

San Francisco Health Service System (SFHSS) Employer-Sponsored Health Insurance Rate Trends: Impact on City Budget

Budget and Appropriations Committee Presentation
November 15, 2023

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Agenda

- SFHSS Mission, Strategic Goals, and Health Service Board
- Current Health Plans Offered
- Historical Rate Trends Compared to Benchmarks
- Health Care Macro Trends
- Drivers of 2024 Health Plan Rate Increases
- Near-Term Mitigation Actions
- Closing

Appendix: 2024 City budget, Office of Health Care Affordability, and Medicare cost growth information

SFHSS Mission, Strategic Goals, and Health Service Board

SFHSS Mission and Strategic Goals

- Our mission is to ensure equitable, sustainable, and quality benefits that enhance the well-being of our members and their families throughout the lifecycle

STRATEGIC GOALS



Foster **equity** through intentional organizational culture, accessibility, inclusion, and belonging.



Advance **primary care practice** and member engagement to ensure the right care, at the right time and place.



Provide **affordable and sustainable** healthcare and high-quality well-being services through value-driven decisions and program design.



Support the **mental health and well-being** of our membership by reducing stigma and addressing barriers to care in partnership with key stakeholders.



Optimize service to maintain and advance exceptional member engagement.

Health Service Board

- The Health Service Board (HSB) is the governing and policy-making body of SFHSS
- The Board consists of seven members
 - Three Commissioners are elected
 - Four appointed Commissioners
 - A San Francisco Supervisor
 - Two selected by the Mayor
 - One selected by the City Controller



Randy Scott
President
Appointed by
Controller's Office



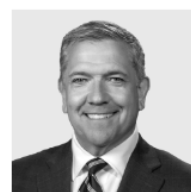
Mary Hao
Vice-President
Appointed by
Mayor Breed



Karen Breslin
Elected by SFHSS
Membership



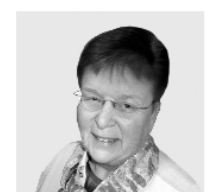
Chris Canning
Elected by SFHSS
Membership



Matt Dorsey
Appointed by the
Board of Supervisors








Stephen Follansbee, M.D.
Appointed by
Mayor Breed



Claire Zvanski
Elected by SFHSS
Membership

Current Health Plans Offered

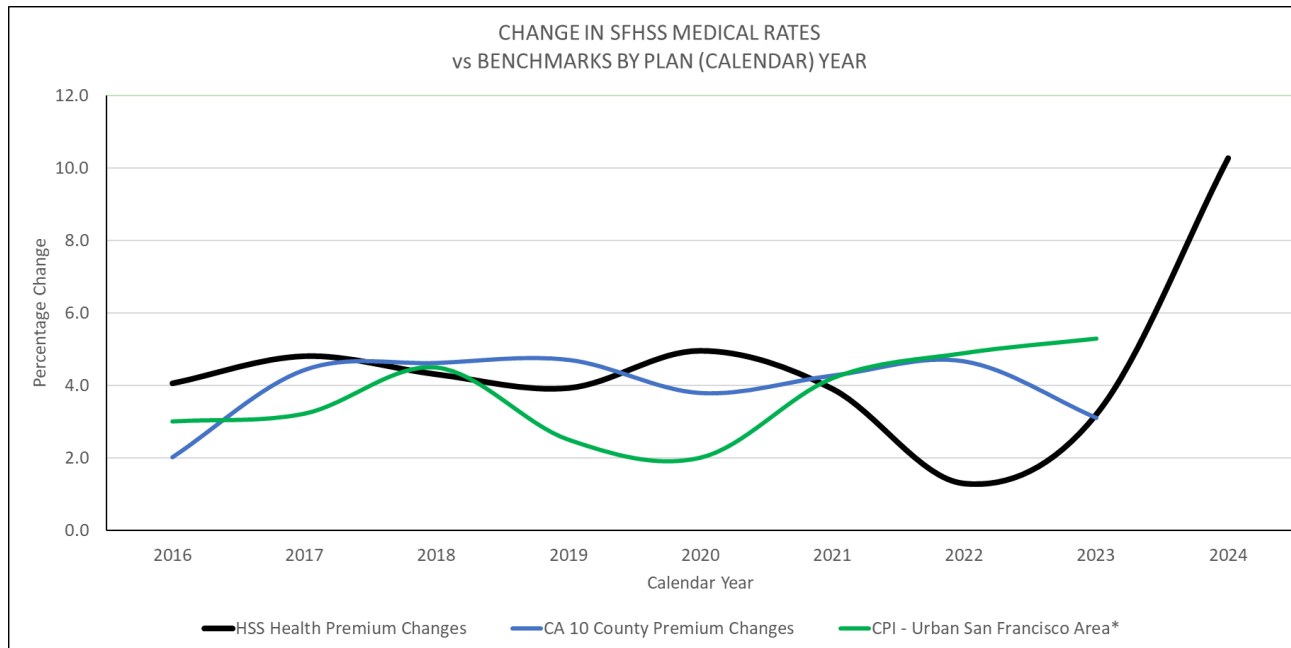
Medical Plans Choices with 2024 rate change

| | Actives | Early Retirees | Medicare Retirees |
|---|---|---|---|
|  KAISER PERMANENTE | Kaiser (HMO) 12.4% | Kaiser (HMO) 12.5% | Kaiser Permanente Senior Advantage (MAPD-HMO) 6.2% |
|  blue california | BSC Access+ (HMO) 14.4% BSC Trio (HMO) 2.8% BSC (PPO) 3.5% | BSC Access+ (HMO) – 14.4% BSC Trio (HMO) 2.9% BSC (PPO) 1.7% | N/A |
|  health net  canopy HFAITH | Health Net CanopyCare (HMO) 3.7% | Health Net CanopyCare (HMO) 3.7% | N/A |
|  UnitedHealthcare® | UHC Non-Medicare PPO (only for Actives w/Dep in UHC MA PPO) 3.6% | UHC (PPO and EPO) for Non-Medicare family members with a member in United MA PPO 7.1% | UnitedHealthcare (MAPD-PPO) 14.8% |

Historical Rate Trends Compared to Benchmarks

Favorable SFHSS Cost Trends Historically—Until 2024

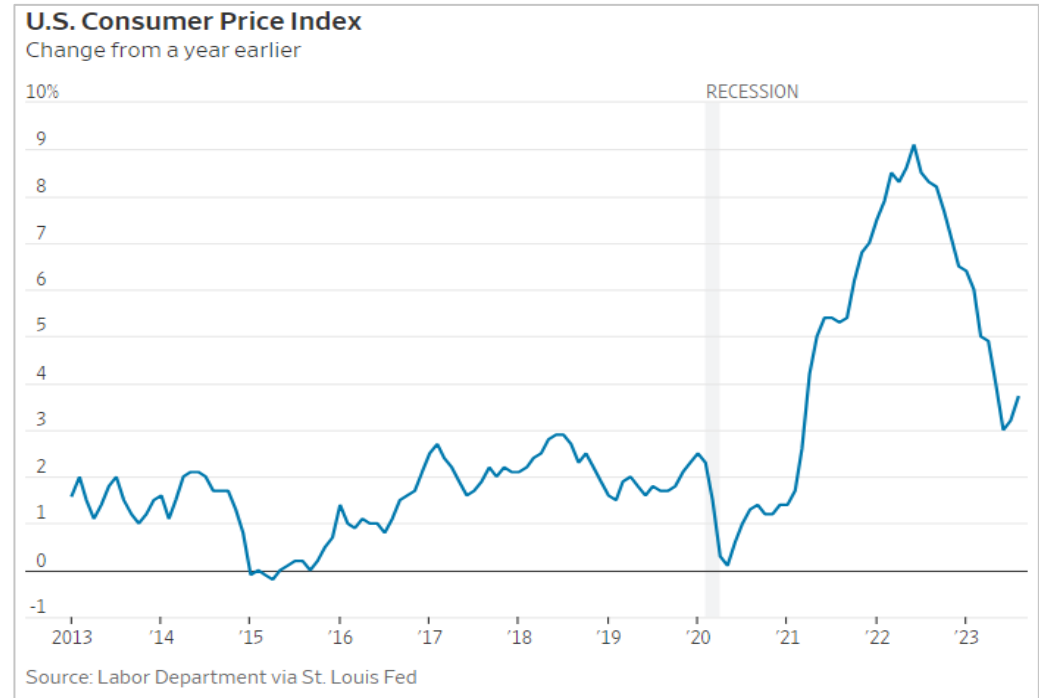
- SFHSS historical cost trends have been 5% or lower, comparing favorably to 10-County Survey (10 largest counties in California)
- However, the CY2024 increase is 10.3% - \$79 million increase in CCSF cost over prior year and \$31 million higher than projected (forecast was 6.7%)
- Healthcare premium increases lag general inflation as higher provider costs run through the health plan and provider renewal cycles



* CPI Source: US Bureau of Labor Statistics

Consumer Price Index (CPI)—Preparing for What's Ahead

- Historically have achieved rate increases below national trends but 2024 rates increases are high.
- Inflation is declining after peak in 2023 with a delayed healthcare impact in 2024
- Use health plan and network selection to navigate past the inflation wave so that future rate increases are in line with declining inflation.



Escalated Medical Trend Drivers into 2024

Healthcare wage and supply cost inflation drives up negotiated prices between payers and providers. The timing of the impact may be delayed based on carrier/provider contract renewal cycles—typically renegotiated every two to four years

Increasing prevalence of chronic conditions magnified by Long COVID impacts leads to higher demand for and utilization of medical services and prescription drugs.

Mental health and substance abuse services utilization and cost continue to increase as low provider supply and high demand for services

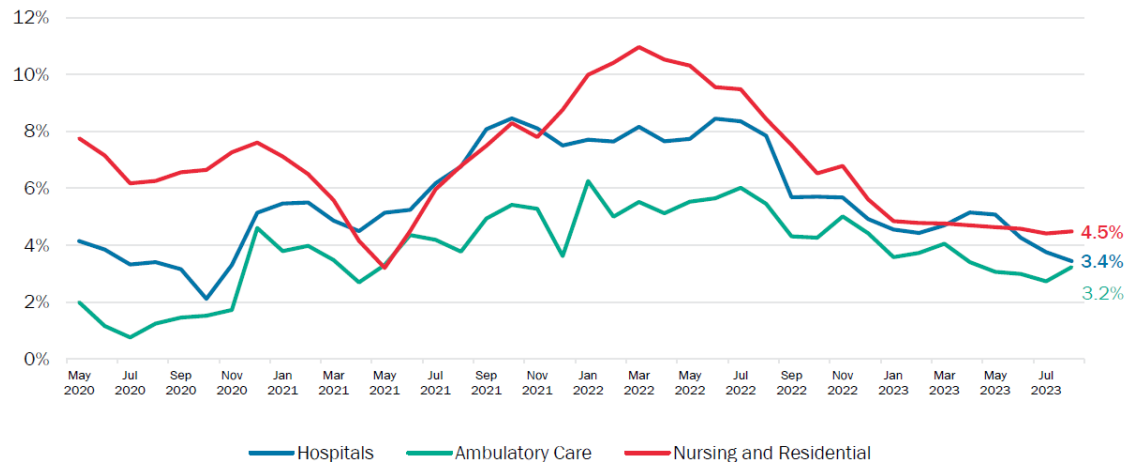
Increased cost shifting from the government to the private sector due to low provider payment rates in Medi-Cal and Medicare. Medicare rates will stay low due to enrollment growth.

Health Care Macro Trends

Health Care Wage Inflation

- Health care worker wage increases elevated as health care employment declined since the start of the COVID-19 pandemic. We anticipate elevated increases will continue with a tight labor market, increased demand, and Kaiser's recent contractual agreements. This impacts 2024 and beyond renewals.
- In September, an agreement between labor and the health industry was reached that will gradually raise the minimum wage for hundreds of thousands of health workers in California to a nation-leading \$25 an hour.

Exhibit 5. Change in Average Hourly Earnings, Year over Year, by Setting of Care



Source: Altarum analysis of monthly BLS Current Employment Statistics data.

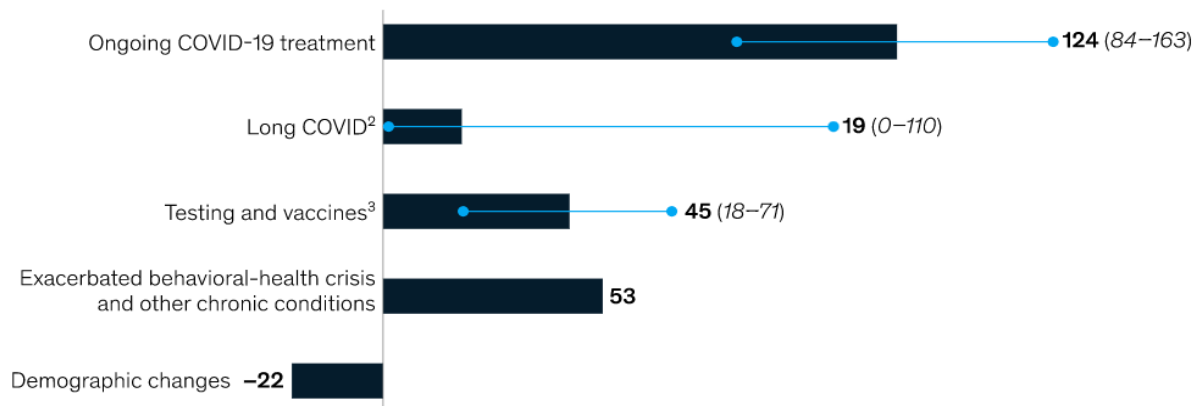
Source: Altarum Health Sector Economic Indicators; October 2023 Labor Brief

COVID-19 Expenditures Will Continue

McKinsey Study estimates as much as \$200B in US costs attributable to COVID-19 by 2027

Across factors, the total additional costs of treating COVID-19 could be over \$200 billion.

Impact on cost of care from COVID-19-related factors and exacerbations of other conditions, 2027,¹
\$ billion



¹Total range of \$137 billion–\$379 billion is based on scenario analysis using McKinsey's COVID-19 Epidemiological Scenario Planning Tool (v13.3), which includes a range of 110 million–220 million annual cases, of which 10–15% require outpatient treatment; 4,100–6,100 people per day require non-ICU hospital admission; and 400–900 per day require ICU admission. Cost of treatment estimates are from Blue Cross Blue Shield and FAIR Health. All figures are scaled to nominal 2027 estimates.

²Long COVID treatment costs are based on an estimate that at least 3–12% of cases result in long COVID (UK Office for National Statistics) for 3–12 months, published estimates of long COVID symptoms (UpToDate), and standard treatment costs for those symptoms (MEPS). The upper estimates of long COVID incidence assume approximately 20 million US long COVID cases per year, based on data on current rates of long COVID from the US Census Bureau's July–August 2022 Household Pulse Survey. There is significant uncertainty in ascertaining prevalence and resulting cost impact of long COVID, and data continue to become available on a frequent basis as more research is conducted. Our aggregate analysis, based on these enumerated data sources, uses a point estimate of \$19 billion as a conservative estimate based on available data. For both ongoing COVID-19 treatment and long COVID, higher incidence rates would result in an estimate at the higher end of the range.

³Testing and vaccine estimates are based on 2021 costs per test and per vaccine and on data from HHS and the CDC as to annual demand for testing and boosters. For this factor, higher utilization of testing (times per person, per year) would result in an estimate at the higher end of the range. All figures are scaled to nominal 2027 estimates.

Escalated Pharmacy Trend Drivers into 2024

Specialty drugs continue to escalate in cost—especially new medications which address rare conditions, along with tremendous developments in cancer treatments

Utilization of traditional brand and generic drugs will increase gradually as population health risk continues to escalate.

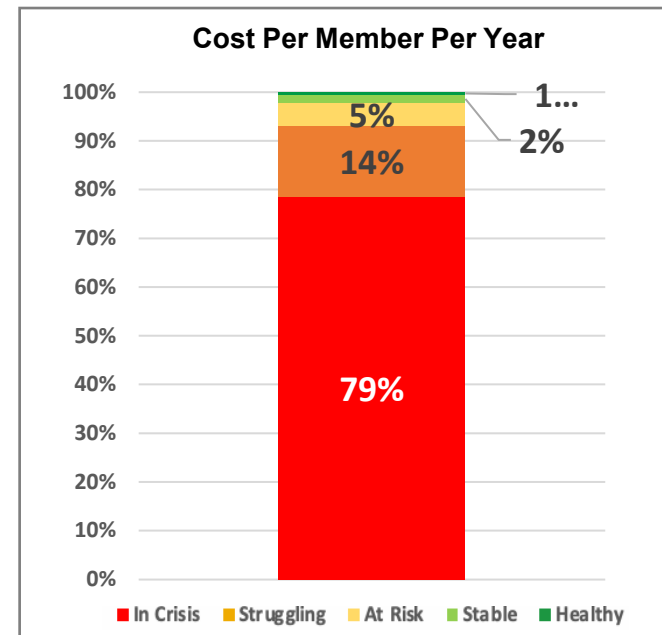
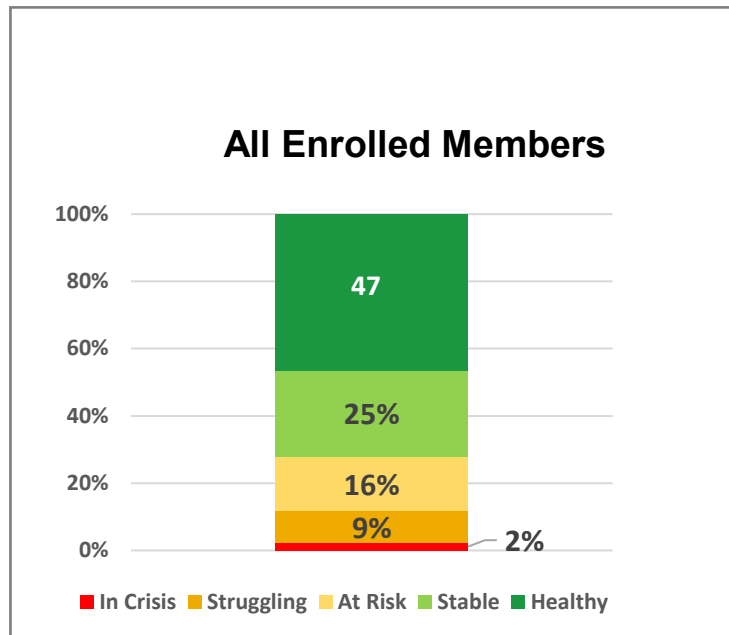
No significant cost reductions are expected in 2023 from new generic drug or biosimilar drug entry—a change from past developments.

Increased utilization of GLP-1 (glucagon-like peptide-1) medications for treatment of diabetes is anticipated to contribute to trend pressures, especially as these medications are prescribed for weight-loss uses beyond original intent.

Drivers of 2024 Health Plan Increases

Majority of Spend Is For Members Most in Need

72% of the Commercial population are **Healthy & Stable** and their health costs are around 3%. **In Crisis** members are 2% and cost 79%.



Healthy patients are infrequent or non-utilizers being treated for the occasional low-severity acute conditions.

Stable patients are somewhat active utilizers being treated for low-severity acute conditions.

At Risk patients are active utilizers most often being treated for medium severity acute conditions and low severity chronic conditions.

Struggling patients are heavy utilizers most often being treated for high severity acute conditions and medium severity chronic conditions.

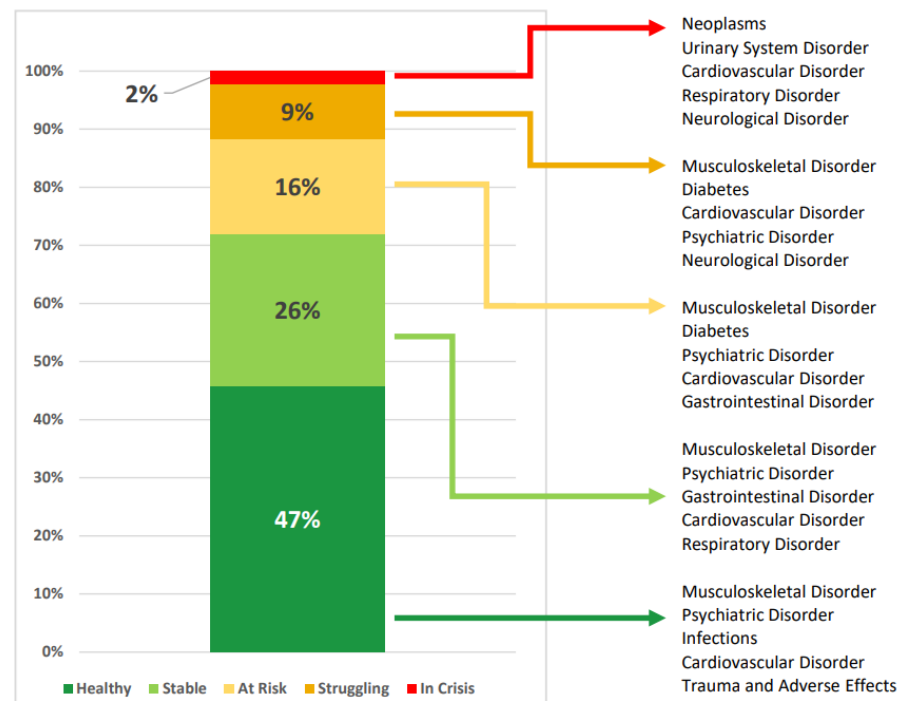
In Crisis patients are heavy utilizers most often being treated for multiple severe acute and/or chronic conditions.

Population Health Risk is Increasing

More than a quarter of health care costs or roughly \$455B are associated with four complex condition categories: diseases of the heart, musculoskeletal, cancer, and kidney disease.¹

Utilization is driven by declining overall health, long-term impact of COVID on the body, longer survival rates of those with rare or chronic conditions. As many as 1 out of 6 people who have recovered from COVID continue to have symptoms 6 months later.²

SFHSS data, April 2023 Risk Scores Report, Active Employee / Early Retiree Populations:



¹ Complex, Costly Conditions: A Strategic Imperative for Payers and Employers (Optum) ² The Hill: 8 Reasons Why Health Care Cost Inflation Is Likely to Escalate, 4/2/2022

Healthcare Cost Trend Influencers – Impact on 2024 SFHSS Medical/Rx Plan Rates

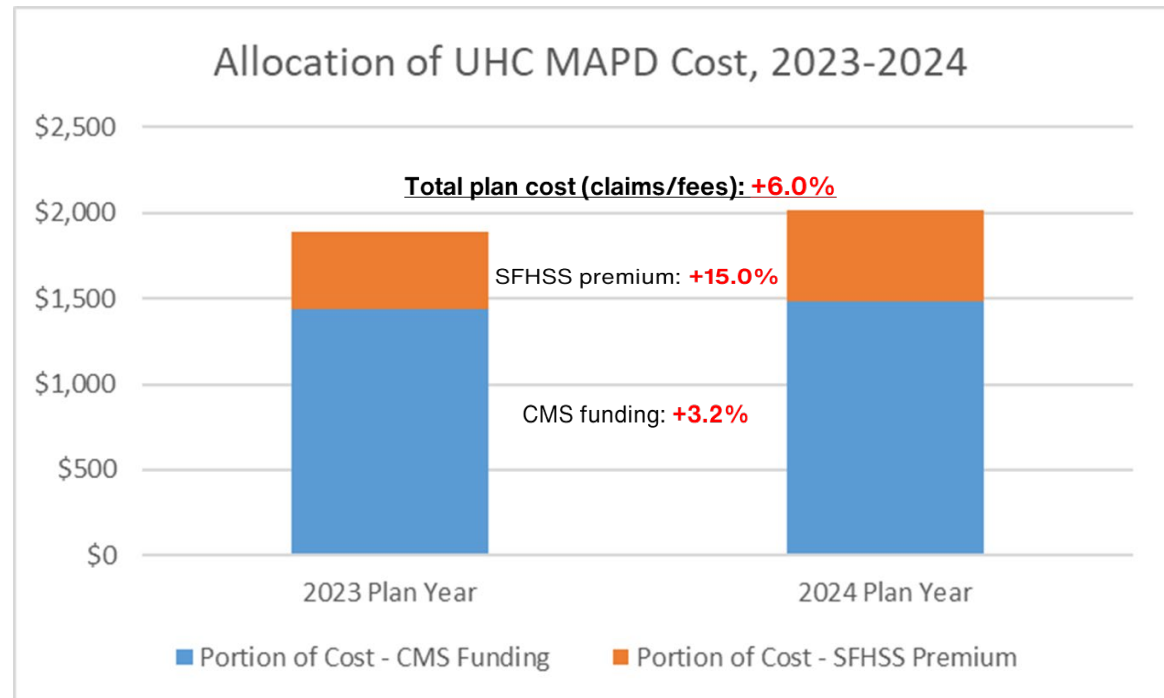
The degree to which the influencers discussed in this document impact 2024 SFHSS health plan rate changes varied.

| High 2024 Renewal Increases | Low 2024 Renewal Increases |
|--|--|
| Kaiser HMO (active employees / early retirees): High cost inflation projection used in rate setting | Kaiser HMO (Medicare retirees): benefit of annual CMS revenue reconciliation process |
| Blue Shield Access+ HMO (active employees / early retirees): elevated high-cost claims from 2021 to 2022 combined with overall increasing health risk of population | Blue Shield Trio HMO (active employees / early retirees): modest high-cost claim experience in 2022 combined with elevated care management approach |
| UHC MA PPO (Medicare retirees): adverse impact of change in CMS federal government funding from IRA legislation (see next page) | Health Net CanopyCare HMO (active employees / early retirees): lower population health risk combined with physician-led care management approach |

Note: Additionally, a low renewal increase was observed for the Non-Medicare PPO plan due to application of dollars from Sutter Health legal settlement.

Medicare Advantage Plan Focus—Methodology Changes Impacting Government Revenues

- The majority of medical and prescription drug claim costs within Medicare Advantage plans are covered through federal government payments managed by the Centers for Medicare and Medicaid (CMS).
- Recent changes in CMS revenue determination processes into Medicare Advantage plans are leading to lower percentage increases in third-party revenue relative to claims trend starting with the 2024 plan year – creating higher-than-typical increases in near-term plan rates that cascade to MAPD plans (example at right – SFHSS' UHC MAPD plan renewal impact).



Near-Term Mitigation Actions

SFHSS Near-Term Actions

Actions underway to address the three plans that drove the highest 2024 budgetary increases to address 2025 rates:

| Plans With High 2024 Renewal Increases | Near-Term Action Focus |
|---|--|
| Kaiser HMO (active employees / early retirees) | Monitor actual expenses relative to inflation assumptions used to set 2024 premiums to assure true up in 2025 rates |
| Blue Shield Access+ HMO (active employees / early retirees) | Partner with Blue Shield to enhance primary care initiatives with physician groups seen most by SFHSS Blue Shield HMO plan members; alignment with ACOs to manage total cost of care |
| UHC MA PPO (Medicare retirees) | MA PPO plan request for proposal to be released in December 2024—plan selection targeted in May 2025 for January 1, 2026 effective date |

Our Collaborative Core Partners—Health Plans and Actuary

We emphasize a **highly collaborative approach** with our health plan and consulting partners—connecting frequently to address clinical care improvement initiatives as well as cost reduction opportunities for members and employers.

Aon and our health plans are active participants in the Health Service Board meetings—with Aon guiding our Rates and Benefits annual process and partnering on Board Education, and health plans having a place on every Board meeting agenda to provide the Board and Public with important updates.

SFHSS and Aon collaboration since 2011 has produced **cost savings** through:

- Early identification of claims trends via quarterly utilization reviews;
- Favorable contract terms for administrative fees and pharmacy rebates;
- Execution of identified goals in health plan request for proposal processes; and
- Plan strategy realignment including full adoption of Medicare Advantage plans in 2017.

Trend Mitigation: Near Term Focuses for SFHSS

- The majority of SFHSS healthcare spend is on fully insured health plans (primarily Kaiser HMOs and UnitedHealthcare MAPD plan) based on enrollment distribution — continued partnership among the plans and SFHSS to support member wellbeing is more important than ever to maintain reasonable renewal positions.

- Forecast aggregate SFHSS cost distribution by plan for 2024 plan year:

| Kaiser HMOs | UHC MAPD | BSC/HN/UHC HMOs | BSC/UHC PPO | Active | Active | |
|-------------|------------|-----------------|-------------|--------|----------|-------|
| Med/Rx/Vis | Med/Rx/Vis | Med/Rx/Vis | Med/Rx/Vis | Dental | Life/LTD | Total |
| 48% | 10% | 33% | 5% | 4% | <1% | 100% |

- Trend mitigation strategies for SFHSS are multi-faceted and may include:

| |
|--|
| Plan Rate Negotiations and Periodic RFPs |
| Lower Member Demand for Healthcare Services through Health Risk Improvement Initiatives |
| Increased Use of Alternative Care Settings (e.g., virtual care, urgent care instead of emergency department) |
| Advanced Primary Care Initiatives that Better Engage Patients in Health Risk Management and Healthcare Decisions |
| Optional Plan Design Feature Review (e.g., deductibles, copayments, Rx formularies, etc.) |

Closing

HEALTH BENEFITS
OPEN ENROLLMENT
OCTOBER 2ND – 27TH, 2023



SFHSS Rates and Benefits Milestones

Benefit Plan Year 2024

First Quarter

- Review Lessons Learned
- **Plan Year Starts January 1**
- Health Plan Renewal Discussion & Negotiation (January – June)
- Health Service Board Rates & Benefits Meetings (January – June)
- OE Communications Planning & Procurement (February – March)
- 10-County Survey Approved (March)

Second Quarter

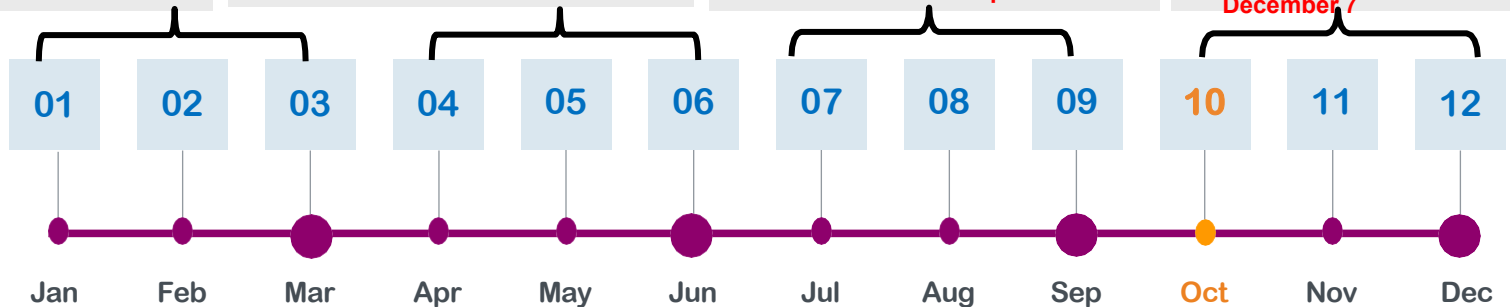
- Health Service Board Rates & Benefits Meetings (April – June)
- OE Communications Layout & Design (April – September)
- eBenefits Configuration Begins (May)
- **Health Service Board Approves all Rates and Benefits June 8**
- **Rates & Benefits Packet Delivered to Board of Supervisors June 16**

Third Quarter

- **Board of Supervisors Approves Rates & Benefits July 25**
- System eBenefits Programming and Testing (July – September)
- Detailed Rates Calculations (July – September)
- Vendor Renewal Confirmation Letters after BOS approvals (July)
- Staff Training (August – September)
- **OE Packets Mail September 25**

Fourth Quarter

- **eBenefits Open Enrollment Live (October)**
- HSS & Vendor Webinars and Live Events (October)
- Data Entry & Validation (October – November 11)
- Request Vendor Renewals for Plan Year 2025
- **Eligibility Files to Vendors December 4**
- **Member Confirmation Statements December 7**



SAN FRANCISCO
HEALTH SERVICE SYSTEM

Affordable, Quality Benefits & Well-Being

Near-Term Trend Pressures Require Proactive Action

- Continue to elevate strategic goals
- Monitor current data from plans
- Hone preliminary renewal forecasts for active / early retiree populations
- Communicate with health plans on key provider contract expirations
- Promote plans where financial and/or service improvements are expected
- Partner with health plans and/or other strategically aligned entities on opportunities to drive the market towards value-driven care

