

**Items 5 and 6
Files 12-0051 and 12-0050**

**Department
Health Service System (HSS)**

EXECUTIVE SUMMARY

Legislative Objective

- The proposed ordinance (File 12-0050) would amend Section 16.703 of the City's Administrative Code, to (a) approve the FY 2012-13 health plans offered by the Health Service System (HSS) to its members, and (b) set employer and member contributions for the monthly health plan premiums for the first six months of FY 2012-13, from July 1, 2012 to December 31, 2012 (Short Year).
- The proposed resolution would approve the FY 2012-13 employer's health plan premium contribution of \$522.97 per member per month. The monthly employer contribution is based on the results of the ten-county survey conducted by the Health Service Board (HSB), as required by the Charter.

Fiscal Impact

- Pursuant to approval by voters of Proposition C on November 8, 2011, the HSB approved a change in the plan year from a fiscal plan year to a calendar plan year, starting January 1, 2013. HSB is proposing a one-time six month plan year of July 1, 2012 to December 31, 2012. The HSB will conduct another ten-county survey of employer contributions and will consider new health plans, benefits, and premiums for calendar year 2013 at its May 2012 meeting. The new health plans, benefits, and premiums will be presented to the Board of Supervisors for approval in June, 2012.
- Based on the results of the ten-county survey conducted by the Health Service Board, the employer's FY 2012-13 contribution to the health plan premium is \$522.97 per member per month, which is an increase of \$19.03 or 3.78 percent from the FY 2011-12 employer's contribution of \$503.94 per member per month.
- According to HSS, the total costs for all health plans for the first six months of FY 2011-12 is \$351.3 million.

Policy Issues

- Under Proposition C, in order to reduce health plan costs, (a) elected officials and City employees who were hired after January 1, 2009 are required to contribute up to one percent of their compensation toward retiree health benefits to be matched by the City; and (b) for former elected officials and City employees, who (i) left City employment prior to June 30, 2001 and who have already retired or retire after January 6, 2012, and (ii) who had previously vested in retiree health benefits, the City contribution to the health plan premium remains at the same contribution level as on the date when the former elected officials or City employees left City employment. According to Ms. Catherine Dodd, Director of the Health Service System, implementation of Proposition C has not yet reduced the City's costs for health plan premiums.

Recommendations

- Approve the proposed ordinance and resolution.

MANDATE STATEMENT/BACKGROUND

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

HSB adopts the annual health plans and the health plan premiums 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 (CCD), 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 employees, and other legal dependents.

Under Section A8.423 of the City Charter, HSB 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. The employer’s contribution to the health plan premiums for each plan member is equal to the average of the contributions made by each of the ten counties.

Proposition C

San Francisco voters approved Proposition C on November 8, 2011, to reduce the City’s costs for pensions and retiree health plans. Under Proposition C,

- Elected officials and City employees, who were hired on or before January 9, 2009 must contribute up to one percent of their compensation toward their retiree health care, with a matching one percent contribution by the City; and
- For former elected officials and City employees, who (a) left City employment prior to June 30, 2001 and who retired or will retire after January 6, 2012, and (b) who had previously vested in retiree health benefits, the City contribution to the health plan premium remains at the same contribution level as on the date when the former elected official or City employee left City employment.

Proposition C (1) removes the requirement that the Health Service System offer at least one plan that allows plan members to choose whichever licensed medical provider that City employees want; and (2) allows the Health Service Board to expend monies on ways to limit health care costs.

Proposition C also allowed the HSB to change the plan year from a fiscal plan year (July 1 through June 30) to a calendar plan year, (January 1 through December 31). The Board of

Supervisors previously approved the health plan premiums, benefits, and employer and member contributions toward monthly premiums for the fiscal plan year from July 1, 2011 through June 30, 2012 (Files 11-0069 and 11-0076). In order to change the plan year from a fiscal plan year to a calendar plan year as required by Proposition C, the Health Service Board approved health plan premiums, benefits, and employer and member contributions for the Health Service System's health, dental, and vision plans for the remaining six months of the calendar year, from July 1, 2012 through December 31, 2012.

According to Ms. Tracey Loveridge, HSS Chief Financial Officer, changing the plan year from a fiscal plan year to a calendar plan year allows HSS to: (a) align more closely with the timing of collective bargaining; (b) improve administration related to Flexible Spending Accounts and IRS rules, (c) streamline processing associated with potential Medicare reimbursement, and (d) negotiate reduced rates with health plan insurers.

According to Ms. Loveridge, the HSB will conduct another ten-county survey of employer contributions and will consider new health plans, benefits, and premiums for calendar plan year 2013 at the HSB May 2012 meeting and submit these new health plans, benefits, and premiums for calendar plan year 2013 for Board of Supervisors approval in June 2012.

DETAILS OF PROPOSED LEGISLATION

File 12-0050: The proposed ordinance would amend Section 16.703 of the City's Administrative Code to (a) approve the FY 2012-13 health plans offered by the Health Service System (HSS) to its members, and (b) set the employer's and members' contributions toward the monthly City Health Plan, Kaiser Foundation Health Plan, and Blue Shield of California premiums for the first six months of FY 2012-13, from July 1, 2012 through December 31, 2012 (the Short Year).

The Health Service Board approved the above noted plans and employer's and members contributions toward monthly premiums on January 12, 2012.

File 12-0051: The proposed resolution would approve the FY 2012-13 employer's health plan premium contribution of \$522.97 per member per month, which is an increase of \$19.03 or 3.8 percent from the FY 2011-12 employer's contribution of \$503.94 per member per month. The proposed FY 2012-13 employer's monthly contribution is based on the results of the ten-county survey, as shown in Attachment I, provided by HSS.

Proposed Monthly Premiums and Benefits for the Health Plans and Vision Plans

In the first six months of FY 2012-13 (July 1, 2012 through December 31, 2012), HSS will continue to offer three health plans, including one self-funded health plan, the City Health Plan, and two plans provided through third-party insurers, Kaiser Foundation Health Plan ("Kaiser") and Blue Shield of California ("Blue Shield"). The City Health Plan is a preferred provider organization, or PPO, which provides services through a network of providers. Both Kaiser and Blue Shield are health maintenance organizations, or HMOs, which provide services through a closed panel of providers. HSS will also offer one vision plan provided through a third-party insurer, VSP Vision.

As of January 1, 2012, there are approximately 57,643 active and retired HSS members who currently receive health benefits, as shown in Table 1 below.¹

Table 1: Active and Retired HSS Members

	Active City, SFUSD, CCD, and Superior Court Employees	Retired Active City, SFUSD, CCD, and Superior Court Employees	Total	Percent
City Health Plan	1,051	5,356	6,407	11.1%
Kaiser	18,087	9,836	27,923	48.4%
Blue Shield	16,674	6,639	23,313	40.4%
Total	35,812	21,831	57,643	100.0%

Source: Health Service System, as of January 1, 2012

Monthly Premium Increases for the Employer and Employees: Both the employer and members contribute to the total monthly health plan premium. The proposed monthly health plan premiums for the six month period July 1, 2012 through December 31, 2012 (the Short Year) for the three health plans and the vision plan are shown in Table 2 below for single employees (without dependents). Additional premium information for active and retired employees is further detailed in Attachment II, provided by HSS. Members enrolled in one of the three HSS health plans also receive vision benefits. The monthly VSP Vision premium for employees is included in the total monthly premium for each of the three health plans, shown in Table 2 and in Attachment II.

Table 2: Comparison of FY 2011-2012 and FY 2012-2013 (Short Year) for the Medical and Vision Monthly Premiums for Single Employees (without Dependents)

	Proposed July through December 2012 (Short Year)	FY 2011- 2012	Increase	Percent Change
City Health Plan	\$1,237.46	\$1,110.87	\$126.59	11.4%
Kaiser	\$530.01	\$505.22	\$24.79	4.9%
Blue Shield	\$608.43	\$589.40	\$19.09	3.2%

Source: Health Service System

¹ HSS has a total of approximately 110,597 members, including active and retired employees, resigned employees, surviving spouses, and dependents.

As noted on page 1 of the January 20, 2012 memorandum to the Board of Supervisors from Aon Hewitt (Attachment III), the HSS consultant and actuary, the “premium equivalents set for the HSS self-funded programs: City Plan and Active Dental benefits, represent our best estimate of future expenditures based on the information available at the time they were developed, and existing Trust Fund assets are expected to be sufficient to protect the HSS trust against adverse claims experience”.

Also as noted on page 1 of Aon Hewitt’s January 20, 2012 memorandum, “The insured premiums and administrative fees agree with HSS’s vendor’s final rates and represent a fair price given the services provided and the risks insured”.

According to Aon Hewitt, Blue Shield confirmed that an \$18.9 million credit from Blue Shield was due to the Health Service System. HSS elected to use \$5,191,691 of this credit for the six month Short Year from July 1, 2012 through December 31, 2012 to reduce the Blue Shield monthly premium increase from approximately 7.0 percent, which would have occurred without the \$5,191,691 credit, to 3.8 percent, as shown in Table 3 below.

Design Changes for HMOs and City Plan: In addition to the move from a fiscal year plan to a calendar plan year, HSS is making several changes in each of the three health plans as noted on pages two and three of Attachment III, because “certain elements of [the current] plan design were not aligned with similar employers and did not reflect the impact from the continued high healthcare trends”

- For the Kaiser plan, the HSB adopted increases for copayments for office visits and outpatient surgery.
- For the Blue Shield plan, HSB adopted copay increases for office visits, outpatient surgery, inpatient surgery, retail pharmacy, mail order pharmacy, and the out of pocket maximum.
- For the City Plan, HSB adopted a network change from the Options PPO to the Open Choice PPO and inclusion of specialty drug management in pharmacy management. The change from Options to Open Choice allows members access to the same doctors and hospitals but results in a smaller rate increase than would have occurred otherwise.

According to the Aon Hewitt January 20, 2012 memorandum (Attachment III), plan modifications were made to all three plans to comply with SB 946 (The Autism Insurance Reform Bill) which requires insurance companies to provide coverage of behavior therapy for autism spectrum disorder as a medical benefit. The increased Kaiser premium reflects in part an adjustment needed to comply with SB 946. No premium adjustments were needed for compliance with SB 946 for Blue Shield or the City Plan.

Monthly Premium Increases for the Employer: The increases to the monthly premiums for single employees (without dependents) of the three health plans, as shown in Table 2 above, are shared by both the employer and the members. As shown in Table 3 below and further detailed in the 10-County Survey Results (Attachment I), provided by HSS, the monthly increase to the

employer's contribution is \$19.03 or 3.78 percent, from \$503.94 in FY 2011-12 to \$522.97 in FY 2012-13, as shown in Table 3 below.

As shown in Table 3 below, there will be increases in employee contributions for both Kaiser and the City Health Plan. Because the HSB has opted to use \$5,191,691 of the \$18.9 million credit owed to the HSS by Blue Shield to stabilize Blue Shield premiums, there will be no increase for Blue Shield in the employee contributions for single employees for the six month Short Year period July 1, 2012 through December 31, 2012.

Table 3: Comparison of Employer and Employee Contributions to Health and Vision Plan Monthly Premiums for Single Employees, FY 2011-12 and FY 2012-13 (Short Year)

	Total	Employee				Employer			
		Proposed July 1, 2012 through Dec 31, 2011	Proposed July 1, 2012 through Dec 31, 2011	FY 2011-12	Increase	Percent Increase	Proposed July 1, 2012 through Dec 31, 2011	FY 2011-12	Increase
City Health Plan	\$1,237.46	\$714.49	\$606.93	\$107.56	17.7%	\$522.97	\$503.94	\$19.03	3.8%
Kaiser	\$530.01	\$7.04	\$1.28	\$5.76	450.0%	\$522.97	\$503.94	\$19.03	3.8%
Blue Shield	\$608.43	\$85.46	\$85.46	\$0.00	0.0%	\$522.97	\$503.94	\$19.03	3.8%

Source: Health Service System

Proposed Monthly Premiums and Benefits for the Dental Plans

In the six month Short Year period July 1, 2012 through December 31, 2012, HSS will offer three dental plans including one PPO plan, the Delta Dental, and two HMO plans, DeltaCare USA and UHC Dental. The Delta Dental Plan is a dental PPO with a network of preferred providers. The Delta Dental plan is (a) self-insured through HSS for active members and (b) fully insured for retirees. The DeltaCare USA and UHC Dental Plans are dental HMOs with a closed panel of providers and are fully insured plans. Retirees pay for their individual dental coverage, such that there is no employer contribution for retiree dental plans.

The City and the Superior Court as employers (but not the San Francisco Unified School District and the Community College District), pay the dental plan premiums for active members. The employer contributes the average cost of employees' monthly dental plan premiums. As shown in Table 4 below, the employer's contribution for dental benefits in the six-month Short Year from July 1, 2012 through December 31, 2012 would remain the same as the current contribution at \$137.70. According to Ms. Loveridge, although there were changes to tiers within the Delta Dental PPO for active members, the overall *aggregate* rates across all HSS dental plans, including self-insured and the two HMO plans remain, unchanged due to negotiated rate guarantees. Therefore, the composite dental rate for the six month, Short Year from July 1, 2012 through December 31, 2012 remains unchanged from the FY 2011-12.

Table 4: Comparison of FY 2011-2012 and FY 2012-2013 Short Year for the Dental Monthly Premiums for Single Employees

	Proposed July through December 2012 (Short Year)	FY 2011-2012	Increase	% Change
Delta Premier, DeltaCare USA and UHC Dental.	\$137.70	\$137.70	\$0.00	0%

Source: Health Service System

FY 2012-13 (Short Year) Contingency and Stabilization Policies and Amounts

In October 2007, the Health Service Board approved policies designating a portion of the Health Service System Trust Fund balance to: (a) provide contingencies for HSS's self-funded City Health Plan and self-funded employee dental plan and (b) stabilize the City Health Plan and employees' dental plan premium increases by including prior years' premium revenue surpluses or shortfalls when calculating required premiums in the new plan year.

Contingency Fund: According to Ms. Loveridge, the Contingency Fund is the targeted level of net assets available for health benefits. The HSS' "reserving and contingency margin policy" requires the Contingency Fund to be revisited at least once every three years. In its most recent resetting of the reserve amount, Aon Hewitt, the actuary for HSS, reset the reserve amount for the three year period from FY 2010-11 through FY 2012-13, based on statistical modeling instead of the Risk Based Capital approximation approach used in previous evaluations. The result is an estimated reserve of \$7,200,000 for the City Plan and \$3,700,000 for the Dental Plan (Delta Dental PPO for active members only) as of June 30, 2011, as shown in Table 5 below.

Table 5: Contingency Fund

	City Health Plan	Dental Plan	Total	Increase (Decrease) from Prior Year	Percent Change
FY 2009-2010	\$10,700,000	\$3,100,000	\$13,800,000	\$600,000	4.5%
FY 2010-2011	\$7,200,000	\$3,700,000	\$10,900,000	(\$2,900,000)	(21.0%)
FY 2011-2012	\$7,200,000	\$3,700,000	\$10,900,000	\$0	0.0%
FY 2012-2013	\$7,200,000	\$3,700,000	\$10,900,000	\$0	0.0%

Source: Health Service System

Stabilization Policy: In addition to the Contingency Fund, the Health Service Board has adopted a stabilization policy. Under this stabilization policy, HSS will incorporate the City Health Plan's actual premium revenue, surpluses, or shortfalls from a prior audited year, over a period of three years, when calculating required premiums in the new plan year.

In FY 2011-12 the Health Service Board approved a \$1,000,000 shortfall stabilization amount for the City Health Plan. This stabilization amount of \$1,000,000 was included when calculating the employees' contributions toward monthly premiums for FY 2011-12. The Health Service System has calculated and the Health Service Board has approved a \$1,011,000 shortfall stabilization amount for FY 2012-13. This \$1,011,000 stabilization amount has been incorporated into the calculations for determining the initial FY 2012-13 employees' contributions toward monthly premiums.

FISCAL ANALYSIS

Table 6 below compares the total costs for the City Health Plan, Kaiser, Blue Shield and dental coverage for all HSS members, including SFUSD, CCD, Superior Court, and the City for a six-month period in FY 2011-12 to the six-month (Short Year) period in FY 2012-13.

Table 6: Comparison of Total Health Plan Costs²

FY 2011-12 (six month period)	\$339.7 million
FY 2012-13 (July 1, 2012 through December 31, 2012)	\$351.3 million
Cost Increase	\$11.6 million
Percentage Increase	3.4%

As shown in Table 6 above, according to HSS, the total costs for all health plans for the first six months of FY 2011-12 is \$351.3 million

As a result of the passage of Proposition C and the subsequent move from a fiscal year plan to a calendar year plan, the recently determined employer contribution of \$522.97 only applies to the Short Year period of July 1, 2012 through December 31, 2012. HSS will conduct another ten county survey to determine a new employer contribution for the Calendar Year 2013. According to Ms. Loveridge, HSS anticipates only a modest change in the employer contribution level given the brief period between the two surveys. HSS will submit health plans, benefits, and premiums for calendar plan year 2013 to the Board of Supervisors for approval in June 2012.

Health Service System Trust Fund Balance

The FY 2010-11 financial audit, conducted by a private auditing firm, KPMG LLP, found that the Health Service System Trust Fund as of June 30, 2011 had increased by \$13.3 million or 93.7 percent, compared to June 30, 2010, as shown below.

² In order to compare FY 2011-12 total costs to costs for the one-time six-month FY 2012-2013 from July 1, 2012 through December 31, 2012, HSS divided the FY 2011-12 cost estimate of \$679.4 million by two, resulting in a cost estimate of \$339.7 million

Health Service System Trust Fund Balance

Fund Balance as of June 30, 2011 ³	\$27,500,000
Fund Balance as of June 30, 2010	<u>\$14,200,000</u>
Increase (93.7 percent)	\$13,300,000

According to the KPMG FY 2010-11 financial audit, this increase in the Trust Fund balance resulted from a decrease of \$3 million in the City Health Plan, (b) a \$10.7 million increase in the Blue Shield and Kaiser plans, (c) \$3.8 million increase in the dental plans, and (d) a \$1.8 million from trust fund interest income, and performance guarantee penalties and forfeitures.

POLICY ISSUES

As noted above, Proposition C, approved by the voters on November 8, 2011, made changes to employee and retiree health plan contributions and benefits to achieve cost savings. According to Ms. Catherine Dodd, Director of the Health Services System, implementation of Proposition C has not yet resulted in a reduction of costs or premium rates to employees.

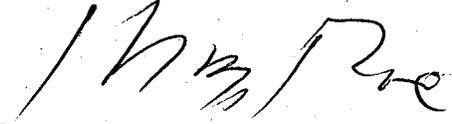
Ms. Dodd anticipates that implementation of the Proposition C provision that allows HSS to expend monies on ways to limit health care costs may eventually result in new funding for wellness programs, which could result in health plan monthly premium savings. Ms. Dodd notes that these potential long term cost savings have not been specified and are not anticipated in either the Short Year from July 1, 2012 through December 31, 2012 or the 2013 calendar plan year.

Proposition C (a) limits the City's contribution toward retiree health benefits to the same contribution level when the employee left the City (for employees who left the City workforce before June 30, 2001 and retired or will retire after January 6, 2012) and (b) requires employees hired on or before January 9, 2009, to contribute up to one percent of their compensation toward retiree health care with a match by the City. Ms. Dodd states that potential cost savings from these two provisions are not reflected in the proposed cost of the health plan premiums for July 1, 2012 through December 31, 2012, and are not anticipated in the upcoming calendar plan year (2013) health plan premiums because the impact of the implementation of these changes will require additional time.

RECOMMENDATIONS

Approve the proposed ordinance and resolution.

³ Does not include the Contingency Fund amount.



Harvey M. Rose

cc: Supervisor Chu
Supervisor Avalos
Supervisor Kim
President Chiu
Supervisor Campos
Supervisor Cohen
Supervisor Elsbernd
Supervisor Farrell
Supervisor Mar
Supervisor Olague
Supervisor Wiener
Clerk of the Board
Cheryl Adams
Controller
Kate Howard

10-County Survey Results

Exhibit 2

Rank	County	2011-12	2012-13	% Change
1	Los Angeles	\$478.56	\$499.57	4.39%
2	San Diego	\$406.00	\$432.20	6.45%
3	Orange	\$434.41	\$485.10	11.67%
4	Riverside	\$513.02	\$537.43	4.76%
5	San Bernardino	\$399.70	\$398.98	-0.18%
6	Santa Clara	\$655.97	\$643.13	-1.96%
7	Alameda	\$541.06	\$575.00	6.27%
8	Sacramento	\$637.98	\$667.02	4.55%
9	Contra Costa	\$521.90	\$540.43	3.55%
10	Fresno	\$450.80	\$450.80	0.00%
	10-County Average	\$503.94	\$522.97	3.78%

Kaiser HMO: Final Active/Early Retiree/Medicare Monthly Contributions July 1, 2012 to December 31, 2012

Exhibit 3

	Member Contributions ¹			Employer Contributions			Total Premium ^{2,3}		
	July 1, 2012 to December 31, 2012	2011-12	% Change	July 1, 2012 to December 31, 2012	2011-12	% Change	July 1, 2012 to December 31, 2012	2011-12	% Change
Active									
EE	\$7.04	\$1.28	450.00%	\$522.97	\$503.94	3.78%	\$530.01	\$505.22	4.91%
EE+1	\$536.03	\$505.48	6.04%	\$522.97	\$503.94	3.78%	\$1,059.00	\$1,009.42	4.91%
EE+2	\$975.09	\$923.97	5.53%	\$522.97	\$503.94	3.78%	\$1,498.06	\$1,427.91	4.91%
Non-Medicare Retiree									
EE	\$3.52	\$0.64	450.00%	\$1,061.46	\$1,014.23	4.66%	\$1,064.98	\$1,014.87	4.94%
EE+1	\$268.01	\$252.74	6.04%	\$1,325.96	\$1,266.33	4.71%	\$1,593.97	\$1,519.07	4.93%
EE+2	\$707.08	\$671.23	5.34%	\$1,325.96	\$1,266.33	4.71%	\$2,033.04	\$1,937.56	4.93%
Medicare Retiree									
EE	\$0.00	\$0.00	0.00%	\$334.42	\$355.13	-5.83%	\$334.42	\$355.13	-5.83%
EE+1	\$166.70	\$177.05	-5.85%	\$501.12	\$532.19	-5.84%	\$667.82	\$709.24	-5.84%
EE+2 (All Medicare)	\$499.23	\$530.51	-5.90%	\$501.12	\$532.19	-5.84%	\$1,000.35	\$1,062.70	-5.87%
EE+2	\$605.76	\$595.54	1.72%	\$501.12	\$532.19	-5.84%	\$1,106.88	\$1,127.73	-1.85%

¹ Excludes additional negotiated contributions which apply to certain collectively bargained employees.

² Total premiums include all approved plan design changes, vision costs, expense accrual, and are adjusted for the final 10-county survey.

³ Premiums are in compliance with SB 946.



Blue Shield HMO: Final Active/Early Retiree/Medicare Monthly Contributions July 1, 2012 to December 31, 2012

Exhibit 4

	Member Contributions ¹			Employer Contributions			Total Premium ^{2,3,4}		
	July 1, 2012 to December 31, 2012	2011-12	% Change	July 1, 2012 to December 31, 2012	2011-12	% Change	July 1, 2012 to December 31, 2012	2011-12	% Change
Active									
EE	\$85.46	\$85.46	0.00%	\$522.97	\$503.94	3.78%	\$608.43	\$589.40	3.23%
EE+1	\$692.90	\$673.87	2.82%	\$522.97	\$503.94	3.78%	\$1,215.87	\$1,177.81	3.23%
EE+2	\$1,197.05	\$1,162.23	3.00%	\$522.97	\$503.94	3.78%	\$1,720.02	\$1,666.17	3.23%
Non-Medicare Retiree									
EE	\$42.73	\$42.73	0.00%	\$1,308.14	\$1,265.71	3.35%	\$1,350.87	\$1,308.44	3.24%
EE+1	\$346.45	\$336.93	2.83%	\$1,611.86	\$1,559.92	3.33%	\$1,958.31	\$1,896.85	3.24%
EE+2	\$850.61	\$825.29	3.07%	\$1,611.86	\$1,559.92	3.33%	\$2,462.46	\$2,385.21	3.24%
Medicare Retiree									
EE	\$0.00	\$0.00	0.00%	\$405.82	\$378.81	7.13%	\$405.82	\$378.81	7.13%
EE+1	\$202.40	\$188.89	7.15%	\$608.22	\$567.71	7.14%	\$810.63	\$756.60	7.14%
EE+2 (All Medicare)	\$606.56	\$566.03	7.16%	\$608.22	\$567.71	7.14%	\$1,214.78	\$1,133.74	7.15%
EE+2	\$706.55	\$677.25	4.33%	\$608.22	\$567.71	7.14%	\$1,314.78	\$1,244.96	5.61%

¹ Excludes additional negotiated contributions which apply to certain collectively bargained employees.

² Total premiums include all approved plan design changes, vision costs, expense accrual, and are adjusted for the final 10-county survey.

³ Premiums are in compliance with SB 946.

⁴ Premiums reflect a HSB approved \$5.2 million stabilization amount.



City Plan (UHC): Final Active/Early Retiree/Medicare Monthly Premium Rates July 1, 2012 to December 31, 2012

Exhibit 5

		July 1, 2012 to December 31, 2012 ¹				
		Before Claims Stabilization	Claims Stabilization	After Claims Stabilization	\$ Change	% Change
Active	EE	\$1,221.69	\$15.77	\$1,237.46	\$126.59	11.40%
	EE+1	\$2,400.11	\$31.02	\$2,431.13	\$252.48	11.59%
	EE+2	\$3,375.51	\$43.60	\$3,419.11	\$363.37	11.89%
Non-Medicare Retiree	EE	\$1,408.79	\$18.24	\$1,427.03	\$139.31	10.82%
	EE+1	\$2,774.29	\$35.96	\$2,810.25	\$277.93	10.98%
	EE+2	\$3,749.69	\$48.54	\$3,798.23	\$388.82	11.40%
Medicare Retiree	EE	\$370.15	\$4.99	\$375.14	-\$6.75	-1.77%
	EE+1	\$706.36	\$9.54	\$715.90	-\$13.75	-1.88%
	EE+2 (All Medicare)	\$1,041.89	\$22.13	\$1,064.02	-\$19.59	-1.81%
	EE+2	\$1,681.76	\$22.12	\$1,703.88	\$97.14	6.05%
2011-12						
		Before Claims Stabilization	Claims Stabilization	After Claims Stabilization		
Active	EE	\$1,096.47	\$14.40	\$1,110.87		
	EE+1	\$2,150.39	\$28.25	\$2,178.64		
	EE+2	\$3,016.11	\$39.62	\$3,055.73		
Non-Medicare Retiree	EE	\$1,271.02	\$16.70	\$1,287.72		
	EE+1	\$2,499.47	\$32.84	\$2,532.31		
	EE+2	\$3,365.19	\$44.21	\$3,409.40		
Medicare Retiree	EE	\$376.92	\$4.97	\$381.89		
	EE+1	\$720.18	\$9.48	\$729.66		
	EE+2 (All Medicare)	\$1,062.77	\$20.85	\$1,083.62		
	EE+2	\$1,585.90	\$20.85	\$1,606.75		

¹ Total premiums include the percent and dollar increase for the City Plan final rates with all approved changes.

City Plan (UHC): Final Active/Early Retiree/Medicare Monthly Contributions July 1, 2012 to December 31, 2012

Exhibit 6

	Member Contributions ¹			Employer Contributions			Total Premium ^{2,3}						
	July 1, 2012 to December 31, 2012	2011-12	% Change	July 1, 2012 to December 31, 2012	2011-12	% Change	July 1, 2012 to December 31, 2012	2011-12	% Change				
Active	EE	\$714.49	\$606.93	\$107.56	17.72%	\$522.97	\$503.94	\$19.03	3.78%	\$1,237.46	\$1,110.87	\$126.59	11.40%
	EE+1	\$1,908.16	\$1,674.70	\$233.45	13.94%	\$522.97	\$503.94	\$19.03	3.78%	\$2,431.13	\$2,178.64	\$252.48	11.59%
	EE+2	\$2,896.14	\$2,551.79	\$344.34	13.49%	\$522.97	\$503.94	\$19.03	3.78%	\$3,419.11	\$3,055.73	\$363.37	11.89%
Non-Medicare Retiree	EE	\$357.24	\$303.46	\$53.78	17.72%	\$1,069.79	\$984.26	\$85.53	8.69%	\$1,427.03	\$1,287.72	\$139.31	10.82%
	EE+1	\$1,048.85	\$925.75	\$123.09	13.30%	\$1,761.40	\$1,606.56	\$154.84	9.64%	\$2,810.25	\$2,532.31	\$277.93	10.98%
	EE+2	\$2,036.83	\$1,802.84	\$233.98	12.98%	\$1,761.40	\$1,606.56	\$154.84	9.64%	\$3,798.23	\$3,409.40	\$388.82	11.40%
Medicare Retiree	EE	\$0.00	\$0.00	\$0.00	0.00%	\$375.14	\$381.89	(\$6.75)	-1.77%	\$375.14	\$381.89	(\$6.75)	-1.77%
	EE+1	\$170.38	\$173.88	(\$3.50)	-2.01%	\$545.53	\$555.78	(\$10.25)	-1.84%	\$715.90	\$729.66	(\$13.75)	-1.88%
	EE+2 (All Medicare)	\$518.50	\$527.84	(\$9.34)	-1.77%	\$545.53	\$555.78	(\$10.25)	-1.84%	\$1,064.02	\$1,083.62	(\$19.59)	-1.81%
	EE+2	\$1,158.36	\$1,050.97	\$107.39	10.22%	\$545.53	\$555.78	(\$10.25)	-1.84%	\$1,703.88	\$1,606.75	\$97.14	6.05%

¹ Excludes additional negotiated contributions which apply to certain collectively bargained employees.

² Total premiums include all approved plan design changes, vision costs, expense accrual, and are adjusted for the final 10-county survey.

³ Premiums are in compliance with SB 946.



VSP Vision: Final Active/Early Retiree/Medicare Monthly Contributions July 1, 2012 to December 31, 2012

Exhibit 7

		Member Contributions ¹			
		July 1, 2012 to December 31, 2012	2011-12	\$ Change	% Change
		Core Plan			
Active	EE	\$3.78	\$3.78	\$0.00	0.00%
	EE+1	\$7.58	\$7.58	\$0.00	0.00%
	EE+2	\$10.73	\$10.73	\$0.00	0.00%
Non-Medicare Retiree	EE	\$3.78	\$3.78	\$0.00	0.00%
	EE+1	\$7.58	\$7.58	\$0.00	0.00%
	EE+2	\$10.73	\$10.73	\$0.00	0.00%
Medicare Retiree	EE	\$3.78	\$3.78	\$0.00	0.00%
	EE+1	\$7.58	\$7.58	\$0.00	0.00%
	EE+2 (All Medicare)	\$10.73	\$10.73	\$0.00	0.00%
	EE+2	\$10.73	\$10.73	\$0.00	0.00%

¹ Rates are guaranteed through June 30, 2014.

Delta Dental PPO: Final Active/Retiree Monthly Contributions July 1, 2012 to December 31, 2012

Exhibit 8

		Member Contributions ^{1,2}			
		July 1, 2012 to December 31, 2012 ³	2011-12	\$ Change	% Change
Active	EE	\$64.35	\$75.74	(\$11.39)	-15.04%
	EE+1	\$135.14	\$124.55	\$10.59	8.50%
	EE+2	\$193.06	\$187.25	\$5.81	3.10%
Retiree	EE	\$39.87	\$39.87	\$0.00	0.00%
	EE+1	\$79.80	\$79.80	\$0.00	0.00%
	EE+2	\$120.54	\$120.54	\$0.00	0.00%

¹ Active rates guaranteed through June 30, 2013. Retiree rates guaranteed through June 30, 2014.

² Excludes additional negotiated contributions which apply to certain collectively bargained employees.

³ Super composite cost for self-funded dental does not change between plan year 2011-12 and the short plan year July 1, 2012 to December 31, 2012. However the rate by tier structure does change.



Delta Care USA : Final Active/Retiree Monthly Contributions July 1, 2012 to December 31, 2012

Exhibit 9

		Member Contributions ^{1,2}			
		July 1, 2012 to December 31, 2012	2011-12	\$ Change	% Change
Active	EE	\$26.00	\$26.00	\$0.00	0.00%
	EE+1	\$42.90	\$42.90	\$0.00	0.00%
	EE+2	\$63.45	\$63.45	\$0.00	0.00%
Retiree	EE	\$31.70	\$31.70	\$0.00	0.00%
	EE+1	\$52.31	\$52.31	\$0.00	0.00%
	EE+2	\$77.37	\$77.37	\$0.00	0.00%

¹ Active and retiree rates guaranteed through June 30, 2013.

² Excludes additional negotiated contributions which apply to certain collectively bargained employees.



Pacific Union Dental: Final Active/Retiree Monthly Contributions July 1, 2012 to December 31, 2012

Exhibit 10

		Member Contributions ^{1,2}			
		July 1, 2012 to December 31, 2012	2011-12	\$ Change	% Change
Active	EE	\$27.80	\$27.80	\$0.00	0.00%
	EE+1	\$45.90	\$45.90	\$0.00	0.00%
	EE+2	\$67.86	\$67.86	\$0.00	0.00%
Retiree	EE	\$16.47	\$16.47	\$0.00	0.00%
	EE+1	\$27.20	\$27.20	\$0.00	0.00%
	EE+2	\$40.22	\$40.22	\$0.00	0.00%

¹ Active and retiree rates guaranteed through June 30, 2014.

² Excludes additional negotiated contributions which apply to certain collectively bargained employees.





January 20, 2012

Board of Supervisors
City and County of San Francisco
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RE: July 1, 2012 to December 31, 2012 Plan Benefits, Rates and Contribution

Honorable Members of the Board of Supervisors:

This letter serves to document our position as the consultant and actuary to the Health Service System (HSS) in regards to the recently completed rate and contribution setting process. This process was conducted under the direction of the Rates and Benefits Committee (the Committee) of the Health Service Board (the HSB). The rates, benefits, and contributions presented herein were approved by the full Health Service Board during their meeting on January 12, 2012.

In our opinion, the process was completed in a thorough manner. In particular, it is our opinion that:

- The insured premiums and administrative fees agree with HSS's vendor's final rates and represent a fair price given the services provided and the risks insured
- The premium equivalents set for the HSS self-funded programs: City Plan (UHC) and Active Dental benefits, represent our best estimate of future expenditures based on the information available at the time they were developed, and existing Trust Fund assets are expected to be sufficient to protect the HSS trust against adverse claims experience

Passage of Proposition C

On November 8, 2011 Proposition C was passed. Proposition C amends the City Charter as it relates to pension and retiree costs, the composition and voting requirements of the HSB, allows for the change of the plan year to a calendar year, and other changes to the City's health and pension benefits. The HSB approved a change in the plan year, from a fiscal plan year to a calendar plan year starting January 1, 2013 with a one time six month plan year of July 1, 2012 to December 31, 2012. Changing the plan year allows HSS to:

- Align more closely with timing of collective bargaining
- Improve administration related to Flexible Spending Accounts and IRS rules
- Allow for streamlined processing associated with potential Medicare reimbursement opportunities

The move to the six month plan year along with approved plan design changes and Blue Shield stabilization amount is reducing the aggregate rate increase by 6.3% or \$22.1 million. There will be two open enrollment periods associated with this plan year change: one for the six month plan year of July 1, 2012 to December 31, 2012; and one for the plan year of January 1, 2013 to December 31, 2013. Exhibit 1 summarizes these changes related to Proposition C.

The HSB will consider rates for calendar year 2013 at the May HSB meeting, to be forwarded to the Board of Supervisors in June. And, HSS will work with the Controller's Office and Mayor's Budget Office to assist in predicting the increased benefit costs for the balance of FY 2012-2013.

City Contributions under the 10-County Survey

According to the City Charter, the City's contribution towards medical benefits is determined by the results of a survey of the amount of premium contributions provided by the ten most populous counties in California. This survey is conducted annually by HSS Staff. For the 2012-13 plan year, the survey determined that the average monthly contribution increased 3.78% from \$503.94 to \$522.97. Exhibit 2 of the attachment presents the individual county responses from this survey.

Year over Year Health Plan Cost Comparison

Prior 2011-12 plan year rates were adjusted for six months to facilitate a year over year cost comparison as illustrated below:

Comes from Aon only

TABLE 1 July 1, 2012 to December 31, 2012 Aggregate Cost	
Current Rates Based Adjusted to six month	\$318.3
Final Renewal Rates (including plan design changes, shift to six month, compliance with SB 946, and application of one time Blue Shield Stabilization amount)	\$329.9
\$ Difference	\$11.6
% Difference	3.6%

The above chart illustrates an increase of \$11.6 million for only the three health plans, for the six month plan year of July 1, 2012 to December 31, 2012.

Rates, Contributions, and Benefits for HMOs

Consistent with to the 2011-12 plan year, two HMOs will be offered to HSS members for the July 1, 2012 to December 31, 2012 plan year; Kaiser and Blue Shield of California.

Plan Design Changes for HMOs

As part of the annual Rates and Benefits process HSS, Aon Hewitt, the Committee, and the HSB reviewed the continued appropriateness and competitiveness of the plan designs for the HMOs. The benchmark information (available on www.myhss.org website - January 12, 2012) compiled indicates that certain elements of the plan design were not aligned with similar employers and did not reflect the impact from the continued high healthcare trends. These plan design changes, described in greater detail in the following sections, resulted in an overall reduction to rate increases

of \$7.2 million across both HMO plans combined for the six month plan year. Of this \$7.2 million reduction to rate increases, there was a \$2.3 million reduction to increases in member contributions and a \$4.9 million reduction to increases in employer contributions.

Kaiser

The HSB was presented with many options and adopted the following plan design changes for the Kaiser plan:

- Move to a six month plan year July 1, 2012 to December 31, 2012 [in preparation for a change to a calendar plan year starting January 1, 2013]
- Office visit copay increase from \$15 to \$20
- Outpatient surgery copay increase from \$15 to \$35
- Plan modifications to comply with SB 946 (Autism Act)

These changes include the impact of plan design changes needed to comply with SB 946, which resulted in an aggregate increase of \$922,000 for the six month plan year. The final negotiated rate change for Kaiser, after all plan design changes, SB 946 compliance, and a change to the six month plan year is an overall increase of 3.2%. For actives and retirees without Medicare it is an increase of 4.9%. For retirees with Medicare the final rate change is a decrease of -5.7%.

Blue Shield of California

The HS Board adopted the following benefit changes for the Blue Shield of California plan:

- Move to a six month plan year July 1, 2012 to December 31, 2012 [in preparation for a change to a calendar plan year starting January 1, 2013]
- Office visit copay increase from \$20 to \$25
- Outpatient surgery copay increase from \$50 to \$100
- Inpatient surgery copay increase from \$150 to \$200
- Retail pharmacy copays increase from \$5/\$20/\$45 to \$10/\$25/\$50
- Mail-order pharmacy copays increase from \$10/\$40/\$60 to \$20/\$50/\$100
- Out-of-pocket maximum increase from \$1,000/\$2,000 to \$2,000/\$4,000
- Plan modifications to comply with SB 946 (Autism Act)

Due to low enrollment of children in the Blue Shield HMO plan, based on member plan elections, no premium adjustment was needed for compliance with SB 946. The rate for the period of July 1,

2012 to December 31, 2012 rates were further reduced by applying the HSB approved Blue Shield stabilization amount of \$5.2M, or a -3.26% reduction.

The final negotiated rate increase for Blue Shield, after all plan design changes, a change to the six month plan year, and with the HSB approved stabilization amount applied, is an overall increase of 3.5%. For actives and retirees without Medicare it is an increase of 3.2%. For retirees with Medicare the final rate change is an increase of 7.1%.

HMO Contributions

Contributions for HMO members were determined in accordance with the City Charter and include the new 10 County survey result of \$522.97. Exhibits 3 and 4 summarize the changes in contributions for actives and retirees for the Kaiser plan and the Blue Shield of California plans respectively for the six month plan year of July 1, 2012 to December 31, 2012. The above exhibits do not include any City contributions that may be negotiated in MOUs.

Rates, Contributions, and Benefits for City Plan (UHC)

The City Plan (UHC) is a self-funded plan administered by United Healthcare (UHC). The medical and pharmacy monthly premium equivalent costs were developed separately for actives, retirees without Medicare and retirees with Medicare based on group-specific experience. Additionally, we provided a retrospective analysis of historical rates and experience to examine the actual cost trends evident in the City Plan's (UHC) recent claims data. These analyses were considered in conjunction with overall industry and normative data when determining the premium levels for the July 1, 2012 to December 31, 2012 plan year (available at www.myhss.org website – January 12, 2012).

As part of the annual Rates and Benefits process HSS, Aon Hewitt, the Committee, and the HSB, reviewed the continued appropriateness and competitiveness of the benefit design for City Plan (UHC). The HSB was presented with many options and adopted the following benefit changes for the City Plan (UHC):

- Move to a six month plan year July 1, 2012 to December 31, 2012 [in preparation for a change to a calendar plan year starting January 1, 2013]
- Network change from the Options PPO to the Open Choice PPO
- Pharmacy management to include Specialty Drug Management
- Plan modifications to comply with SB 946 (Autism Act)

The UHC administration fees were increased by 3.00% from the 2011-12 plan year. This equates to a \$1.28 million increase for the six month plan year. The HSS administration load with UHC remains unchanged, this administration fee increase was negotiated for three years in 2011, and sets administrative fee increases annually through June 30, 2014.



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The final full monthly premium equivalents after all plan design changes and a change to the six month plan year result in an overall increase of 5.9%. For actives and retirees without Medicare it is an increase of 11.9% and 10.9% respectively. For retirees with Medicare the final rate change is an increase of -1.6%.

Exhibit 5 of the attachment summarizes the change in full monthly premium equivalents for the City Plan (UHC). Included in the premium equivalent rate, pursuant to the HS Board's Self Funded Plans' Funding Policy, is the application of the claims stabilization amount.

Exhibit 6 of the attachment summarizes the change in employee and retiree contributions for City Plan (UHC). These contributions were determined in accordance with the City Charter, and include the new 10 County survey result of \$522.97. The above exhibit does not include any City contributions that may be negotiated in MOUs.

Rates and Benefits for the Vision Plan

Members enrolled in any medical plan offered by HSS also receive vision benefits through VSP. The cost of the vision benefit is a component of the cost of the medical plan and has been included in the rate exhibits referenced above.

The vision plan is a fully-insured plan. The vision plan is under a rate guarantee through June 30, 2014 with projected aggregate costs of \$2.2M for the six month plan year of July 1, 2012 to December 31, 2012. The plan year has been changed to a six month plan year, there is no savings associated with this change due to the rate guarantees. Exhibit 7 in the attachment summarizes the VSP vision plan costs.

Rates, Contributions, and Benefits for Dental Plans

Three dental plans are offered to HSS members: Delta Dental PPO, Delta Care USA and Pacific Union Dental. The Delta Dental PPO plan is a dental PPO with a network of preferred providers while the other two plans are dental HMOs with closed panels of providers. The City pays part of the cost of dental benefits for employees while retirees pay the full cost of their dental benefits.

The Delta Dental PPO plan for active employees is self-funded and administered by Delta Dental Plan of California. Future plan costs are projected based on the City employees' claim experience. Delta Dental's fee for claim administration remains unchanged from 2011-12 and is guaranteed until June 30, 2013.

The aggregate premium for the self-funded Delta Dental PPO plan for active employees remains unchanged from the 2011-12 projected costs; however the differentials between family rate tiers have been adjusted to be more in line with industry standards. However, there are changes to the tier structure that result in the following premium contributions adjustments for the active members. These include a reduction to the EE only tier of -15.04%, an increase of 8.50% to the EE + 1 tier, and an increase of 3.10% to the EE + 2 tier.

The Delta Dental PPO plan for retirees, Delta Care USA dental plans for employees and retirees, and Pacific Union Dental plans for employees and retirees are all fully-insured. The fully-insured premiums are unchanged from the 2011-12 rates. The plan year has been shortened to a six month

plan year; there is no savings to any dental plans associated with this change due to the rate guarantees.

For the shortened plan year July 1, 2012 to December 31, 2012 the City will contribute the full premium rate towards each of the dental HMO plans. For the self-funded Dental PPO the City will contribute the full monthly premium rate minus employee contributions of \$5.00, \$10.00, and \$15.00 for employee only, employee with one dependent, and employee with two or more dependents respectively. These member contributions for Delta Dental PPO plan for retirees, Delta Care USA dental plans for employees and retirees, and Pacific Union Dental plans for employees and retirees remain unchanged from the prior plan year. Pursuant to the HS Board's Self Funded Plans' Funding Policy no claims stabilization amount has been applied this year.

Exhibits 8, 9, and 10 in the attachment summarizes the changes in dental cost for both active [self-funded] and retirees for the Delta Dental PPO plan, Delta Care USA plan, and Pacific Union Dental plans respectively.

The aggregate dental costs for the six month plan year, from July 1, 2012 to December 31, 2012 are \$21.4 million, with \$19.8 million in employer contributions and \$1.6 million in member contributions. This reflects no overall change.

Summary of Projected July 1, 2012 to December 31, 2012 Plan Year Costs

Set out below is a summary of how projected July 1, 2012 to December 31, 2012 aggregate HSS plan costs are distributed across the different plans available to employees and retirees. Costs are shown only for those plans where the employers subsidize the total premium cost. The premium costs associated with the VSP vision core plan are included in the medical plan's costs.

TABLE 2 Distribution of Aggregate Plan Costs (\$millions)						
	Member Contributions	Employer Contributions	Aggregate Plan Cost	Member Contributions as a % of Aggregate Costs	Employer Contributions as a % of Aggregate Costs	
Kaiser HMO	\$13.8	\$134.1	\$147.9	9.4%	90.6%	
% Increase	5.8%	3.0%	3.2%			
Blue Shield HMO	\$19.1	\$124.0	\$143.0	13.3%	86.7%	
% Increase	0.8%	3.9%	3.5%			
City Plan	\$8.0	\$31.0	\$39.0	20.5%	79.5%	
% Increase	10.9%	4.7%	5.9%			
Dental	\$1.6	\$19.8	\$21.4	7.6%	92.4%	
% Increase	0.0%	0.0%	0.0%			
Total	\$42.5	\$308.8	\$351.3	12.1%	87.9%	
% Increase	4.1%	3.3%	3.4%			

The overall estimated increase of 3.4% is slightly higher than the corresponding 2011-12 plan year estimated increase of 3.1% (based on twelve month rates). Similarly, this year's projected aggregate cost increase also compares favorably with available benchmark information. This

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statistic is supported by the recently released analysis titled "Average Cost of U.S. Health Coverage per Employee Is Expected To Cross the \$10,000 Threshold In 2012 For the First Time According to Aon Hewitt"¹. Employers analyzed indicate cost increases are expected to be 7.00%.

Conclusion

Based on extensive evaluation and collaboration with HSS, Aon Hewitt validates all of the findings presented within this report. Aon Hewitt would be pleased to answer any questions or provide clarification about the information included in this letter to any interested parties.

Sincerely,



Anil Kochhar, ASA, MAAA

Copy:

Members of the Health Service Board

Catherine Dodd, Lisa Ghotbi, Tracey Loveridge, Health Service System

Catherine Breezee, Barbara Weaver Lloyd, Paige Sipes-Metzler, Aon Hewitt

¹ <http://aon.media room.com/index.php?=438item=2397>, October 3, 2011

San Francisco Health Service System Board of Supervisors

**Final Rates and Benefit Decisions for Plan Period
July 1, 2012 to December 31, 2012
Approved by the Health and Service Board on January 12, 2012**

January 18, 2012

**Prepared by Aon Hewitt
Health and Benefits**



Passage of Proposition C (Prop C) Impacts

Exhibit 1

On November 8, 2011 Proposition C was passed. Proposition C amends the City Charter as it relates to pension and retiree costs, the composition and voting requirements of the HSB, allows for the change of the plan year to a calendar year, and other changes to the City's health and pension benefits.

The HSB approved a change in the plan year, from a fiscal plan year to a calendar plan year starting January 1, 2013 with a one time six month plan year of July 1, 2012 to December 31, 2012. Changing the plan year allows HSS to:

- Align more closely with timing of collective bargaining
- Improve administration related to Flexible Spending Accounts and IRS rules
- Allow for streamlined processing associated with potential Medicare reimbursement opportunities