

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

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TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst



SUBJECT: June 29, 2017 Budget and Finance Sub-Committee Meeting

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Item 3 File 17-0762	Department: Health Service System (HSS)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would approve the Health Service System’s health, vision, and dental plans and contribution rates for calendar year 2018. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • 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 these counties. Based on this survey, the average 2018 contribution is \$649.17 per member per month, which is \$44.33 or 7.3 percent more than the 10-county average monthly contribution of \$604.84 in 2017. • Effective January 1, 2015, collective bargaining agreements eliminated the 10-county average survey as the method for calculating monthly premiums for active employees. Instead, the City and most unions elected to use a percentage-based employee premium contribution models. The 10-county survey is still used to calculate retiree premiums. • The total 2018 monthly health premiums for active employees-only coverage is proposed to be (a) \$884.46 for the City Plan, a 10.2 percent increase from 2017, (b) \$613.53 for Kaiser, a 5.3 percent increase from 2017, (c) \$790.06 for Access+ Blue Shield, a 5.0 percent increase from 2017, and (d) \$708.05 for Blue Shield Trio, a new plan. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The total estimated City, employee, and retiree costs for health, vision, and dental plans, as well as long-term disability and life insurance plans, is \$729,338,459 in 2018, which is a \$23,173,308 or 3.3 percent increase from \$706,165,151 in 2017. • Regarding just the City’s estimated costs, the total for the health, vision, and dental plans, and long-term disability and life insurance plans in 2018 is \$650,457,560, which is a \$22,295,130 or 3.6 percent increase from \$628,162,430 in 2017. • The balance of \$78,880,900 (\$729,338,459 total 2018 costs less \$650,457,560 City 2018 costs) is paid by employees and retirees. • Health premium contributions in 2018 are based on cost-sharing agreements that were negotiated between the City and various labor unions which became effective on January 1, 2015. Under these cost-sharing agreements, with the exception of Kaiser, the City pays more than under the 10-county survey average amount of \$649.17. <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 ten most populous California counties, excluding San Francisco, to determine the average contribution made by each county toward health plan premiums for employees, excluding dental or optical 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 Health Service System (HSS). The HSS 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 HSS 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.

City and Employee Contribution Models

Effective January 1, 2015, in accordance with most Memorandum of Understanding (MOUs) between the City and respective labor unions, the 10-county survey average was eliminated as the method for calculating employer contributions to the monthly health plan premiums for active employees. Instead, the City and most labor unions elected to use one of the following three percentage-based employee premium contribution models.

- Under the '93/93/83 Contribution Model', the City contributes up to 93 percent of the monthly 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 monthly premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan.

- Under the '100/96/83 Contribution Model', the City contributes 100 percent of monthly premiums for employee-only coverage. The City contributes up to 96 percent of the monthly 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 monthly premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan.
- Under the '90/10 Contribution Model', the City contributes 90 percent of the monthly premium, capped at the second highest cost plan, provided that the City's premium contribution cannot fall below the lesser of the 10-county average survey. The calculation of the employee contribution for employee plus one or more dependents is determined by the specific MOUs.

10-County Survey Average

The 10-county survey average is still 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 2018 is \$649.17 per member per month. The \$649.17 per member per month is \$44.33 or 7.3 percent more than the 10-county average monthly contribution of \$604.84 in 2017.

Health Service System Trust Fund

Under Charter Section A8.428, employer and HSS member contributions to health plan premiums are deposited in the Health Service System Trust Fund. As of June 30, 2016, the Health Service System Trust Fund balance was \$68,603,198.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would approve the Health Service System's health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year 2018.

On June 8 2017, 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, 2018 through December 31, 2018.

Health Plans

Kaiser Permanente HMO¹

There is one benefit change for the Kaiser HMO plan in 2018. The Health Service Board approved an additional cycle of In vitro fertilization (IVF) / gamete intrafallopian transfer (GIFT) / zygote intrafallopian transfer (ZIFT) coverage. The benefit is limited to two treatment cycles from one of the procedures and includes cryopreservation and storage of embryos for up to 12 months.

Additionally, Kaiser Permanente presented the Health Service Board with a set of regional premiums for early retirees and Medicare retirees in Oregon, Washington, and Hawaii. These plans give retirees living in these states an additional option to the current UnitedHealthcare plan options.

Blue Shield California HMOs

In addition to the Access+ Blue Shield of California plan that was offered in 2017, HSS will also offer members the Blue Shield of California Trio plan in 2018. The Trio plan will include identical benefits to the Access+ plan, but with a smaller network (and thus lower premiums).

The Health Service Board also approved an additional cycle of in vitro fertilization (IVF) / gamete intrafallopian transfer (GIFT) / zygote intrafallopian transfer (ZIFT) coverage for both Blue Shield plans. The benefit is limited to two treatment cycles from one of the procedures and includes cryopreservation and storage of embryos for up to 12 months and other assisted reproductive technologies.

City Health Plan PPO²

The City Health Plan is a self-funded plan administered by UnitedHealthcare (UHC). The Health Service Board adopted one plan design change for the City Plan for active and early retirees in 2018: an additional cycle of in vitro fertilization (IVF) / gamete intrafallopian transfer (GIFT) / zygote intrafallopian transfer (ZIFT) coverage and other assisted reproductive technologies, limited to two treatment cycles from one of the procedures and includes cryopreservation and storage of embryos for up to 12 months and other assisted reproductive technologies..

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.

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.

UnitedHealthcare 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 design changes were adopted by the Health Service Board for 2018.

Health Plan Premiums

Kaiser Permanente Premiums in 2018

The Kaiser Permanente premium rates will increase by 5.9 percent for active, early retiree and Medicare retirees in plan year 2018.

Blue Shield Premiums in 2018

The Blue Shield HMO plan is a flex-funded plan for active and non-Medicare retiree members.³ Premium rates for Blue Shield of California will decrease 0.4 percent in 2018 due to claims experience and the addition of the Trio plan.

City Plan Premiums in 2018

The City Plan is a self-funded plan in which overall monthly premiums are set based upon projected claims experience. The City Plan monthly premiums will result in overall increases of 13.2 percent, which includes active employees, non-Medicare retirees and the New City Plan. The Health Services Board approved a one-time buy-down of \$4.53 million applied to active employees and non-Medicare retiree premiums to reduce their monthly rates and include administrative fee increase of 2.6 percent from 2017 to 2018. The New City Plan premium for a single Medicare retiree is 16.2 percent higher than the 2017 premium and 0.3 percent lower than the 2018 Kaiser Medicare rates.

Vision Plan

Members enrolled in one of the health plans receive vision benefits through Vision Service Plan (VSP), a third party insurer and a fully-funded plan. The cost of the vision plan is included in the cost of the medical plan for all monthly health plan premiums. VSP rates in 2018 are unchanged from the 2017 rates and are guaranteed through 2019. A new “buy-up” vision option will be offered in 2018 for active employees and retirees. This plan will be an additional choice and will

³ The Health Services Board adopted the flex-funded plan in 2012. The flex-funded plan differs from the fully-insured 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 both the per capita rate and the hospital claim costs. Blue Shield acts as a third party administrator negotiating capitation rates and hospital rates. If the claims experience exceeds 125% of premiums, Blue Shield pays the balance.

be provided such that active employees and early retirees pay the full cost difference between the current and new buy-up plan.

Dental Plans

The Health Service System offers three dental plans, including one PPO (Delta Dental PPO) and two HMOs (Delta Care USA and UnitedHealthcare Dental). The Delta Dental PPO plan for retirees will increase the annual plan maximum benefit from \$1,000 per member per year to \$1,250 per member per year. There are no plan changes in the other two dental plans. The City contributes part of the monthly premium for active employees. The City does not contribute to the monthly dental premium for retired employees.

- Premiums for the self-funded Delta Dental PPO plan for active employees will decrease by 2.3 percent in 2018. Premiums for Delta Dental PPO for retirees will increase by 7 percent.

Life and Long-Term Disability (LTD) Insurance

The Health Service System will continue its contract with Aetna Life Insurance Company to provide life and long-term disability insurance in 2018. Basic life insurance (employer paid) premiums remain unchanged and are guaranteed through December 31, 2019. Premiums for long-term disability plans will remain unchanged from the 2017 rates and are guaranteed through 2019.

Second Opinion Benefit

The medical second opinion benefit added in 2017 will continue in 2018 at a cost of \$1.40 per member per month. The benefit enables covered members and dependents to contact a second opinion vendor, Best Doctors, an organization that has nationally renowned experts with extensive and specific medical expertise. This second opinion benefit should ensure that diagnosis and treatment plans are appropriate, cost-effective and least invasive based on clinical evidence.

Federal Affordable Care Act Requirements

According to the City's actuarial consultant, Aon Hewitt's June 19, 2017 memorandum to the Board of Supervisors, the Affordable Care Act imposes one direct fee and one tax on health plans.

- The Patient Centered Outcomes Research Institute Fee (PCORI) is a per enrollee per year fee assessed to health plans to fund health care research. This fee is \$2.34 and is included in the projected 2018 premiums.

- The Transitional Reinsurance Fee (TRF) subsidizes reinsurance in the individual market, to lower the cost of health insurance for higher-risk individuals. This fee was eliminated in 2017, such that no costs are assumed for 2018.
- The Health Insurance Tax (HIT) is applied to all fully insured or flex-funded plans, including vision and dental plans offered by HSS. There was a one-year moratorium on this fee for plan year 2017. The fee is reinstated for 2018 and the cost is incorporated in the 2018 rates.

FISCAL IMPACT

Stabilization Reserve

HSS sets aside a portion of the Health Service System Trust Fund balance to stabilize the self-funded City Plan. The City Plan had a revenue surplus of \$700,000 in 2016 that was deposited into the Stabilization Reserve, for a \$4,530,000 balance.

For 2018, based on Aon Hewitt's recommendations, the Health Service Board, in accordance with the Health Service Board's Self-Fund Plans' Stabilization Policy, allocated one-third of the \$4,530,000 balance or \$1,510,000 to reduce active and early retiree City Plan member premiums. An additional one-time buy-down of \$3,020,000 was approved by the Health Service Board to further reduce City Plan active employees' premiums. These 2018 transfers will result in a full utilization of the remaining balance in the Stabilization Reserve.

2018 Total City Costs

As shown in Table 1 below, the total estimated City and member costs for health, vision, and dental plans, as well as long-term disability and life insurance, is \$729,338,459 in 2018, which is a \$23,173,308 or 3.28 percent increase from \$706,165,151 in 2017. The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance, for the City in 2018 is \$650,457,560 which is a \$22,295,130 or 3.55 percent increase from \$628,162,430 in 2017.

Table 1: Total Plan Costs for the City, Employees and Retirees in 2018 Compared to 2017

	2017	2018	Increase / (Decrease)	Percent
City Costs Only				
Kaiser HMO	\$271,056,971	\$287,121,182	\$16,064,211	5.93%
Blue Shield HMO	\$244,263,396	\$243,912,370	(\$351,026)	-0.14%
City Plan	\$60,128,051	\$67,517,914	\$7,389,864	12.29%
Subtotal Health and Vision Plan	\$575,448,418	\$598,551,466	\$23,103,048	4.01%
Dental	\$44,904,012	\$43,806,094	(\$1,097,918)	-2.45%
Long Term Disability and Life Insurance	\$7,810,000	\$8,100,000	\$290,000	3.71%
Total City Costs	\$628,162,430	\$650,457,560	\$22,295,130	3.55%
Employee and Retiree Costs Only				
Kaiser HMO	\$33,102,614	\$35,096,654	\$1,994,040	6.02%
Blue Shield HMO	\$30,426,448	\$29,613,639	(\$812,809)	-2.67%
City Plan	\$8,300,940	\$9,927,887	\$1,626,947	19.60%
Subtotal Health and Vision Plan	\$71,830,002	\$74,638,180	\$2,808,178	3.91%
Dental	\$3,672,720	\$3,672,720	\$0	0.00%
Long Term Disability and Life Insurance	\$2,500,000	\$570,000	(\$1,930,000)	-77.20%
Total Employee and Retiree Costs	\$78,002,722	\$78,880,900	\$878,178	1.13%
Total Costs				
Kaiser HMO	\$304,159,585	\$322,217,836	\$18,058,251	5.94%
Blue Shield HMO	\$274,689,844	\$273,526,008	(\$1,163,836)	-0.42%
City Plan	\$68,428,990	\$77,445,801	\$9,016,811	13.18%
Subtotal Health and Vision Plans	\$647,278,419	\$673,189,645	\$25,911,226	4.00%
Dental	\$48,576,732	\$47,478,814	(\$1,097,918)	-2.26%
Long Term Disability and Life Insurance	\$10,310,000	\$8,670,000	(\$1,640,000)	-15.91%
Total Costs	\$706,165,151	\$729,338,459	\$23,173,308	3.28%

Source: Health Service System

The employer contribution amounts shown in Table 1 above are included in the FY 2017-18 and FY 2018-19 budgets currently pending before the Board of Supervisors.

The balance of \$78,880,900 (\$729,338,459 total 2018 costs less \$650,457,560 City 2018 costs) is paid by employees and retirees.

RECOMMENDATION

Approve the proposed ordinance.