



2011-2012

Annual Report

Health Service System
CITY & COUNTY OF SAN FRANCISCO

Mission Statement

The Health Service System of the City & County of San Francisco is dedicated to preserving and improving sustainable, quality health benefits and to enhancing the well-being of employees, retirees and their families.

In 2011–2012 the Health Service System took important steps toward becoming an agile, innovative, data-driven organization.

The Health Service Board and Health Service System (HSS) administers employee and retiree health benefits for the City & County of San Francisco, the San Francisco Unified School District, the San Francisco Community College District, and the San Francisco Superior Court. In 2011-2012 HSS medical, dental, vision and other insurance plans covered 108,000 lives, with 106,756 enrolled in medical plans. Employers, employees and retirees paid health insurance premiums totalling \$722 million, via the Health Service Trust. The Health Service Board are fiduciaries of this Trust, which is managed by HSS along with \$6.9 million in departmental operating expenses. In a challenging time for healthcare purchasers, HSS collaborates with elected officials and City employers to devise and implement groundbreaking innovations in health benefits administration. These efforts are paying off. In 2011-2012 the total premium increase for HSS medical plans was 3.6%, significantly lower than regional, state and national trends.

During 2011-2012 the Health Service System worked with Blue Shield of California and the largest medical service providers in the region to launch two Accountable Care Organizations (ACOs). Sutter Health hospitals and Brown & Toland Medical Group formed one ACO; UCSF, Catholic Healthcare West (now Dignity) and Hill Physicians Medical Group formed the other. During the first year, each ACO established target interventions, re-engineered work processes and established reporting mechanisms in order to improve care, reduce cost and stabilize insurance premium trends. The successful efforts of these ACOs will have significant, long-term, positive effects on the healthcare delivery system in San Francisco.

The Health Service Board continued to implement plan design changes in 2011-2012. Member co-pays for non-formulary prescriptions were increased, resulting in projected annual savings of \$10.6M and encouraging appropriate use of generic medications. In the Delta Dental plan, limited coverage for non-cosmetic implants and a third annual cleaning for pregnant women were added, in accordance with current standards for dental care.

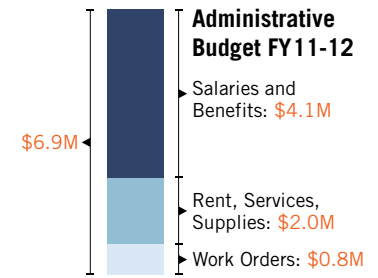
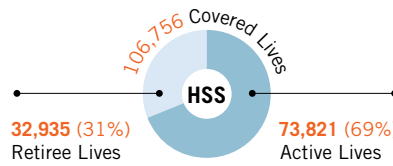
Significant legal and regulatory changes affected HSS in 2011-2012. The federal Patient Protection and Affordable Care Act (PPACA) required coverage of dependent children up to age 26, eliminated member co-pays for many preventive care services and removed lifetime coverage maximums. On the municipal level, 2011 Proposition C was passed, mandating future changes to Health Service Board governance, allowing Health Service Trust funds to be expended on cost-saving initiatives and wellness programs, and permitting the change to a calendar-based health benefits plan year. Also, per changes to union contracts, many HSS members began paying premium contributions for dental coverage for the first time in 2011-2012.

The Health Service Board and HSS experienced changes in key team participants this year. Health Service Board Commissioner Scott Heldfond ended his tenure after serving with diligence and distinction for 16 years. Commissioner Heldfond, a mayoral appointee, was replaced by Jean S. Fraser, who also serves as Health System Chief for the San Mateo County Health System. On June 30, 2011, Aon Hewitt replaced Mercer as the HSS consulting actuary, after being ranked first by a City panel in an open, competitive solicitation process.

The strategies the Health Service System began to implement in 2011-2012 are designed to encourage transparency and competition in the Bay area healthcare marketplace over the long term, in support of maintaining affordable, sustainable, quality health benefits for HSS member employees and retirees.

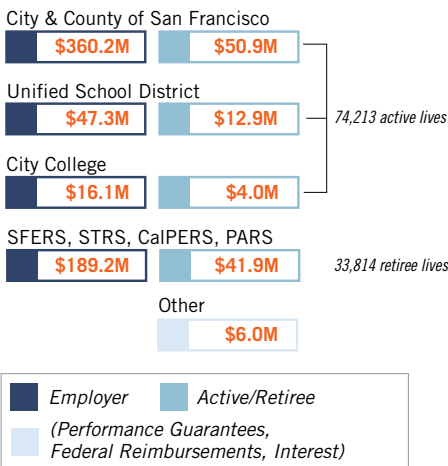
Catherine Dodd, PhD, RN
Director, Health Service System

Governed by the Health Service Board, the Health Service System designs quality health benefit plans for employees, retirees, and their families, works to contain premium costs, and encourages employees and retirees to choose healthy lifestyles.



FUNDING and GOVERNANCE

\$728M TRUST FUND CONTRIBUTIONS FY11-12



HEALTH SERVICE SYSTEM FY11-12

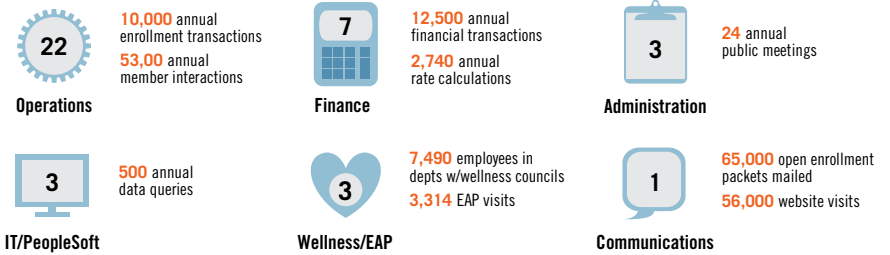
Health Service Board

- 7 Commissioners:
 - 4 Elected Members
 - 2 Mayoral Appointees
 - 1 City Supervisor

28 Plans From 10 Vendors

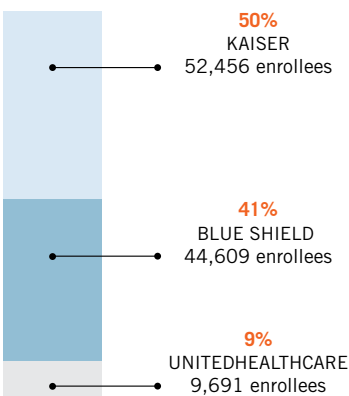
- Medical: 6 HMO; 4 PPO
- Dental: 2 DMO; 2 DPO
- Vision: 1
- FSA: 2
- Group Life: 6
- Long-Term Disability: 2
- Flex Credits: 2
- COBRA: 1

Health Service Staff

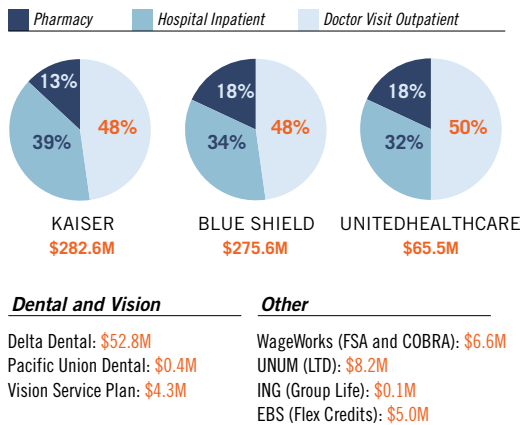


HEALTH PLANS

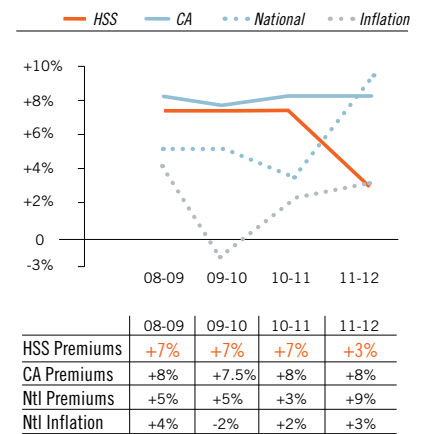
MEDICAL PLAN ENROLLMENT FY11-12



HEALTH PREMIUM COSTS BY VENDOR FY 11-12



YEAR-OVER-YEAR HEALTH PREMIUM BENCHMARKING



SUSTAINABLE BENEFITS

Accountable Care

- a. Contract for coordinated care, quality, efficiency
- b. Collaboratively track data to ensure success
- c. Patient-accessible quality/cost information

Data Transparency

- a. Provider cost and billing data
- b. Flex-fund HMO for access to claims data
- a. Electronic medical records

Employee/Retiree Wellness

- a. Risk scores based on clinical data
- b. Wellness incentives
- c. Patient engagement

Achievements

Department Overview

Per the San Francisco City Charter, the Health Service System (HSS) administers health benefits for over 108,000 employees, retirees and their eligible family members. Participating employers include the City & County of San Francisco, the San Francisco Unified School District, the San Francisco Community College District, and San Francisco Superior Court. Benefits include:

- Medical Plans
- Dental Plans
- Vision Plan
- Flexible Spending Accounts
- Long Term Disability
- Group Life Insurance
- Municipal Executive Flex Credits
- COBRA

HSS core functions are providing efficient and accurate benefits administration, managing cost-effective health vendor contracts, establishing annual rates and benefits via health vendor negotiations, upholding legal compliance, maintaining accurate financial and demographic records, ensuring eligible members and dependents have access to quality healthcare, and educating employees and retirees about health and wellness benefits. In a rapidly evolving healthcare industry, the HSS Director and Chief Operating Officer work with a consulting actuary to develop and recommend strategies to the Health Service Board regarding improving quality of care and maintaining affordable premiums while ensuring legal compliance.

Health Service Board

In November 2004, the San Francisco City Charter was amended to establish the Health Service System as a separate department, governed by the Health Service Board. The Health Service Board is made up of four elected commissioners, two appointees selected by the Mayor and one member of the Board of Supervisors. (One mayoral appointee must be a physician and the other must be an individual who regularly consults in the healthcare field.)

Board commissioners are fiduciaries of the Health Service Trust. The San Francisco City Charter charges the Board with conducting an annual review of health benefit costs, ensuring benefits are applied without favor or privilege, and administering the business of the Health Service System. Board meetings are regularly scheduled each month in San Francisco City Hall. The Health Service System Director is accountable to the Health Service Board.

Finance

The benefits which HSS administers cost \$701.1 million in fiscal year 2011–2012. The HSS departmental administration budget of \$6.9 million represents less than one percent of the annual benefits costs. The finance division processes approximately 12,500 financial transactions annually, including timely vendor payments for all administered benefits, over-the-counter premium payments and departmental work orders. Finance participates in the annual rate setting process by conducting the Charter-mandated 10-County Survey of public employer contributions to employee health premiums, and calculating over 2,700 employee and retiree premium rates. Finance is also responsible for the annual external Trust Fund audit, the results of which are incorporated into the CAFR (City Comprehensive Annual Financial Report). Working with the Mayor's office, Controller, and Budget Analyst's office, Finance develops the annual HSS administration budget. In addition to these accounting responsibilities, Finance administers a vendor oversight program with performance guarantees tied to penalties, oversees annual contract renewals and facilitates vendor Request for Proposal (RFP) processes. Interfacing with the Center for Medicare Services (CMS) regarding eligible membership and claims, Finance oversees receipt of annual reimbursements from the federal government. Finance also coordinates with other employers and City departments, providing financial analyses pertaining to HSS benefits.

Operations

The operations division handles day-to-day enrollment transactions, provides benefits decision support, coordinates premium contribution transactions with finance, and acts as a liaison between members and healthcare vendors, if needed.

Achievements

Operations staff answer member calls and provide in-person member assistance from 8:00AM to 5:00PM, Monday through Friday. Operations provides substantial support to members during Open Enrollment, when call volume and office traffic increases significantly. Depending on the significance of the year's plan and rate changes, Operations staff manually enters data for between 7,000 and 30,000 open enrollment applications into the PeopleSoft system, in order to meet deadlines for data transfer linked to the start of a new plan year. This division ensures compliance with city, state and federal regulations regarding protected health information privacy and records retention, advises the Health Service Board on the rules that govern membership in the Health Service System, and conducts ongoing eligibility audits. As the facilitator of the department's day-to-day use of PeopleSoft, Operations is playing an instrumental role in the transition of benefits administration to eMerge PeopleSoft 9.0.

Communications

The communications division, financed by the HSS Trust Fund, provides employees and retirees with accurate and timely benefits information, so they can make knowledgeable decisions about their health coverage. This includes designing and supervising production of print, online and email materials, organizing events, and coordinating information with human resources professionals, unions and other groups. In addition, this division ensures that information relating to benefits, Health Service Board proceedings, finance and operations are made available to HSS members, elected officials, the media and the public, so the department adheres to high standards of government accessibility and transparency. This division also oversees HSS member communications issued by healthcare vendors and assists the employers served by HSS with benefits-related information as needed.

Wellness

Funded by the HSS Trust Fund with the approval of the Health Service Board, this employee and retiree wellness division was created in 2009 to bring HSS into alignment with industry best practices in employee/retiree wellness and health premium cost savings. Using existing contracted

vendor resources, this division works with City employers and departments, retirees and health plan vendors to improve employee and retiree health, and is establishing baseline data to measure the effectiveness of pilot projects related to physical and mental health, disease prevention, early detection, chronic condition management, smoking cessation, and stress reduction. The City's Employee Assistance Program (EAP), which provides confidential, no-cost counselling and behavioral health workshops to employees and their families, is overseen by this division.



Demographics

As of July 2011, 106,756 member and dependent lives were covered on Health Service System medical plans.

Medical Plans

As of July 1, 2011, there was an increase of 1,211 in total covered lives under HSS medical plans. This reflected a reduction in active covered lives of 385 and an increase in retired lives covered of 1,596. Members and their dependents continued to migrate from Blue Shield and City Plan to Kaiser. Blue Shield experienced less outbound migration than in previous years—a reduction of 779 covered lives or about 2% of its membership. City Plan lives fell 495, 5% of its membership. For the second consecutive year, Kaiser lives increased about 5%. In 2011 Kaiser gained 2,485 new members and dependents.

Total Lives—Medical	July 1, 2010	July 1, 2011	Change
Blue Shield HMO	45,388	44,609	(779)
Kaiser HMO	49,971	52,456	2,485
City Health Plan PPO	10,186	9,601	(495)
Total Lives	105,545	106,756	1,211

Active Lives—Medical	July 1, 2010	July 1, 2011	Change
Blue Shield HMO	36,396	34,729	(1,667)
Kaiser HMO	35,929	37,611	1,682
City Health Plan PPO	1,881	1,481	(400)
Total Lives	74,206	73,821	(385)

Retiree Lives—Medical	July 1, 2010	July 1, 2010	Change
Blue Shield HMO	8,992	9,880	888
Kaiser HMO	14,042	14,845	803
City Health Plan PPO	8,305	8,210	(95)
Total Lives	31,339	32,935	1,596

Demographics

Dental Plans

In addition, HSS provided dental benefits to eligible active employees of the City & County of San Francisco, all retired members, and eligible dependents. Between July 1, 2011 and July 1, 2012, HSS experienced an increase of 1,611 total covered lives under our dental plans. Despite the introduction of a new employee contribution to the Delta Dental premium, active lives enrolled in Delta Dental remained nearly the same. Lives in the retiree dental plans increased by 1,632. Retiree dental plans are not subsidized by the City; retirees pay full premiums for dental coverage.

Active Dental Plans	July 1, 2010	July 1, 2011	Change
Active Lives	66,271	66,250	(21)

Retiree Dental Plans	July 1, 2010	July 1, 2011	Change
Retiree Lives	22,862	24,494	1,632

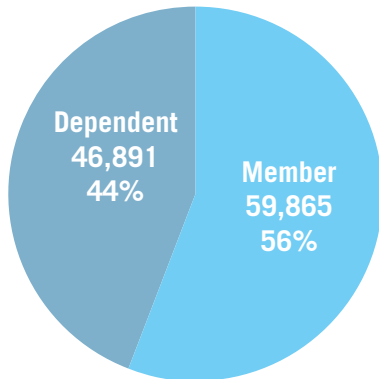
Flexible Spending Accounts

A Flexible Spending Account (FSA) is a tax-favored benefit that allows City & County of San Francisco employees to pay for certain dependent care and healthcare expenses pre-tax. Even though federal healthcare reform limited FSA reimbursement for over-the-counter medications, the level of participation in the FSA program showed a 9% increase, or 284 new members, since July 2010.

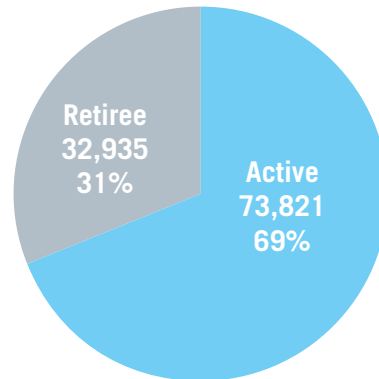
Flexible Spending Accounts	July 1, 2010	July 1, 2011	Change
Health Care FSA	2,494	2,715	221
Dependent Care FSA	782	845	63
Total FSA	3,276	3,560	284

Demographics

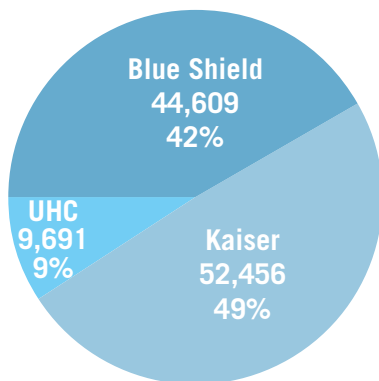
Medical Plan Enrollment as of July 2011



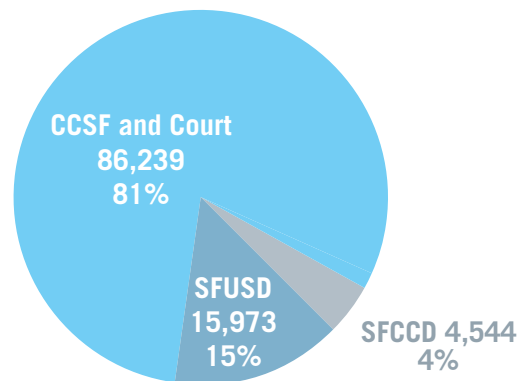
Medical Plans: Total Enrolled Lives
Member vs. Dependent



Medical Plans: Total Enrolled Lives
Active vs. Retiree



Total Enrolled Lives
By Medical Plan

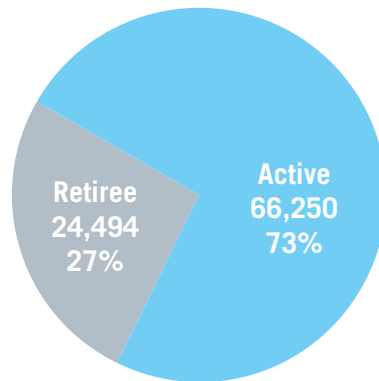


Total Medical Plan
Enrollment by Employer

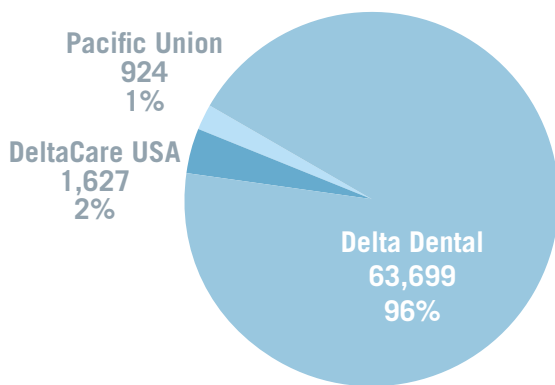
The Health Service System administered medical benefits for employees, retirees and dependents of the City & County of San Francisco, the San Francisco Superior Court, the San Francisco Unified School District and the San Francisco Community College District. Since 2008, there has been a migration trend away from Blue Shield and City Plan to the Kaiser plan. This has resulted in adverse selection (higher risk) in City Plan and Blue Shield. In 2011-2012, migration out of Blue Shield began to stabilize for the first time in three years. In total Blue Shield lost 779 lives, significantly less than the previous year. HSS continues working to balance membership in the HMO plans to maintain competition in the regional healthcare market.

Demographics

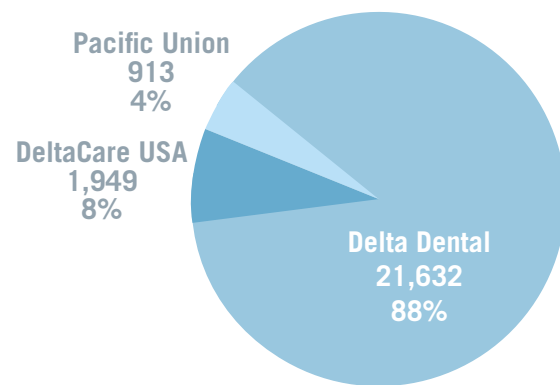
Dental Plan Enrollment as of July 2011



Dental Plans: Total Enrolled Lives
Active vs. Retiree



Active Enrolled Lives
By Dental Plan



Retiree Enrolled Lives
By Dental Plan

The Health Service System administered dental benefits for employees and dependents of the City & County of San Francisco, the San Francisco Superior Court and retirees. (The San Francisco Unified School District and San Francisco Community College District administer their own dental benefit programs for their active employees.) The City makes a significant contribution to employee dental premiums. Retiree dental plans are not subsidized by the employer.

Achievements

Sustainable Health Benefits

The delivery of healthcare is characterized by systemic complexity and a crisis in affordability. As a major purchaser of healthcare in the Bay area, the Health Service System has the opportunity to work with local medical groups, hospitals and insurers in devising innovative ways to improve the quality of patient care and containing costs. By taking a leadership role, HSS is at the forefront of collaborative programs that will have a positive, long term effect on member health, as well as the fiscal well-being of City employers. These programs also have the potential to serve as a model for maintaining sustainable, quality health benefits for other large private and public employers in our region who are facing similar challenges.

2011–2012 Key Achievements

- Plan design changes for 2011-2012 plan year, including increased co-pays for brand name medications (to encourage use of generics), resulted in an estimated \$10M annual premium savings.
- Formation of two San Francisco-based Accountable Care Organizations (ACOs) were required in the non-staff model HMO plan (Blue Shield) contract effective July 2011. These ACOs were designed to create competition based on cost and quality within the Blue Shield provider network.
- To reduce costs, the Health Service Board voted in favor of changing to a calendar-based plan year. Rates and benefits negotiations were completed for a transitional 6-month benefits period, July to December 2012, resulting in \$17M premium savings.
- 603 new disability Medicare enrollments, resulting from Operations audits, are projected to save \$4.4M annually.
- Received over \$18M in pledge credit funds from Blue Shield. (Blue Shield has pledged to return net income of over 2% back to customers and local communities.) \$5.2M of this credit was applied by the Health Service Board to stabilize July to December 2012 premium rates in order to decrease migration out of Blue Shield.
- Participated with the Mayor's Office of Economic Development in meetings regarding the Sutter Hospital development plan. Advocated for the agreement to specify that the cost of development would not be passed back to employers in the form of higher premium costs for employee/retiree health benefits.
- Successfully conducted an open, competitive solicitation for actuarial consulting, including advising on implementing federal healthcare reform. This resulted in a contract with Aon Hewitt, beginning July 1, 2011.

Achievements

Fiscal Accountability and Operational Excellence

The Health Service System is committed to maintaining the highest accounting standards and providing outstanding member service. This commitment extends to all areas of finance and operations, which comprises complex back office administrative tasks as well as direct member support via the HSS call center and our in-person front desk. Metrics are tracked on an ongoing basis, to ensure that HSS member transactions are handled with a high level of quality and privacy, while members consistently receive accurate and knowledgeable counselling about health and wellness benefits.

2011–2012 Key Achievements

- Successfully implemented complex annual open enrollment rate change calculations for all employer bargaining units and retirees.
- Pursuant to Proposition C, developed finance and operations plan for successful transition to calendar-based plan year beginning in January 2013
- Achieved error-free independent audit of Health Service System trust fund financial statements.
- Met or exceeded department operations goals, including speed and accuracy of member service, per the Controller's performance audit.
- Successfully coordinated new Delta Dental employee premium contributions and other plan changes effective in July 2011 with PeopleSoft, Human Resources and Payroll teams.
- Successfully conducted panel reviews resulting in the replacement of two key positions: a new Chief Financial Officer hired November 2011, and a new Member Services Manager hired February 2012.
- Processed over 6,000 open enrollment changes for the plan year beginning July 2011.
- Conducted in-person presentations to over 1,000 members at new hire orientations and pre-retirement seminars. Also attended several meetings to provide in-person support to over 150 staff members laid off by the Superior Court due to state budget cuts.
- Processed over 6,000 open enrollment changes for the plan year beginning July 2011.
- HSS management participated as key members on eMerge PeopleSoft 9.0 planning team.
- Successfully submitted applications for federal ERRP (Early Retiree Reinsurance Program) reimbursements, which will result in the award of several million dollars for application against future premium rates.
- Realized \$1.17M from plan vendor performance guarantees and forfeitures.

Achievements

Informed, Transparent, Effective Governance

By setting a high standard for open, responsible governance, the Health Service Board and HSS support the fundamental principles of a society ruled by law. The members of the Health Service Board are fiduciaries of a substantial financial trust fund, and the principal negotiators of health vendor contracts totalling over \$700 million annually. In an atmosphere where public employee benefits are under intense scrutiny, the Health Service Board is committed to information transparency, ethical conduct and accountability.

2011–2012 Key Achievements

- Successfully documented and implemented Board governance policies.
- All Board and Committee meeting agendas and associated documents were made available to the public on paper and online within 72 hours of meetings.
- Digital audio and video of board meetings made available on HSS website within 72 hours after meetings.
- Assisted in the orientation of new Commissioner appointed by the Mayor in 2011.
- Successfully responded to all public information requests within 24 hours, including numerous inquiries regarding San Francisco Proposition C.
- Presented before the San Francisco Board of Supervisors upon request.



Educated and Empowered HSS Members

A well-informed member is positioned to make wiser decisions about benefits, as well as behaviors that impact health. To succeed in its efforts to improve quality of care and drive down costs, HSS is working to actively engage members as participants in new wellness and costs saving initiatives. HSS communications is shifting from an inform-as-needed model to a paradigm that incites beneficial personal change in our members.

2011–2012 Key Achievements

- Effectively delivered timely, consistent, accurate benefits information via print, web, monthly eNewsletter, phone and in-person member contact.
- Over 65,000 complete and accurate member open enrollment packets mailed by necessary deadlines.
- Coordinated with the City Attorney to determine impact of San Francisco Proposition C as it related to the Health Service System.
- Facilitated HSS and Blue Shield participation in a preventive care NIH (National Institutes of Health) research project conducted by Columbia University.
- Annual member health fair attracted nearly 3,000 employee and retiree attendees.
- Collaborated on ACO informational materials.
- Coordinated VSP mobile health day, providing preventive screenings to employees at 1 South Van Ness.
- Fitness classes and educational seminar programs expanded, including Smoking Cessation, Diabetes Prevention, and Destress in a Heartbeat.
- In conjunction with the Department of Aging, co-sponsored the Healthy Aging Summit.
- Weight Watchers at Work programs helped employees lose over 2,000 pounds lost since the program's initiation.
- Fitness club discount program expanded to include several additional Bay area facilities.



Premium Trends

Employer/Member Medical Premiums



Year-over-year aggregate average employer contributions to medical premiums increased by 2%, from 84% to 86%, and overall member contributions decreased from 16% to 14%.

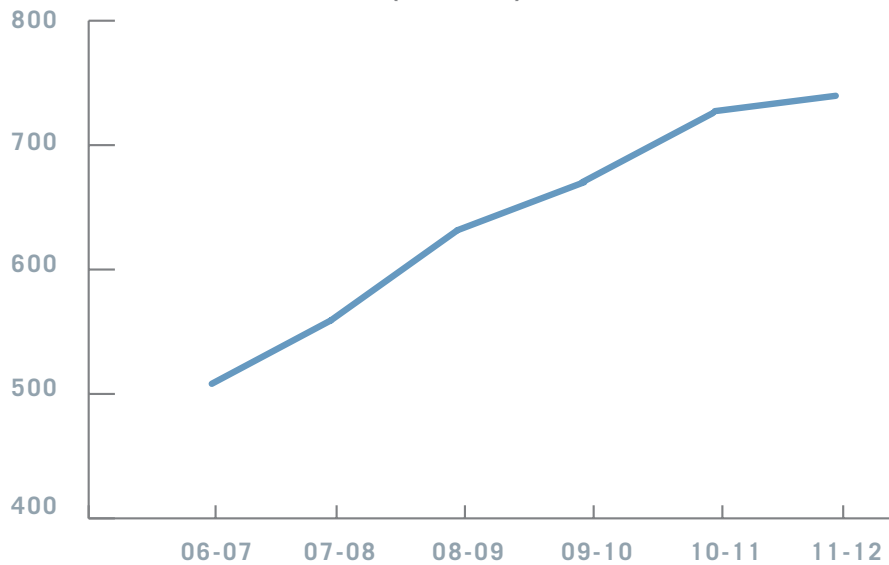
Average Monthly Premium Contributions	FY 08-09	FY 09-10	FY 10-11	FY 11-12
Average Monthly Member Premium Contribution	\$ 115	\$ 117	\$ 113	\$ 123
Average Monthly Employer Premium Contribution	\$ 641	\$ 717	\$ 735	\$ 769
Monthly Trust Fund Premium Subsidy Contribution	\$ 9	-	-	-
Average Monthly Total Premium Contribution	\$ 765	\$ 834	\$ 878	\$ 892

Data from HSS finance.

Cost Trends

Year-Over-Year HSS Health Premium Costs

Health Service System Total Employer and Member Health Premium Contributions
(in millions)



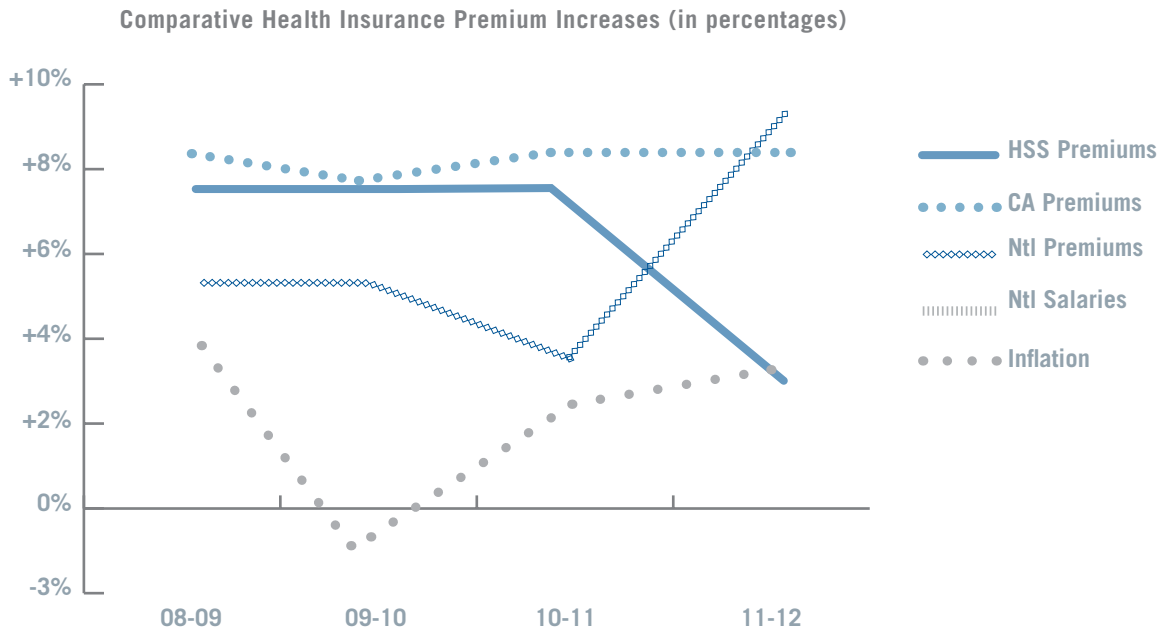
In 2011-12, HSS' 3% aggregate premium increase was significantly lower than regional, state and national trends. In the context of a 3% national inflation rate, it was a net zero increase. The Health Service Board remains committed to improving care and managing costs through innovative plan design, Accountable Care Organizations, price competition between plans and employee wellness programs.

	FY 06-07	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12
Total Combined Contributions (in millions)	\$ 519 +10%	\$ 558 +10%	\$ 615 +7%	\$ 658 +7%	\$ 703 +7%	\$ 722 +3%

Data from HSS finance; includes total premium costs for medical, dental, vision, and long term disability coverage, as well as flex credits and flexible spending accounts.

Cost Trends

Year-Over-Year Comparative Cost Increases



The rising cost of healthcare is affecting the local, state and national economy. In general it is outpacing inflation, and having a negative impact on employers’ ability to manage budgets and maintain jobs and wages. In 2011-2012 HSS beat these trends.

	FY 08-09	FY 09-10	FY 10-11	FY 11-12
HSS Health Premiums	+7%	+7%	+7%	+3%
California Health Premiums	+8%	+7.5%	+8%	+8%
National Health Premiums	+5%	+5%	+3%	+9%
National Worker Salaries	+4%	+3%	+2%	+2%
National Inflation	+4%	-2%	+2%	+3%

Data from HSS finance; includes total premium cost for medical, dental, and vision coverage. California Health premium data shown in the chart above is from the California Healthcare Foundation, California Employer Benefits Survey. National data is from the Kaiser Family Foundation.

Sustainable Benefits

Identify Healthcare Cost Drivers

As the administrator of employee benefits for the City & County of San Francisco, the San Francisco Unified School District, the Community College District and retirees, the Health Service System has a unique view into the challenges and complexities related to healthcare costs, both nationwide and in the Bay area. Getting to sustainable benefits depends on mitigation of these healthcare cost drivers so we can not simply shift costs around, but bend the cost of healthcare over the long term. We have identified these key drivers:

Key Drivers of Unsustainable Employee and Retiree Health Benefits

1. In-patient and outpatient facility costs are driven locally by the market domination of two major players (Sutter and Kaiser). This lack of competition results in shadow pricing, which is based arbitrarily on how much can be squeezed from payers, rather than fair unit costs, population risk and utilization.
2. Lack of data transparency prohibits payers from effectively negotiating rates based on population risk, claims information and objective quality and efficiency objectives. In 2011-2012 state law continued to prohibit contracted HMO providers from sharing detailed utilization data and payment agreements with purchasers.
3. Adverse selection in the City Plan PPO and Blue Shield HMO has pushed up premium rates in those plans. There has been significant migration of healthier, lower risk participants to Kaiser, leaving higher risk pools in City Plan and Blue Shield. With this adverse selection, there are not enough healthy enrollees to cushion the financial risk of the sicker individuals who need more services.
4. The healthcare system is fragmented, resulting in uncoordinated care, unnecessary care and medical errors. For example, there is often little communication between hospitals and primary care providers, or among multiple providers who are managing a patient with a serious condition. (The Accountable Care Organizations established in San Francisco by HSS and Blue Shield in 2011 are intended to address this key driver for a significant portion of the HSS population.)
5. HSS members—active employee and retirees—are aging. This trend accelerates when hiring is slow-to-frozen and retirements are delayed due to economic recession.
6. City employers do not have an enterprise-wide culture of wellness. We must address the significant illness burden in our employee population, to improve quality of life and reduce actuarial risk.

Sustainable Benefits

Align City Resources

A concerted effort to lower healthcare costs, and achieve sustainable benefits, is required to achieve success. Per current governance, responsibilities for healthcare costs are shared among a wide number of City entities. HSS has been facilitating collaborative efforts, in order to bring about significant change.

<p>Voters define 71% of City contribution via the City Charter</p> <ul style="list-style-type: none"> • Establishes minimum health premium contribution City must contribute for employees and retirees. • Defines eligibility rules for employees, retirees and surviving dependents. 	<p>Elected Officials Exert Legislative Influence and Approve Aggregate Health Plan Costs</p> <ul style="list-style-type: none"> • Board of Supervisors reviews and approves annual rates and benefits for medical, dental, vision plans. • Legislates to ensure vendor pricing transparency and a thriving, competitive marketplace. • Board of Supervisors determines eligibility for coverage beyond the City Charter, via the Administrative Code.
<p>Health Service Board Negotiates Aggregate Annual Health Plan Costs</p> <ul style="list-style-type: none"> • Directs competitive health vendor RFP processes. • Conducts annual rates and benefits negotiations (medical, dental, vision). • Determines plan design* (benefits and co-pays). • Recommends annual medical, dental and vision plan vendors, rates and benefits to the Board of Supervisors. • Ensures benefits are applied without favor or privilege. • Creates innovative programs to improve quality and maintain affordable benefits. 	<p>CCSF Department of Human Resources Negotiates 29% of Contribution for City Employees</p> <ul style="list-style-type: none"> • Negotiates labor contracts, which determine employer/employee premium contributions and benefits strategies beyond the Charter mandate. • Works in partnership to promote a healthy and productive workforce.
<p>Unified School District Adds 16,000 Lives to the Membership Pool</p> <ul style="list-style-type: none"> • Defines eligibility for USD employees. • Negotiates labor contracts which determine employer/employee premium contributions for USD. 	<p>Community College District Adds 5,000 Lives to the Membership Pool</p> <ul style="list-style-type: none"> • Defines eligibility for CCD employees. • Negotiates labor contracts which determine employer/employee premium contributions for CCD.
<p>Labor Unions Negotiate Contracts and Influence Employee Engagement</p> <ul style="list-style-type: none"> • Negotiate contracts, including premium contributions and health incentives. • Advocates for employee engagement in managing health and healthcare decision making. 	<p>Civil Service Commission Defines Employee Holdover Benefits</p> <ul style="list-style-type: none"> • Defines employee holdover health benefits and eligibility. (Holdover employees currently retain HSS health coverage eligibility for 5 years).

*HMO plans, per State of California regulation, are required to provide a certain array of benefits. The Health Service Board has no authority to change state requirements.

Sustainable Benefits

Develop a Collaborative Action Plan

As the largest regional purchaser of group employer health insurance for our 105,545 members, HSS exerts considerable purchasing power. However, years of escalating profits have resulted in the institutionalization of health vendor profiteering from fee-for-service and market consolidation, rather than fee-for-value, based on efficiency and quality. Beneficiaries of healthcare benefits—employees and retirees—also need to take more responsibility for their health and become more engaged in wellness. To achieve progress across these dimensions requires a coordinated and collaborative approach that brings employers, management and labor together to devise solutions.

Governing Principles for a Collaborative Approach to Sustainable Benefits

1. Implement end-to-end healthcare data, cost and quality transparency, allowing employers and members to make informed choices based on quality and affordability.
2. Require the formation of ACOs (Accountable Care Organizations) based on incentives for cost management, waste reduction, coordinated care, preventive care and quality care.
3. Effectively measure population risk, especially shifts due to migration, and manage risk pools to avoid adverse selection and promote competition between plans.
3. Maintain the highest possible percentage of membership in HMO benefits, to ensure dollars are spent on coordinated care and quality outcomes.
5. Similar to CalPERS, offer narrow-network HMO plans to encourage market competition, and cast light on shadow pricing.
6. Support an employee health and wellness strategy that involves employers, department-level wellness plans and employee/retiree wellness incentives.
7. Evaluate the possibility of leveraging public health infrastructure and other City facilities to support cost-reduction initiatives such as routine preventive care and more accessible after-hours urgent care.



Sustainable Benefits

Measure for Success

We can't improve if we don't measure. Aside from aggregate dollars spent, we need to develop more detailed metrics for measuring the success of the initiatives established in the collaborative action plan.

Metrics for Measuring Success

1. Utilize revised HSS dashboard to enhance visibility into rolling trends.
2. Increase transparency regarding insurer and provider fee schedules and their relation to premium costs.
2. Require vendors to provide data that will identify trends in high cost claims, especially those based on chronic conditions, which could result in significant dollar savings through improved coordination of care.
3. Employers should include wellness objectives in individual performance reviews for managers.
5. Measure employee and retiree participation in wellness activities, and tie any improvement in population health metrics to reduced insurance premiums.
6. Measure employee and retiree understanding of healthcare options and the impact of behavioral change on healthcare costs.



Statement of Net Assets Available for Health Benefits

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets:		
Cash and investments held with City & County Treasurer	\$ 106,969,056	\$ 73,310,631
Contributions receivable from:		
Employer	30,886,077	16,605,267
Employees	5,049,448	3,183,878
Interest receivable	48,169	—
Other assets	3,504,627	10,017,561
Total assets	<u>\$ 146,457,377</u>	<u>\$ 103,117,337</u>
Liabilities:		
Reserves for claims—City Health Plan (medical and prescription drugs), and dental	\$ 9,358,125	\$ 8,706,025
Health Maintenance Organization, dental and disability premiums payable	26,570,119	26,035,398
Unearned contributions	57,310,124	40,853,675
Interest payable	—	35,811
Total liabilities	<u>93,238,368</u>	<u>75,630,909</u>
Net assets available for health benefits	<u>\$ 53,219,009</u>	<u>\$ 27,486,428</u>

To see the accompanying notes, which are an integral part of these financial statements, please visit:
www.myhss.org/finance.html.

Statement of Net Assets Available for Health Benefits

Years Ended June 30, 2012 and 2011

	2012	2011
Additions:		
Employer and retiree contributions	\$ 109,735,070	\$ 119,430,273
Employer contributions for:		
Active employees	423,573,655	401,292,191
Retired employees	189,169,302	182,048,421
Total contributions	<u>722,478,027</u>	<u>702,770,885</u>
Plan providers penalties and forfeitures	1,166,491	1,458,217
Investment earnings:		
Net increase (decrease) in fair value of investments	667,004	(85,591)
Interest income	716,497	474,407
Total investment earnings	<u>1,383,501</u>	<u>388,816</u>
Total additions	<u>725,028,019</u>	<u>704,617,918</u>
Deductions:		
City Health Plan health benefits	62,070,269	70,992,313
Health Maintenance Organization health benefits	559,852,122	546,066,398
Vision benefits	4,342,912	4,052,520
Dental benefits	53,224,967	51,253,618
Disability and flexible benefits	19,805,168	18,993,067
Total deductions	<u>699,295,438</u>	<u>691,357,916</u>
Change in net assets available for health benefits	25,732,581	13,260,002
Net assets available for health benefits:		
Beginning of year	<u>27,486,428</u>	<u>14,226,426</u>
End of year	<u><u>53,219,009</u></u>	<u><u>27,486,428</u></u>

To see the accompanying notes, which are an integral part of these financial statements, please visit:
www.myhss.org/finance.html.

Health Service Board

Per the San Francisco City Charter, the Health Service Board is responsible for conducting an annual review of health benefit costs, ensures benefits are applied without favor or privilege, and administers the business of the Health Service System. In 2010–2011 the Health Service Board consisted of seven commissioners. One commissioner is a member of the Board of Supervisors appointed by the President of the Board of Supervisors. Two commissioners are appointed by the Mayor. One mayoral appointee must regularly consult in the health care field and the other must be a doctor of medicine. Four commissioners are elected from among the active and retired members of the Health Service System. Elected commissioners serve a five year term.

2011–2012 Health Service Board



Karen Breslin
Elected Commissioner
Current Term: June 2011–May 2015

Retired from San Francisco
Probation Department



Carmen Chu
Appointee

Board of Supervisors
City & County of San Francisco



Sharon Ferrigno
Elected Commissioner
Current Term: May 2009–May 2014

Captain, San Francisco
Police Department



Jean S. Fraser
Appointee

Health System Chief,
San Mateo County Health System

(replaced Scott Heldfond in 2011)



Wilfredo Lim
Elected Commissioner
Current Term: May, 2010–May, 2015

Accounting Manager,
San Francisco General Hospital



Jordan Shlain, MD
Appointee

Medical Director, SF Oncall;
Assistant Clinical Professor,
UCSF Medical Center



Claire Zvanski
Elected Commissioner
Current Term: May 2008–May 2013

Retired from San Francisco
Municipal Transportation Authority



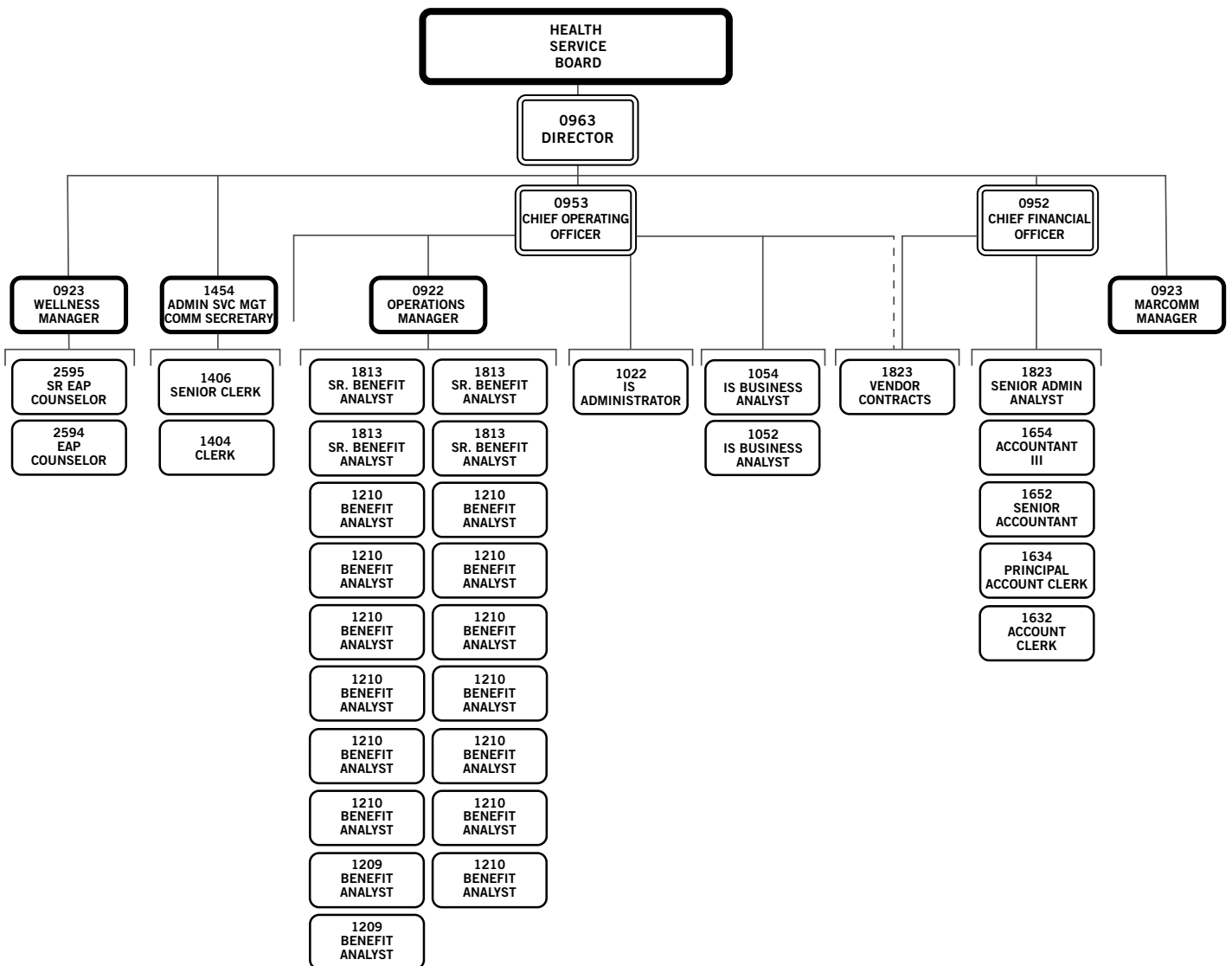
Scott Heldfond
Appointee

Director,
NASDAQ Insurance Group

(resigned with commendation in 2011)

Health Service System Organization

As of May 2012, the Health Service System employed 39 full-time staff members.



Contact Information

Health Service System Member Services

HSS Call Center:

(415) 554-1750

(800) 541-2266

Monday - Friday

8:00AM–5:00PM

HSS Office Drop-in:

1145 Market Street

2nd Floor

San Francisco, CA 94103

8:00AM–5:00PM

HSS website:

www.myhss.org

Health Service System Management Team

Catherine Dodd, RN, PhD

Director

Lisa Ghotbi, PharmD

Chief Operating Officer

Tracey L. Loveridge

Chief Financial Officer

Margaret O'Sullivan, RN, MBA

Health Promotion and Wellness Plan Coordinator

Rosemary Passantino

Communications Manager

Laini Scott

Health Service Board Secretary