may be available to City employees, such as life and long term disability insurance.

The Health Service Board adopts the annual health, vision, and dental plans, and the respective plan premiums and premium equivalents paid by employers and members.

- HSS employers include the City and County of San Francisco (City), the San Francisco Unified School District (SFUSD), the San Francisco Community College District (SFCCD), and the San Francisco Superior Court (Superior Court).
- HSS members are active and retired employees of the above noted employers, their dependents, and members of eligible boards and commissions. Dependents include children, spouses, domestic partners, surviving spouses of deceased members, and other legal dependents.

### Ten County Survey

Under City Charter Section A8.423, the Health Service Board is required to (a) conduct a survey of the ten most populous California counties each year, excluding San Francisco, and (b) determine and set the health plan premiums paid by the City, employees, and retirees. In accordance with Section A8.423 of the City's Charter, the City's contribution to the Health Service System Trust Fund is based on the average of the contributions made by each of the ten counties.

In the June 2014 collective bargaining the 10-County Average Survey was eliminated in the calculation of premiums for active employees in exchange for a percentage based employee premium contribution for most unions (discussed further below). The 10-County Average Survey is still used as a basis for calculating all retiree premiums.

The 10-County average contribution in 2015 is \$567.80 per member per month, which is \$8.15 or 1.5 percent more than the 10-County average contribution of \$559.65 in 2014.

## DETAILS OF PROPOSED LEGISLATION

File 14-0703: The proposed ordinance would amend Administrative Code Section 16.703 to approve the Health Service Systems' 2015 health, vision, and dental plans and premiums, and life insurance and long term disability insurance.

File 14-0705: The proposed resolution would approve the City's 2015 contribution to the Health Service System Trust Fund, under Charter Section A8.4289, at \$567.80 per member per month.<sup>1</sup>

### **Proposed Health Plans**

On June 12, 2014, the Health Service Board approved the following health, vision, and dental plans and monthly premiums for 2015:

#### City Plan Preferred Provider Organization (PPO)<sup>2</sup>

The City Plan is a self-funded plan administered by United HealthCare (UHC). The Health Service Board adopted no plan design changes to the City Plan in 2015.

#### Kaiser and Blue Shield Health Maintenance Organizations (HMO)<sup>3</sup>

Consistent with the 2014 plan year, two HMOs will be offered to HSS members for the 2015 plan year: Kaiser and Blue Shield of California. The Blue Shield HMO plan is a flex-funded product for active and early retiree members. The Health Service Board adopted no plan design changes to the Kaiser HMO or the Blue Shield HMO.

#### Vision Plans

Members enrolled in one of the three health plans receive vision benefits through Vision Service Plan (VSP), a third party insurer. The VSP plan is a fully-insured plan. The 2015 VSP rates remain unchanged from 2014 rates. The cost of the vision plan is added to the cost of the medical plan for all monthly health plan premiums.

### **Monthly Premiums**

Table 1 below shows the decrease in the total monthly premiums (members and employer) for active Kaiser and City Plan employee-only coverage in 2015 compared to 2014. The monthly premium for Blue Shield employee-only coverage is unchanged in 2015 compared to 2014.

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<sup>1</sup> As noted above, under the labor MOUs approved by the Board of Supervisors in June 2014, the contribution made by the City to monthly premiums is based on a percentage contribution rather than the average contribution established by the 10-County Survey. As discussed below, under the labor MOUs the City's monthly premium payment is capped by a percentage formula; for example, the City's contribution for active employee-only monthly premiums is capped at 93 percent of the second highest cost plan, which in 2015 is Blue Shield. Therefore, the City's monthly contribution to the employee-only premium is \$602, which is 93 percent of the Blue Shield monthly premium of \$647.37 (Table 1 above). According to Mr. Jon Givner, Deputy City Attorney, the Charter provides the amount that must be contributed to the Health Service System Trust Fund by the City, but that amount is not a ceiling and the City could agree to pay additional amounts to fund employee health care under an MOU with a union representing City employees.

<sup>2</sup> Under a PPO, physicians, hospitals, and other providers contract with a third-party administrator or insurer to provide health care at reduced rates to members.

<sup>3</sup> An HMO offers care through a closed panel of providers, in which members select a primary care physician, who coordinates care to direct access to medical services.

**Table 1: 2015 Active Employee-Only Total Monthly Premiums**

	2014	2015	Increase/ (Decrease)	Percent
Kaiser	\$565.11	\$553.98	(\$11.13)	-2%
Blue Shield	\$647.37	\$647.37	\$0.00	0%
City Plan	\$1,227.55	\$1,012.41	(\$215.14)	-18%

Source: 2014 and 2015 Health Plan Rate Cards

### Blue Shield Premiums in 2015

The Blue Shield monthly premium is unchanged in 2015 compared to 2014 because increases in monthly premiums are offset by use of fund balances resulting from the Blue Shield Profit Pledge and the Stabilization Reserve.

In 2011, Blue Shield implemented the Profit Pledge, in which profits that exceed 2 percent are returned to the policy holder. In addition, the Health Service Board approved the Stabilization Fund Policy, establishing a Stabilization Reserve, in which prior years' underwriting gains are used to balance premium payments over three years.<sup>4</sup> At the May 8, 2014 Health Service Board meeting, the Health Service Board approved transferring the remaining fund balance of \$8.8 million from the Profit Pledge to the Stabilization Reserve to be used to offset the proposed increase in the 2015 Blue Shield premiums for active employees.

According to the presentation to the June 12, 2014 Health Service Board by the HSS actuary, Aon Hewitt, the use of the \$8.8 million to stabilize Blue Shield premiums for active employees in 2015 was intended to reduce the premium difference between Blue Shield and Kaiser pools, reduce migration and give the Accountable Care Organizations<sup>5</sup> one more year to work to reduce the long term growth in health care costs.

### City Plan Premiums in 2015

The City Plan premium decreased by 18 percent in 2015 compared to 2014 because of lower-than expected plan utilization. The City Plan is a self-funded plan in which premiums are set based upon projected claims experience. Because plan utilization during 2013 was lower than expected, premium payments exceeded claims, allowing \$15 million in underwriting gains to be

<sup>4</sup> The Blue Shield Plan is a "flex-funded" plan which differs from a fully-funded plan in that (1) under the fully insured plan, Blue Shield pays all covered claims, while (2) under the flex-funded plan, HSS is responsible for paying aggregate claims that exceed premium payments to Blue Shield up to a cap of 125 percent. When the Health Service Board and Board of Supervisors approved the flex-funded plan in 2012, Aon Hewitt recommended a \$24 million reserve, including a \$7 million claim stabilization reserve funded from the 2012 Blue Shield Profit Pledge payment to HSS, and \$17 million additional reserve funded over time from excess premiums collected for the Blue Shield plan.

<sup>5</sup> An Accountable Care Organization is a health organization that coordinates care among doctors, hospitals and other health providers to ensure the correct level of care is given. Accountable Care Organizations is a voluntary program created by Medicare to increase quality while achieving cost savings.

deposited into the City Plan Stabilization Reserve resulting in a reserve balance of \$22.3 million as of December 31, 2013. The Health Service Board adopted lower City Plan monthly premiums in 2015, based on a combination of lower monthly payments to cover claims and use of Stabilization Reserves to offset total monthly premium costs.

### **Changes to Employee Contributions to Monthly Premiums in 2015**

Historically, active City employees have not contributed to the monthly premiums for employee-only health. In 2014, employees covered by certain union MOUs began to contribute toward a portion of their monthly premium.

Starting January 1, 2015, in accordance with some MOUs, employees covered by the respective MOUs will contribute to their monthly premiums based on the following contribution models.

- Under the '90/10 Contribution Model', employees covered by certain MOUs contribute up to a maximum of 10 percent of the monthly premium after the 10 County Average has been applied.
- Under the '93/93/83 Contribution Model', the City will contribute up to 93 percent of the monthly premium for employee-only and employee plus one dependent coverage. The City's contribution to the monthly premium will be capped at 93 percent of the second-highest cost plan. The City will contribute up to 83 percent of the monthly premium for employees with two or more dependents. The City's contribution will be capped at 83 percent of the second-highest cost plan. The 10 County Survey does not apply to this contribution model.
- Under the '100/96/83 Contribution Model', the City will contribute 100 percent of monthly premium for employee-only coverage. The City will contribute up to 96 percent of the monthly premium for employees with one dependent. The City's contribution will be capped at 96 percent of the second-highest cost plan. The City will contribute up to 83 percent of the monthly premium for employees with two or more dependents. The City's contribution will be capped at 83 percent of the second-highest cost plan. The 10 County Survey does not apply to this contribution model.

### Federal Affordable Care Act Requirements

According to the Aon Hewitt June 16, 2014 memorandum to the Board of Supervisors, the Affordable Care Act imposes two fees and one tax on health plans that have been incorporated into the HSS 2015 monthly premiums, which will increase premiums by the City and covered employees by an estimated \$15.1 million in 2015 as described below.<sup>6</sup>

- The Health Insurer Tax is applied to all fully insured or flex-funded health, vision and dental plan, which will increase premium payments by the City and covered employees by an estimated \$11.9 million in 2015.

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<sup>6</sup> These fees and tax are incorporated into the rates shown in Table 1 above.

- The Patient Centered Outcomes Research Institute Fee is a \$2.22 per enrollee per year fee assessed to health plans, which will increase premium payments for the City and covered employees by an estimated \$260,000 in 2015. The fee sunsets in 2019.
- The Transitional Reinsurance Fee revenues subsidize the uninsured who enroll for health coverage through State Health Insurance Exchanges. The fee in 2015 is \$44 per enrollee per year (except for enrollees with Medicare), which will increase premium payments for the City and covered employees by an estimated \$2.95 million in 2015. The fee sunsets in 2016.

### Proposed Dental Plans

The Health Service System offers three dental plans, including one PPO, Delta Dental PPO, and two HMOs: Delta Care USA and Pacific Union Dental. There are no plan changes in the dental plans for active employees. The Health Service Board elected to increase coverage in 2015 for retirees enrolled in the PPO plan by adding a diagnostic and preventative care fee waiver, which will increase the average premium by 7.3%.

The City does not contribute to the monthly dental premium for retired employees. The City contributes the full monthly premium for active employees for the two HMOs and also contributes part of the monthly premium for active employees for Delta Dental PPO. As shown in Table 2 below, the City's contribution to 2015 premiums will be the same as 2014 contribution rates.

**Table 2: Total Monthly Dental Premiums**

	2015	2014	Increase/ Decrease	Percent
<b>Delta Care USA HMO</b>				
Single Employee	\$26.95	\$26.95	\$0.00	0.00%
Employee + One Dependent	\$44.46	\$44.46	\$0.00	0.00%
Employee + Two or More Dependents	\$65.76	\$65.76	\$0.00	0.00%
<b>Pacific Union Dental HMO</b>				
Single Employee	\$27.80	\$27.80	\$0.00	0.00%
Employee + One Dependent	\$45.90	\$45.90	\$0.00	0.00%
Employee + Two or More Dependents	\$67.86	\$67.86	\$0.00	0.00%
<b>Delta Dental PPO</b>				
Single Employee (Total Premium)	\$65.95	\$65.95	\$0.00	0.00%
Less Employee Contribution	<u>(\$5.00)</u>	<u>(\$5.00)</u>	\$0.00	0.00%
City's Contribution	\$60.95	\$60.95	\$0.00	0.00%
Employee + One Dependent (Total Premium)	<u>\$138.49</u>	<u>\$138.49</u>	\$0.00	0.00%
Less Employee Contribution	<u>(\$10.00)</u>	<u>(\$10.00)</u>	\$0.00	0.00%
City's Contribution	\$128.49	\$128.49	\$0.00	0.00%
Employee + Two or More Dependents (Total Premium)	\$197.84	\$197.84	\$0.00	0.00%
Less Employee Contribution	<u>(\$15.00)</u>	<u>(\$15.00)</u>	\$0.00	0.00%
City's Contribution	\$182.84	\$182.84	\$0.00	0.00%

Source: Health Service System

## Life and Long Term Disability Insurance

The Health Service System will continue its contract with Aetna Life Insurance Company in 2015. Rates in 2015 remain unchanged from 2014 rates. The aggregate life and long-term disability plan cost for the 2015 plan year is projected at \$6.1 million, with \$100,000 in member contributions and \$6.0 million in employer contributions.

### FISCAL IMPACT

As shown in Table 3 below, the total estimated City, employee, and retiree costs for the health, vision, and dental plans, and long-term disability and life insurance are \$588,433,205 in 2015, which is a \$16,308,919 or 2.7 percent decrease from \$604,742,124 in 2014.

**Table 3: Total Plan Costs for the City, Employees, and Retirees in 2015 Compared to 2014**

	2014	2015	Increase/ (Decrease)	Percent
<b>City Costs Only</b>				
Kaiser HMO	232,461,784	219,073,540	(13,388,244)	-5.8%
Blue Shield HMO	219,507,045	226,969,762	7,462,717	3.4%
City Plan	38,673,678	29,343,922	(9,329,756)	-24.1%
Subtotal Health and Vision Plan	490,642,507	475,387,224	(15,255,283)	-3.1%
Dental	41,596,932	41,596,932	0	0.0%
Long Term Disability and Life Insurance	5,687,262	5,687,262	0	0.0%
<b>Total City Costs</b>	<b>537,926,701</b>	<b>522,671,418</b>	<b>(15,255,283)</b>	<b>-2.8%</b>
<b>Employee and Retiree Costs Only</b>				
Kaiser HMO	21,499,282	26,451,730	4,952,449	23.0%
Blue Shield HMO	33,859,916	28,376,274	(5,483,642)	-16.2%
City Plan	8,132,766	7,610,323	(522,443)	-6.4%
Subtotal Health and Vision Plan	63,491,964	62,438,327	(1,053,637)	-1.7%
Dental	3,323,460	3,323,460	0	0.0%
Long Term Disability and Life Insurance	0	0	0	0.0%
<b>Total Employee and Retiree Costs</b>	<b>66,815,424</b>	<b>65,761,787</b>	<b>(1,053,637)</b>	<b>-1.6%</b>
<b>Total Costs</b>				
Kaiser HMO	253,961,066	245,525,270	(8,435,795)	-3.3%
Blue Shield HMO	253,366,961	255,346,036	1,979,075	0.8%
City Plan	46,806,444	36,954,245	(9,852,199)	-21.0%
Subtotal Health and Vision Plan	554,134,470	537,825,551	(16,308,919)	-2.9%
Dental	44,920,392	44,920,392	0	0.0%
Long Term Disability and Life Insurance	5,687,262	5,687,262	0	0.0%
<b>Total Costs</b>	<b>604,742,124</b>	<b>588,433,205</b>	<b>(16,308,919)</b>	<b>-2.7%</b>

Source: Health Service System

### RECOMMENDATION

Approve the proposed resolution and proposed ordinance.