



City & County of San Francisco

HEALTH SERVICE BOARD

1145 Market Street + Suite 200 + San Francisco, CA 94103

MINUTES

Special Meeting

(Combined with Rates and Benefits Committee Meeting)

Tuesday, July 3, 2012

10:00 AM

City Hall, Room 416
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94103

- Call to order
- Pledge of allegiance
- Roll call
 - President Karen Breslin
 - Vice President Wilfredo Lim
 - Supervisor Carmen Chu, arrived 10:12 a.m.
 - Commissioner Sharon Ferrigno
 - Commissioner Jean S. Fraser
 - Commissioner Jordan Shlain, M.D., excused
 - Commissioner Claire Zvanski

All Health Service Board meetings are recorded and videotaped. Meeting audio links, YouTube videos and all meeting materials are posted on the myhss.org website.

RATES AND BENEFITS COMMITTEE MATTERS

- 07032012-01RB Action item
 - Approval of final Blue Shield HMO plan design, and either fully-insured or flex funded rates and benefits for active and retired HSS members for Plan Year 2013 (Committee Chair Breslin and Aon Hewitt)
 - Documents provided to Board prior to meeting:
Report prepared by Aon Hewitt, "Blue Shield HMO 2013 Plan Renewal – Active, Early Retiree and Medicare Retiree," dated July 3, 2012.

Staff Recommendation: Approve flex funded rates.

- Committee Chair Breslin asked Catherine Dodd, HSS Director, to explain flex funding before beginning the presentation.
- Dr. Dodd first noted that two HSS staff were in attendance, Kathy Frierson, newly promoted supervisorial Benefits Analyst, and Yuriy Gologorskiy, Finance Senior Administrative Analyst.
- Dr. Dodd reported that flex funding makes HSS responsible for setting the premium rates, based on actuarial analysis, and assuming the risk.
- There are two types of health maintenance organizations (“HMOs”). One is a Kaiser-like HMO, which is globally funded. For example, HSS pays one per member per month (“PMPM”) amount to the HMO and the HMO negotiates with the hospitals and doctors.
- The current Blue Shield HMO plan is fully-funded, which means HSS pays a certain PMPM amount and if costs increase above the negotiated rate, the HMO assumes the risk.
- Aon Hewitt has conducted many tests to determine the appropriate premium rate for a flex funded plan.
- Since implementing the Accountable Care Organizations (“ACOs”), member utilization has decreased causing the premium to be set lower.
- Anil Kochhar, Aon Hewitt actuary, summarized the renewal options presented the June 14 Health Service Board meeting: status quo (fully-funded) renewal, flex funded renewal option and two plan design alternatives imposing an annual facilities deductible.
- At the June 14 meeting, the Board requested that Aon Hewitt provide four additional options applying rate stabilization amounts of \$5M and \$10M to member contributions under the status quo and flex funded renewals.

- Sufficient funds need to be set aside as reserve for a flex funded plan. Aon Hewitt believes that application of a \$5M reserve is a fiscally responsible alternative. Therefore, the flex funding \$10M rate stabilization scenario is not included in today's presentation.
- The \$5M rate stabilization is applied to the member contributions for active members and early retirees only. Employers will also see savings in this scenario due to a decrease in the risk migration assumptions.
- Also discussed at the June 14 meeting were member migration from Blue Shield to Kaiser, and Blue Shield's requirement to load an additional 3% to the status quo rates as fair pricing for the disparity and contributions for EE+2 related to Kaiser migration.
- The overall status quo rate increase for the 2013 plan year is 13.18%, an increase of \$39.3M from the short 2012 plan year costs.
- After application of the \$5M rate stabilization, Blue Shield's status quo renewal for the 2013 plan year decreases from 13.18% to 9.99%.
- The status quo renewal with \$5M rate stabilization results in a \$29.8M annual cost increase over the short 2012 plan year.
- The \$5M subsidy towards member contributions will save \$9.5M (\$5.2M for members and \$4.3M for employers).
- Commissioner Lim asked for clarification on whether Blue Shield lowered the percentage built in for migration as discussed during the June 14 meeting.
- Mr. Kochhar confirmed that Blue Shield reduced its migration load and adjusted the rates.
- Under the status quo renewal, the Active EE+1 monthly contribution increase is 97.95% or \$83.71, .

- Under the status quo renewal, the Active EE+2 monthly contribution increase is 52.75% or \$248.44.
- Under the status quo renewal, the Early Retiree EE+1 monthly contribution increase is 25.72% or \$89.11.
- Under the status quo renewal, the Early Retiree EE+2 monthly contribution increase is 19.70% or \$167.56.
- Mr. Kochhar noted that the overall employer costs change between -10.57% and 15.70%.
- The employer increase is \$20.05 in the Active EE+2 category. This is due to the contribution model.
- Under Blue Shield's fully insured plan with \$5M rate stabilization, the Active EE+1 monthly contribution increase is 54.59% or \$46.66.
- Commissioner Zvanski asked Blue Shield's representative to provide an update on transparency regarding the pricing of rates.
- Bill McQueen, Blue Shield representative, clarified that under the \$10M rate stabilization, Blue Shield removed its entire migration load. Under the \$5M rate stabilization, the migration load was reduced approximately by half.
- Mr. McQueen stated at the last meeting, that HSS has the right to request a claims audit to verify that Blue Shield is correctly paying claims in accordance with its contract with HSS. Blue Shield would support such onsite audit.
- Mr. Kochhar briefly reviewed the advantages and disadvantages of flex funding.
- Advantages include:
 - HSS holds all claim reserves and benefits from cash flow and interest earnings;
 - HSS directly benefits from improved experience and cost savings from ACOs;
 - Increased transparency of data and information, including greater access

to claims data;

- One-time cash flow of the “run out” claims from the 2012 plan year absorbed by Blue Shield.
- Mr. Kochhar stated that the biggest disadvantage in adopting flex funding would be HSS’ assumption of the financial risk if paid claims exceed the expected claims.
- HSS must also establish a reserve for monthly paid claims fluctuation and IBNR (incurred but not reported) claims.
- It is easier to change to flex funding than leave flex funding.
- Commissioner Fraser asked if changing to flex funding would affect Blue Shield’s 2% profit pledge credit to HSS.
- Mr. McQueen, responded that flex funded groups did receive a portion of Blue Shield’s 2% pledge credit last year. However, the percentage was smaller for those groups than the fully-insured groups. It is unclear if the pledge credit distribution will be modified in the future.
- Mr. Kochhar presented Aon Hewitt’s trend analysis used to determine the fee for service component of cost. Based on his regression analysis of the most current 12 months, the trend is 9.05%. In prior renewals, the trend was between 12%-15%.
- A presentation of the aggregate costs, monthly contributions and rate cards for the fully-insured status quo, flex funded and three rate stabilization alternatives are included in Aon Hewitt’s written report.
- Aon Hewitt’s recommendation is to change to the flex funded option with a \$5M rate stabilization and \$7M claims stabilization reserve.
- Committee Chair Breslin asked if HSS has received a written guarantee from the Mayor’s Office allowing two new positions to be added to administer the plan, if flex funding is approved by the Board.

- Catherine Dodd responded that in a telephone call, the Mayor's Budget Director stated approval for funding two new positions, if the Board approves changing to flex funding.
- Cindy Czerwin, Deputy Director in the Mayor's Budget Office, reported that the Mayor's Office supports the flex funding proposal, and if the Health Service Board approves changing funding, HSS will be allowed to hire two new positions.

Public comments: Bob Britton, Director of Field Services for Local 21 IFPTE, stated his support for flex funding and asked about next steps. He suggested everyone coming together to determine a solution to increasing healthcare costs. He also suggested education for members, including the meaning of acronyms, to help them understand the issues.

Richard Rothman, retired City employee, questioned the rationale for trying a flex funded plan again at this time and recommended looking outside the box for solutions. He suggested looking at UCSF's system where the rates are based on annual income.

Angela Tomlinson, San Francisco City College employee, stated that City College employees earn less than CCSF employees while also picking up additional healthcare costs, and the employer contribution is less. She stated that many City College employees have migrated from Blue Shield to Kaiser due to increased healthcare costs.

Sin Yee Poon, SEIU 1021 representative, questioned how flex funding will control costs. She expressed concern regarding Blue Shield's increases for the short plan year and the 2013 calendar year and questioned Blue Shield's administrative fees as a way to increase costs due to caps in healthcare reform. She also expressed concern regarding the employer contribution formula shifting costs from the employer to employees.

Gary Berringer, Local 21 member, concurred with the comments of previous speakers. He thanked the Health Service Board for attempting to find creative solutions to the issues. He questioned Blue Shield's rate increases and suggested that the

Board review Blue Shield's executive pay policy to ensure that increases are not being based upon executive bonuses or exorbitant executive pay, which is not allowed under healthcare reform.

Tom Moore and Sally Covington, founders of Community Campaigns for Quality of Care, addressed the Board. Mr. Moore stated that he and Ms. Covington have been retained by Local 1021 and other unions in California to develop alternative purchasing and bargaining strategies. He stated that 30- 40% of healthcare costs are wasteful and noted a recent CalPERS analysis indicating approximately 27% of its PPO program was wasteful. A similar study for IBW Local 1245 (PG&E employees) indicated that approximately 20-30% of its healthcare costs were wasteful.

Ms. Covington stated that Local 1021 is interested in working together with other unions, the City and HSS to find improvements in the delivery system and eliminate unsafe and ineffective care to prevent waste and reduce costs. Local 1021 is ready to partner with HSS to identify solutions.

Brook Demmerle, Local 21 and healthcare workers' representative, read an e-mail from a member on the impact of Blue Shield's copay increase. She also read a statement from another member asking the Board to keep Blue Shield's rate increases low. Ms. Demmerle also spoke in favor of working collaboratively with HSS to contain costs and high administrative salaries.

Dramilia Din, Laguna Honda employee in the Nutrition Department, reported that it may be difficult for some lower paid employees to remain in Blue Shield because of the copay increase. Higher copays could prevent them from seeing a doctor. She suggested finding solutions to the high cost of healthcare, especially for lower paid workers.

Valoria Russell-Benson, Laguna Honda employee, spoke against Blue Shield's rate increases as a single parent with two dependent children. She asked the Board to keep Blue Shield's rates affordable.

Rebecca Rhine, Municipal Executives' Association representative, expressed support for flex funding and the \$5M rate stabilization. She stated that the MEA and other City labor organizations must get involved in understanding how healthcare reform is

going to impact members and the cost of waste as referenced earlier. The unions must put forward a series of proposals during bargaining under the wellness initiative and take a comprehensive approach. On behalf of the MEA, she stated her willingness to work with the Health Service Board to determine long term healthcare solutions.

Gerry Meister, Chair of UESF Retired Division, voiced her support for the flex funding plan and thanked the Health Service Board for their hard work.

Action: Motion was moved and seconded by the Board to change Blue Shield HMO funding from fully-insured to flex funding, applying a \$5M rate stabilization and \$7M claims stabilization reserve.

Motion passed 5-1.

Commissioners Breslin, Lim, Chu, Ferrigno and Zvanski voted in favor of the motion.

Commissioner Fraser voted against the motion.

□ 07032012-02RB Action item

Approval of City employee Long Term Disability (“LTD”) and Life Insurance vendor contracts per City Request for Proposal (RFP) process (Aon Hewitt)

Documents provided to Board prior to meeting: Report prepared by Aon Hewitt, Life and Long-Term Disability Request for Proposal Results and Recommendation.”

- Catherine Breezee, Aon Hewitt Vice President, reported on the Long-Term Disability (“LTD”) and Life Insurance Request for Proposal (“RFP”) conducted for the 2013 plan year.
- Aon Hewitt received quotes from eight vendors.
- The selection panel unanimously selected Aetna as the vendor for life insurance and LTD, effective January 1, 2013.
- The annual cost of coverage for life insurance and LTD will reduce the annual cost from \$8.5M to \$6.1M, resulting in a savings of \$2.45M annually or \$9.8M (-28.7%) over the life of a 4-year rate guarantee.

- Basic group life insurance is offered to approximately 5,870 covered lives under select unions.
- HSS requested Aon Hewitt to include an alternate quote to cover an expanded membership closer to 20,000 lives for a basic life insurance plan of \$50,000.
- This alternate quote will allow HSS to administer basic life insurance benefits to employees made eligible through union negotiations without conducting an additional RFP for expanded coverage.
- Current LTD insurance is administered by HSS to approximately 20,000 City employees with MOU provisions supporting this benefit.
- Two different LTD plans are currently in force.
- For unions including SEIU, Consolidated Crafts, TWU, Teamsters, Courts, etc.:
 - Plan has 280-day elimination period (elimination period is the time between the onset of disability and start of benefits);
 - Salary replacement of 60% of wages up to \$5,000 monthly and \$100,000 annually;
 - Current monthly cost is \$0.560 per \$100 in actual payroll for enrolled members.
- For unions including MEA, MAA, Courts, IFPTE Local 21, etc.:
 - Plan has a 90-day elimination period;
 - Salary replacement of 66.667% of wages up to \$7,500 month and \$135,000 annually;
 - Current monthly cost is \$0.485 per \$100 in actual payroll for enrolled members.
- Aetna has agreed to pay \$25,000 to establish an implementation fund, as well as funding a \$25,000 pre-implementation audit, to ensure a successful transition.

- Catherine Dodd stated that HSS will investigate whether the basic life insurance contract can be expanded to all employees. It would cost the City \$468,000 to cover all employees.

Public comments: Sin Yee Poon, SEIU 1021 representative, stated that the disparity in the two contracts is unfair and asked the Board to have an equal contract across the board for all eligible employees.

Action: Motion was moved and seconded by the Board to approve the change of current life insurance and LTD vendor from UNUM to Aetna, effective January 1, 2013.

Motion passed 6-0.

REGULAR BOARD MEETING MATTERS

President Breslin called for a 10-minute Board recess from 12:30 to 12:40 p.m.

- 07032012-03 Discussion item Report on network and health plan issues (if any)
(Respective plan representatives)
 - Bill McQueen reported on a potential Blue Shield network termination. UCSF's contract expires on July 14. No letters will be sent to members as it is anticipated that the contract will be settled soon. Hill Physicians Medical Group members are primarily affected by this potential contract interruption.

Public comments: None.

- 07032012-04 Discussion item Opportunity to place items on future agendas
 - Commissioner Zvanski asked Dr. Dodd to schedule a wellness meeting with the unions in an effort to help bring down costs, and report back to the Board.
 - Dr. Dodd agreed to schedule the wellness meeting with the unions and also noted that Mayor Lee had scheduled a wellness meeting on July 16 with the Controller, DHR and HSS and labor representatives.
 - Dr. Dodd also committed to present an update on healthcare reform. HSS will schedule healthcare reform webinars at the

office and invite Board members to attend.

- President Breslin stated that the committee appointments should be on the August agenda.

Public comments: None.

- 07032012-05 Discussion item Opportunity for the public to comment on any matters within the Board's jurisdiction
Public comments: None.
- 07032012-06 Action item Vote on whether to hold closed session to discuss member's appeal. (California Constitution Article I, Section 1; the Confidentiality of Medical Information Act, Cal. Civ. Code §§56 et seq; and the Health Insurance Portability and Accountability Act, 42 U.S.C. §§1320d et seq.) (President Breslin)
Staff recommendation: Hold closed session.
Public comment on all matters pertaining to the closed session:
Action: Motion was moved and seconded by the Board to hold a closed session to discuss member's appeal.
Motion passed 6-0.

Closed session pursuant to California Constitution Article I, Section 1; the Confidentiality of Medical Information Act, California Civil Code §§56 et seq; and the Health Insurance Portability and Accountability Act, 42 U.S.C. §§1320d et seq.

- 07032012-07 Action item Vote on member's appeal (Catherine Dodd)
Documents provided to Board prior to meeting:
 1. Memo from Director;
 2. Letter from member to Health Service System dated April 30, 2012 (Exhibit 1);
 3. Letter from Kaiser Permanente to member dated February 21, 2012 (Exhibit 2);
 4. Letter from Health Service System to member dated February 9, 2012 (Exhibit 3);
 5. Letter to member from Health Service system dated March 23, 2012 (Exhibit 4);
 6. PeopleSoft comments dated March 2, 2011 to March 23, 2012 (Exhibit 5).

Reconvene in Open Session

- 07032012-08 Action item Possible report on action taken in closed session
(President Breslin)

Public Comments: None.

Action: Motion was moved and seconded by the Board not to report on action taken in closed session.

Motion passed 6-0.

- 07032012-09 Action item Vote to elect whether to disclose any or all
discussion held in Closed Session (San Francisco
Administrative Code 67.12(a)) (President Breslin)

Public Comments: None.

Action: Motion was moved and seconded by the Board not to disclose any of the discussion held in closed session.

Motion passed 6-0.

- Adjourn: 1:08 pm

Summary of Health Service System Rules Regarding Public Comment

- Speakers are urged to fill out a speaker card in advance, but may remain anonymous if so desired.
- A member of the public has up to three minutes to make pertinent public comments before action is taken on any agenda item.
- A member may comment on any matter within the Board's jurisdiction at the designated time at the end of the meeting. The complete rules are set forth in Section A(6) of the Health Service System Rules and Regulations. A copy of these Rules and Regulations is available at any time upon request. Call the Administrative Services Manager, Laini K. Scott for further assistance at (415) 554-1727.

Health Service Board and the Health Service System Web Site: <http://www.myhss.org>

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Accessible seating for persons with disabilities (including those using wheelchairs) will be available.

The following services are available upon request:

- American Sign Language interpreters will be available upon request.
- A sound enhancement system will be available upon request at the meeting.
- Minutes of the meeting or hearing are available in alternative formats.

If you require the use of any of these services, please contact Administrative Services Manager, Laini K. Scott, at (415) 554-1727 or by email at laini.scott@sfgov.org at least 72 hours prior to the meeting.

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Citizens interested in obtaining a free copy of the Sunshine Ordinance can request a copy from Ms. Destro or by printing Chapter 67 of the San Francisco Administrative Code on the Internet, <http://www.sfgov.org/sunshine/>

Lobbyist Registration and Reporting Requirements

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- The chair of the meeting may order the removal from the meeting room of any person(s) in violation of this rule.
- The chair of the meeting may allow an expelled person to return to the meeting following an agreement to comply with this rule.

The complete rules are set forth in Chapter 67A of the San Francisco Administrative Code and in the Rules and Regulations of the Health Service System.

If any materials related to an item on this agenda have been distributed to the Health Service Board after distribution of the agenda packet, those materials are available for public inspection at the Health Service System during normal office hours. For more information, please contact Laini K. Scott at (415) 554-1727 or email at laini.scott@sfgov.org.