

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

July 10, 2020

TO: Budget and Appropriations Committee

FROM: Budget and Legislative Analyst



SUBJECT: July 15, 2020 Budget and Appropriations Committee Meeting

TABLE OF CONTENTS

Item	File	Page
1	20-0674 Health Service System Plans and Contribution Rates - Calendar Year 2021 ...	1

<p>Item 1 File 20-0674</p>	<p>Department: Health Service System (HSS)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would approve the San Francisco Health Service System’s (SFHSS) health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year 2021. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The SFHSS administers non-pension benefits, including health, vision, dental and other benefits, such as life and long-term disability insurance. The Health Service Board adopts the annual health, vision, dental and other insurance plans, and the respective plan premiums and premium equivalents to be paid by SFHSS employers and members. • The Health Service Board is required to conduct a survey of the 10 most populous California counties each year to determine the average of the health premium contributions made by these counties. Based on this survey, the \$729.19 average contribution per month paid by the City is \$23.27 or approximately 3.3 percent more than the average monthly contribution of \$705.92 in 2020. • Compared to 2020 rates, the total 2021 City health premium amounts are proposed to (a) increase by \$13.9 million or 4.36 percent for Kaiser, (b) increase by \$11.1 million, or 4.31 percent for Blue Shield, and (c) increase by \$0.8 million, or 0.88 percent for UnitedHealthcare (includes City Plan and Medicare Advantage PPO). <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The total estimated cost for the City as employer and total cost of active and retired City employees for health, vision, and dental plans, as well as long-term disability and life insurance, will be \$837,956,905 in 2021, which is a \$29,871,262 or a 3.7 percent increase from \$808,085,643 in 2020. Of the total, the City’s costs would be \$740,276,659, with the balance of \$97,680,246 paid by employees and retirees. • In 2021, the average medical monthly contribution per member will be \$142.87 per member per month for all members (actives/retirees combined), \$162.89 per member per month for active employee, and \$113.25 per member per month for retiree. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The COVID-19 health crisis largely does not impact the 2021 rates, as rates are determined by the insured plans and the Aon actuary for self-funded plans from underwriting developed using 2019 plan year experience. • Plans may experience lower paid claim amounts for the full year 2020 than originally forecast for 2020 last year at this time, due to plan utilization suppression experienced during Spring 2020 while shelter in place/stay at home public health orders were active. Any potential pandemic-related claim impacts would be accounted for in 2022 plan year rating. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed ordinance. 	

MANDATE STATEMENT

City Charter Section A8.423 states that the Health Service Board is required to conduct a survey of the 10 most populous California counties, excluding San Francisco, to determine the average contribution made by each county toward health plan premiums for employees, excluding dental plan premiums. The Health Service Board is then required to certify to the Board of Supervisors the average contribution as determined by this survey. City Charter Section A8.428 also requires the City to contribute to the Health Service System Trust Fund to pay the costs of health plan premiums.

BACKGROUND

The Health Service Board oversees the San Francisco Health Service System (SFHSS). The SFHSS administers non-pension benefits, including health, vision, dental and other benefits, such as life and long-term disability insurance. The Health Service Board adopts the annual health, vision, dental and other insurance plans, and the respective plan premiums and premium equivalents to be paid by SFHSS employers and members.

- SFHSS 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).
- SFHSS 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.

City and Employee Contribution Models

Most contribution formulas for City employees negotiated as part of their labor agreements fall into the following two percentage-based employee premium contribution models:

- Under the '93/93/83 Contribution Model', the City contributes up to 93 percent of the total health insurance premium for employee-only and employee plus one dependent coverage, capped at 93 percent of the second-highest cost plan. The City also contributes up to 83 percent of the total health insurance premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan. According to Ms. Pamela Levin, Chief Financial Officer at the San Francisco Health Service System, there are 20,591 members (excluding dependents) who are covered by this contribution model.
- Under the '100/96/83 Contribution Model', the City contributes 100 percent of total health insurance premiums for employee-only coverage. The City contributes up to 96 percent of the total health insurance premiums for employees with one dependent, capped at 96 percent of the second-highest cost plan. The City also contributes up to 83 percent of the total health insurance premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan. According to Ms.

Levin, there are 11,825 members (excluding dependents) who are covered by this contribution model.

10-County Survey Average

The 10-county survey average is used as a basis for calculating the employer contribution to the monthly health plan premium for all retirees. Based on the survey, the 10-county average employer contribution for calendar year 2021 is \$729.19 per member per month. In June 2014, the impact of the “average contribution” on rates was eliminated in the calculation of premiums for almost all active employees represented by most unions, in exchange for a percentage-based employee premium contribution model. Presently, SFHSS utilizes the 10-County Survey amount as one of the elements that determine SFHSS employer contributions for retirees. In the event the premium is higher than the 10-county “average contribution”, the City will pay the “average contribution” amount. In the event the premium is less than the “average contribution,” the City will pay one hundred percent (100%) of the premium. The \$729.19 average contribution per month paid by the City is \$23.27 or approximately 3.3 percent more than the average monthly contribution of \$705.92 in 2020.

Health Service System Trust Fund

Under Charter Section A8.428, employer and SFHSS member contributions to health plan premiums are deposited in the Health Service System Trust Fund. As of June 30, 2019, the Health Service System Trust Fund balance was approximately \$92.1 million, according to FY 2018-19 and FY 2017-18 audited financial statements.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would approve the San Francisco Health Service System’s (SFHSS) health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year 2021. The total cost of the plans would be \$837,956,905 or 3.7 percent more than the \$808,085,643 costs in 2020. Of the total, the City’s costs would be \$740,276,659, with the balance of \$97,680,246 paid by employees and retirees. Table 1 below provides a summary of health insurance costs for 2021.

The Health Service Board approved the following health, vision, dental, life and long-term disability insurance plans and premiums for the period from January 1, 2021 through December 31, 2021 on the following dates in 2020: March 12, May 14, May 28, and June 11.

Health Plans and Premiums

Kaiser Permanente HMO¹

Kaiser Permanente (Kaiser) covers active, early retirees and Medicare retirees. The total Kaiser HMO premium amounts paid by the City as employer are \$13.9 million, or 4.36 percent, more in CY 2021 than in CY 2020. These amounts are shown in Table 1 below. There are no plan design changes approved by the Health Service Board for active employees and early retirees for 2021.

¹ A HMO (Health Maintenance Organization) offers care through a closed panel of providers, in which members select a primary care physician, who manages their care. The HMOs pay the medical groups on a per capita basis.

The Kaiser Medicare plan has two plan enhancements that were approved by the Health Service Board for 2021. A transportation benefit of up to 24 one-way rides per year (50 miles maximum per ride) offered in 2020 to support member health care appointment and facility post-discharge transportation needs will be expanded to accommodate transportation of members in a wheelchair or gurney. This is currently scheduled to take effect January 1, 2021, though could be delayed depending on vendor set-up status through Kaiser.

The second plan enhancement is a new benefit that provides up to 84 home-delivered meals immediately following an inpatient hospitalization when referred by a clinical staff member. This includes three meals per day for up to four weeks, limited to one utilization per year. This benefit is similar to the meal delivery benefit approved for the 2019 year in the UHC Medicare Advantage PPO plan.

Blue Shield California HMOs

The total Blue Shield of California (Blue Shield) Access+ and Trio flex-funded plan premium amounts paid by the City as employer are \$11.1 million, or 4.31 percent, more in CY 2021 than in CY 2020. No plan design changes were approved for the Blue Shield Access+ and Trio plans by the Health Service Board for 2021.

UnitedHealthcare (UHC) City Plan PPO for Active Employees and Early Retirees and UHC Medicare Advantage (MA) PPO²

The City contracts with UnitedHealthcare (UHC) to administer a self-funded health plan for active employees and early retirees³ (the City Plan PPO) and a fully funded plan for Medicare-eligible retirees (UHC Medicare Advantage PPO).

City Plan

The City Plan is a self-funded plan⁴ administered by UnitedHealthcare (UHC) for active employees and early retirees. No plan design changes were approved by the Health Service Board for 2021.

UHC Medicare Advantage PPO

The UHC Medicare Advantage PPO Plan, previously known as the “New City Plan”, covers all non-Kaiser Medicare eligible retirees. No plan changes were approved by the Health Service Board for 2021.

The total UHC City Plan PPO and Medicare Advantage PPO Plan premium amounts paid by the City as employer are \$0.8 million, or 0.88 percent, more in CY 2021 than in CY 2020.

² Under a PPO (Preferred Provider Organization), physicians, hospitals, and other providers are in network and paid by the purchaser (through a third party administrator) on a fee for service basis based on negotiated contracts.

³ Retired employees of less than 65 years of age and therefore not eligible for Medicare.

⁴ According to Ms. Levin, a self-funded plan is where the plan sponsor (SFHSS) pays the claims and takes the risk if the claims are greater than the expectation of what the claims estimates will be.

Vision Plan

Members enrolled in any of the health plans receive vision benefits through Vision Service Plan (VSP), a third-party insurer. Vision plan premiums are fully-insured. The cost of the Basic Plan vision benefit is included in the cost of the medical plan for all monthly health plan premiums.

In 2021, Basic Plan rates will remain at 2020 levels. Consequently, there is no change to the employer cost for VSP vision rates from 2020 to 2021. For 2021, Premier Plan total premium rates are increasing by 4.1 percent from 2020 rate levels. Employees and retirees pay the full premium difference between Premier Plan rates and Basic Plan rates, in the form of member contributions.

Dental Plans

SFHSS offers three dental plans, including one PPO (Delta Dental PPO) and two HMOs (DeltaCare USA and UnitedHealthcare Dental). The City pays most of the cost of dental benefits for active employees enrolled in the Delta Dental PPO, and the full cost of the dental HMOs for active employees. Retirees pay the full cost of their dental plans.

There was one design change approved by the Health Service Board for the Delta Dental active employee and retiree PPO plans from 2020 to 2021. Both plans will include coverage, after applicable member plan design cost sharing, for nitrous oxide and non-IV sedation starting in 2021.

For plan year 2021, the City will contribute (1) the total premium toward each of the dental HMO plans for City active employees, and (2) the monthly premium minus employee contributions ranging from \$5.00 for employee only coverage to \$15.00 per month for full family coverage, for the self-funded Dental PPO plan. Member contributions for the three dental plans remain unchanged from the 2020 plan year.

The total dental plan premium amounts across the three active employee dental plans paid by the City as employer are \$0.3 million, or 0.63 percent, more in CY 2021 than in CY 2020.

Life and Long-Term Disability Insurance

The Hartford Life and Accident Insurance Company (The Hartford) is the insuring entity for the SFHSS life insurance, accidental death and dismemberment insurance, and long-term disability insurance.

In aggregate, the rates decreased by approximately \$0.14 million, or 1.5 percent, from 2020 to 2021, which is attributable to a rate reduction for Basic Life insurance (employer paid). Premiums for supplemental life insurance (member paid), dependent life insurance (member paid), accidental death and dismemberment insurance (member paid), and long-term disability insurance (employer paid) are locked into the 2021 plan year as part of the three-year guarantee, from January 1, 2020 through December 31, 2022.

Federal Affordable Care Act Requirements

In 2010, the Patient Protection and Affordable Care Act (also known as the Affordable Care Act) created a Health Insurance Tax (HIT) and two direct fees were passed through to employers – the Transitional Reinsurance Fee (TRF) and the Patient Centered Outcomes Research Institute (PCORI) fee, as described below.

- The Health Insurance Tax (HIT)⁵ impacted most fully insured health plans offered through SFHSS, including dental and vision plans, in 2020. The tax has applied most years since the Affordable Care Act became law, though the federal government waived this tax for 2017 and 2019 plan years. As a result of the Setting Every Community Up for Retirement Enhancement (SECURE) Act⁶ legislation passed by the federal government in December 2019, the HIT is permanently terminated for plan years beginning January 1, 2021.
- The TRF⁷ expired at the end of 2016, therefore the fee will not apply in 2021 or future years.
- The PCORI fee⁸ was originally set to expire after 2019, but it was extended through 2029 as part of the SECURE Act passed by the federal government in December 2019. SFHSS pays this fee to the federal government for the self-funded UHC City Plan PPO, while Kaiser and Blue Shield pay this fee on SFHSS's behalf as fully insured/flex funded plans.

FISCAL IMPACT

2021 Total City Costs

As shown in Table 1 below, the total estimated cost for the City as employer and total cost of active and retired City employees for health, vision, and dental plans, as well as long-term disability and life insurance, will be \$837,956,905 in 2021, which is a \$29,871,262 or a 3.7 percent increase from \$808,085,643 in 2020.

The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance, for the City as employer in 2021 is \$740,276,659 which is a \$25,926,941 or 3.6 percent increase from \$714,349,717 in 2020. The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance that will be paid by employees and retirees is \$97,680,246 in 2021, or 4.2 percent more than the 2020 costs of \$93,735,926.

According to Ms. Levin, in 2021, the average medical monthly contribution per member will be \$142.87 per member per month for all members (actives/retirees combined), \$162.89 per

⁵ The Affordable Care Act imposed a fee on "covered entities," which includes health insurance issuers, health maintenance organizations. Self-insured employers are not "covered entities" subject to the tax. The HIT is a fixed amount determined annually by the IRS. The fixed amount is then allocated among covered entities, based on their market share and the premiums charged in the prior year.

⁶ The SECURE Act changed retirement plans used in the United States and was the first major retirement-related legislation enacted since the 2006 Pension Protection Act. Major elements of the bill include: raising the minimum age for required minimum distributions from 70.5 years of age to 72 years of age; allowing workers to contribute to traditional IRAs after turning 70.5 years of age; allowing individuals to use 529 plan money to repay student loans; requiring non-spouse beneficiaries of inherited IRAs to withdraw and pay taxes on all distributions from inherited accounts within 10 years; and making it easier for 401(k) plan administrators to offer annuities.

⁷ The Affordable Care Act established a transitional reinsurance program to stabilize premiums in the individual market inside and outside of the marketplaces. The transitional reinsurance program will collect contributions from contributing entities to fund reinsurance payments to issuers of non-grandfathered reinsurance-eligible individual market plans, the administrative costs of operating the reinsurance program, and the General Fund of the U.S. Treasury for the 2014, 2015, and 2016 benefit years.

⁸ The PCORI fee was established as part of the Affordable Care Act to fund research to evaluate the effectiveness of medical treatments, procedures and strategies that treat, manage, diagnose or prevent illness or injury. The ACA requires certain carriers and health plan sponsors (i.e. employers) to pay the PCORI fee annually.

member per month for active employee, and \$113.25 per member per month for retiree. Ms. Levin cautions that there is great variation in member contributions based on the plans selected, status, and characteristics of each member. According to Ms. Levin, the average medical monthly contribution per member is less for a retiree (\$113.25) in comparison to an active employee (\$162.89). The average retiree pays less in contribution than the average active employee for three primary reasons:

1. Retirees enrolled in single tier coverage in the Kaiser early retiree HMO plan, the Kaiser Permanente Senior Advantage Medicare HMO plan, and the UHC Medicare Advantage PPO Medicare plan do not pay a contribution for coverage assuming they were hired on or before January 10, 2009 (the vast majority of current City retirees), based on the combination of the total premiums for these plans (especially the lower premium levels for Medicare plans), and the application of the employer contribution formula for retiree coverage based on the City Charter. Ms. Levin states that the only active employees who do not pay any contribution for coverage are those enrolled in single tier coverage in any available plan within the 100/96/83 City contribution structure. All employees in the 93/93/83 City contribution structure pay a member contribution for health care. Overall, 60 percent of City retirees electing coverage do not pay any contribution for their health plan, versus 17.5 percent of active employees electing coverage that do not pay any contribution for their health plan;
2. A greater proportion of retirees are in Self Only coverage (69 percent) than active employees enrolled in Self Only coverage (42 percent) – meaning a higher proportion of active employees are covering dependents versus retirees – and member contributions increase as a member moves from Self Only coverage to covering one dependent, then again as a member moves to covering two or more dependents; and
3. Retirees, in general, have less dependents.

The City Charter guides the setting of City contributions for retiree health plans (with retiree contributions equaling total plan rates minus City contributions by plan and tier).

**Table 1: Total Plan Costs for the City, Employees and Retirees in 2021 Compared to 2020
Current Membership⁹**

	2020	2021	Increase / (Decrease)	Percent Change
City Costs Only				
Kaiser HMO (Actives and Retirees)	\$319,051,840	\$332,978,135	\$13,926,295	4.36%
Blue Shield HMO (Actives and Early Retirees)	\$257,724,114	\$268,822,641	\$11,098,526	4.31%
UHC PPO (City Plan for Actives and Early Retirees, Medicare Advantage for Medicare Retirees)	\$89,245,821	\$90,030,891	\$785,070	0.88%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	\$666,021,775	\$691,831,667	\$25,809,892	3.88%
Dental (Actives Only) ¹⁰	\$40,157,943	\$40,409,992	\$252,049	0.63%
Long Term Disability and Life Insurance (Actives Only) ¹¹	\$8,170,000	\$8,035,000	(\$135,000)	-1.65%
Total City Costs	\$714,349,717	\$740,276,659	\$25,926,941	3.63%
Employee and Retiree Costs Only				
Kaiser HMO (Actives and Retirees)	\$38,936,112	\$40,522,783	\$1,586,671	4.08%
Blue Shield HMO (Actives and Early Retirees)	\$33,241,589	\$34,649,164	\$1,407,575	4.23%
UHC PPO (City Plan for Actives and Early Retirees, Medicare Advantage for Medicare Retirees)	\$17,016,885	\$17,966,959	\$950,074	5.58%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	\$89,194,586	\$93,138,906	\$3,944,320	4.42%
Dental (Actives Only)	\$3,728,340	\$3,728,340	\$0	0.00%
Long Term Disability and Life Insurance (Actives Only)	\$813,000	\$813,000	\$0	0.00%
Total Employee and Retiree Costs	\$93,735,926	\$97,680,246	\$3,944,320	4.21%
Total Costs				
Kaiser HMO (Actives and Retirees)	\$357,987,952	\$373,500,918	\$15,512,967	4.33%
Blue Shield HMO (Actives and Early Retirees)	\$290,965,703	\$303,471,805	\$12,506,102	4.30%
UHC PPO (City Plan for Actives and Early Retirees, MA for Medicare Retirees)	\$106,262,705	\$107,997,850	\$1,735,144	1.63%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	\$755,216,361	\$784,970,573	\$29,754,212	3.94%
Dental (Actives Only)	\$43,886,283	\$44,138,332	\$252,049	0.57%
Long Term Disability and Life Insurance (Actives Only)	\$8,983,000	\$8,848,000	(\$135,000)	-1.50%
Total Costs	\$808,085,643	\$837,956,905	\$29,871,262	3.70%

Source: San Francisco Health Service System

POLICY CONSIDERATION**Impact of COVID-19 Health Crisis**

According to Ms. Levin, the COVID-19 health crisis largely does not impact the 2021 rates, as rates are determined by the insured plans and the Aon actuary for self-funded plans from underwriting

⁹ According to SFHSS, both 2020 and 2021 forecasted costs are based on the May 2020 headcount.

¹⁰ Dental costs are fully paid by retirees.

¹¹ Long term disability and life insurance plans are not offered to retirees.

developed using 2019 plan year experience. UHC did allow for a lower rate position in 2021 for the UHC Medicare Advantage PPO (by 3.4 percent) given expected lower claim costs in that plan during 2020 which UHC applied to their 2021 UHC Medicare Advantage PPO plan rating. Ms. Levin states that plans may experience lower paid claim amounts for the full year 2020 than originally forecast for 2020 last year at this time, due to plan utilization suppression experienced during Spring 2020 while shelter in place/stay at home public health orders were active. Ms. Levin states that any potential pandemic-related claim impacts would be accounted for in 2022 plan year rating. According to Ms. Levin, SFHSS is presently monitoring the impact of claim suppression and for increased costs should the COVID-19 health crisis impact more members in 2020 for all plans.

RECOMMENDATION

Approve the proposed ordinance.