

# San Francisco Health Service System Health Service Board

## Promoting City Plan Long-Term Viability for Early Retirees

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# Today's Discussion—Goal and Agenda

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**Our Goal**—Promote long-term sustainability and viability of the City Plan for the active employee and early retiree populations.

Today's discussion will focus on early retirees in the City Plan. We will discuss active employees in the City Plan during the May 10 Health Service Board (HSB) meeting.

Reasons we are addressing the future of the City Plan for early retirees include:

- **Depletion of City Plan rate stabilization reserve funds**—rate buy-downs have been helping to maintain the City Plan since 2014, but only \$1,661,000 presently exists for 2019 and beyond application to City Plan rate buy-downs (see next page).
- **Escalating cost of prescription drugs**—the highest inflating component of health care overall.

# City Plan Rate Stabilization Reserve History

**Headline: Rate stabilization reserves have benefited City Plan participants in recent years, but those funds are nearly depleted.**

## Rate Stabilization Reserve Surplus as of December 31

December 31, 2012	\$7,094,000
December 31, 2013	\$22,292,000
December 31, 2014	\$25,774,000
December 31, 2015	\$11,379,000
December 31, 2016	\$4,529,000
December 31, 2017	\$1,661,000

## Amount Applied to Rating

2014 plan year	\$2,365,000
2015 plan year	\$7,431,000
2016 plan year	\$13,991,000
2017 plan year	\$7,586,000
2018 plan year	\$4,529,000

## Percentage Buy-Down Applied in Rating

2014 plan year	4%
2015 plan year	14%
2016 plan year	40% actives / 37% early retiree
2017 plan year	36% actives / 20% early retiree
2018 plan year	20% actives / 5% early retiree

*Note: City Plan had a modest stabilization reserve deficit as of December 31, 2011 (\$76,000)*

## Today's Discussion—Goal and Agenda

Reasons we are addressing the future of the City Plan for early retirees include (continued):

- **Majority of City Plan early retirees live in geographies where only City Plan is offered**—for 436 early retirees, maintaining a viable City Plan is a must since at least one other SFHSS plan is not available.

City Plan Early Retiree Home Geography	Subscriber Count
Live in California—BSC and/or KP plans not available	68
Live in United States—outside California	321
Live outside United States	47
Subtotal—BSC and/or KP plans not available	436
Live in California—choice among all UHC/BSC/KP plans	344
Total Early Retirees in City Plan	780

## The Current State—Call to Action

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- **Call to Action**—Without meaningful changes and modifications, the City Plan will continue to erode and accelerate into a “death spiral”.
  - A complex set of issues are creating this scenario and multiple strategies over multiple years are suggested for consideration.
  - A “death spiral” occurs when cost rapidly increases and the lower risk population leaves the plan creating adverse selection in the remaining population.
- A multi-pronged, multi-year plan is necessary to positively impact City Plan’s long-term viability.
  - Today we present several recommendations which we believe can be enacted for the 2019 plan year.
  - We also encourage further dialogue into the 2020 and future plan years on continued evaluation of ideas to help preserve City Plan sustainability into the future.

# Five Categories of Change Recommendations

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- Our City Plan change recommendations for early retirees for the 2019 plan year fall into five categories:
  - A. Create a separate plan for early retirees who have limited plan choice due to geography (“City Plan—Choice Not Available”).
  - B. Lower overall plan cost through a change in United Healthcare (UHC) provider network that has no adverse impact on members.
  - C. Change prescription drug copayments in City Plan to match those in BSC Access+ and Trio plans.
  - D. Increase out-of-network deductibles in City Plan.
  - E. Balance rate tier ratios for City Plan early retirees over a three-year period to be consistent with family tier ratios for BSC early retiree plans—a change that benefits early retiree families in City Plan without any adverse impact to other early retirees.

## Recommendation A: “City Plan—Choice Not Available”

	Recommendation	Rationale and Comments	Early Retiree Impact	Projected Annual Cost Impact
A.	<ul style="list-style-type: none"> <li>■ Create a separate plan for early retirees without access to BSC and/or KP plans due to geography</li> <li>■ Would apply to 436 City Plan early retirees (out of the 780 currently electing City Plan overall)</li> </ul>	<ul style="list-style-type: none"> <li>■ Creates equity in early retiree contributions for retirees who do not have access to all BSC and KP plans</li> <li>■ New plan adds a small administrative impact</li> </ul>	<ul style="list-style-type: none"> <li>■ Creates lower early retiree contributions for “City Plan—Choice Not Available” participants relative to early retirees taking City Plan who do have access to all BSC and KP plans</li> </ul>	<ul style="list-style-type: none"> <li>■ Additional SFHSS cost of \$250,000 to \$500,000, depending on how “City Plan—Choice Not Available” early retiree plan contributions are structured (equivalent reduction in early retiree contributions)</li> </ul>

# Recommendation B: Migration to UHC Select Plus Network

	Recommendation	Rationale and Comments	Early Retiree Impact	Projected Annual Cost Impact
B.	<ul style="list-style-type: none"> <li>Change current City Plan provider network to UHC's Select Plus Network in California (same providers as current)</li> </ul>	<ul style="list-style-type: none"> <li>Takes advantage of better pricing due to UHC's recently completed provider re-contracting without provider disruption in California</li> </ul>	<ul style="list-style-type: none"> <li>No disruption in network provider relationships for members</li> <li>Communication is needed</li> </ul>	<ul style="list-style-type: none"> <li>Overall savings of \$200,000 based on UHC's analysis (shared with early retirees based on SFHSS subsidy provisions)</li> </ul>



## Recommendation C: Increase Pharmacy Copayments

	Recommendation	Rationale and Comments	Early Retiree Impact	Projected Annual Cost Impact
C.	<ul style="list-style-type: none"> <li>■ Increase pharmacy copayments to match BSC plan levels                             <ul style="list-style-type: none"> <li>■ Retail (30-day) copayments increase by \$5 per prescription</li> <li>■ Mail order (90-day) copayments increase by \$10 per prescription</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Aligns with benchmarks presented in February HSB meeting as cost continues to increase rapidly</li> <li>■ Promotes consistency in prescription drug copayments between City Plan and BSC plans</li> </ul>	<ul style="list-style-type: none"> <li>■ Increases out-of-pocket cost to members at point of purchase of prescription drugs</li> </ul>	<ul style="list-style-type: none"> <li>■ Overall savings of \$140,000 (shared with early retirees based on SFHSS contribution sharing formulas)</li> </ul>

	Current Retail Prescription Copayment	Proposed Retail Prescription Copayment	Current Mail Prescription Copayment	Proposed Mail Prescription Copayment
Tier 1	\$5	\$10	\$10	\$20
Tier 2	\$20	\$25	\$40	\$50
Tier 3	\$45	\$50	\$90	\$100

# Recommendation D: Increase Out-of-Network Deductibles

	Recommendation	Rationale and Comments	Early Retiree Impact	Projected Annual Cost Impact
D.	<ul style="list-style-type: none"> <li>■ Increase to out-of-network deductible (currently \$250 single tier / \$500 in +1 tier / \$750 in +2+ tier both in and out of network)               <ul style="list-style-type: none"> <li>■ New out-of-network deductibles would double for 2019</li> <li>■ Current in-network deductible levels would remain same as current for 2019</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Aligns with benchmarks presented in February HSB meeting</li> <li>■ Promotes use of in-network providers in City Plan</li> </ul>	<ul style="list-style-type: none"> <li>■ Increases out-of-pocket cost to members using out-of-network providers at point of service</li> </ul>	<ul style="list-style-type: none"> <li>■ Overall savings of \$16,000 (shared with early retirees based on SFHSS contribution sharing formulas)</li> </ul>

# Recommendation E: Balance City Plan Family Rate Tier Ratios

	Recommendation	Rationale and Comments	Early Retiree Impact	Projected Annual Cost Impact
E.	<ul style="list-style-type: none"> <li>■ Balance City Plan rate ratios for family tiers relative to single tier, over three rating periods, to approximate those for BSC plans</li> <li>■ Current rate ratios for plans (Retiree Only / Retiree + 1 / Retiree +2+) compared to Retiree Only rates are:               <ul style="list-style-type: none"> <li>■ UHC City Plan: 1.00/1.96/2.67</li> <li>■ BSC plans: 1.00/1.45/1.81</li> <li>■ KP plan: 1.00/1.50/1.91</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ This change has no negative impact on BSC, KP, or Retiree Only tier City Plan enrollees</li> <li>■ Supports affordability and promotes fairness in setting of City Plan early retiree family tier (Retiree + 1, Retiree +2+) rates and contributions compared with BSC and KP plans</li> </ul>	<ul style="list-style-type: none"> <li>■ Lowers City Plan early retiree contributions for the Retiree + 1 and Retiree +2+ tiers in 2019 than they otherwise would have been without this recommended change</li> </ul>	<ul style="list-style-type: none"> <li>■ Additional SFHSS cost of \$200,000 to \$300,000 in 2019 as first year of three-year phase in (equivalent reduction in early retiree contributions)</li> </ul>

# Summary of 2019 Recommended Actions—Early Retirees

	Recommended 2019 Action	Annual SFHSS Cost / (Savings)	Annual Retiree Cost / (Savings)	Notes (ER = Employer, Rets = Early Retirees)
A.	Introduce “City Plan—Choice Not Available”	\$250,000 to \$500,000	(\$250,000) to (\$500,000)	<ul style="list-style-type: none"> <li>Net zero cost impact overall</li> </ul>
B.	Change UHC Network from Choice Plus to Select Plus		(\$200,000)	<ul style="list-style-type: none"> <li>Savings shared by ER and Rets based on cost sharing formulas</li> <li>Same providers in network</li> </ul>
C.	Prescription drug copay changes		(\$140,000)	<ul style="list-style-type: none"> <li>Savings shared by ER and Rets based on cost sharing formulas</li> </ul>
D.	Out-of-network deductible changes		(\$16,000)	<ul style="list-style-type: none"> <li>Savings shared by ER and Rets based on cost sharing formulas</li> </ul>
E.	Balance family tier rate ratios to approximate BSC (first year of three-year phase in)	\$200,000 to \$300,000	(\$200,000) to (\$300,000)	<ul style="list-style-type: none"> <li>Net zero cost impact overall</li> </ul>

The HSB could consider applying some of the remaining 2/3 of City Plan rate stabilization reserve funds (or \$1,107,000—from February HSB meeting) towards costs for Recommendations A. and E. above

## Next Steps

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**Our Goal**—Promote long-term sustainability and viability of the City Plan for the early retiree populations through recommended steps for the 2019 rating cycle.

**Feedback and Additional Information Requirements** – We would appreciate your feedback on these recommendations and any additional information needed to understand impact of these potential changes.

**Additional City Plan Discussions** —there are two additional meetings related to City Plan sustainability discussions

- May 10 HSB Meeting: City Plan discussion for the active employee population with 2019 recommendations
- May 31 HSB Meeting: City Plan active and early retiree recommendation action

# Appendix—Current State

# City Plan Current State—Early Retirees

## The City Plan early retiree group is a higher risk population

- The City Plan has higher risk scores and higher member age versus other plans
- A risk score of 1 represents a “national average” non-Medicare person in the U.S.; higher risk score numbers reflect a higher level of health risk

Early Retirees / Dependents	
<b>Concurrent Risk Score</b>	
Blue Shield of California	2.190
Kaiser Permanente	1.869
UHC City Plan	<b>3.154</b>
<b>Prospective Risk Score</b>	
Blue Shield of California	2.151
Kaiser Permanente	2.034
UHC City Plan	<b>2.876</b>
<b>Average Member Age</b>	
Blue Shield of California	52.9
Kaiser Permanente	54.2
UHC City Plan	<b>56.6</b>

*Data from SFHSS April 2018 risk score presentation to HSB and is based on October 2016 – September 2017 data; as explained in that report, concurrent models predict expenses in the same time period and prospective models predict future expenses.*

## City Plan Current State—Early Retirees

**While 2018 total cost rates are lower for City Plan than for other plans in many cases, City Plan retiree contributions are markedly higher**

2018 Total Monthly Rates (Non-Medicare Tiers)	Ret Only	Ret + 1	Ret + 2+
BSC Trio (includes 1.2% stabilization “buy-up”)	\$1,630.98	\$2,362.63	\$2,946.65
BSC Access+ (includes 1.1% stabilization “buy-up”)	\$1,821.18	\$2,638.13	\$3,290.22
UHC City Plan (includes 4.6% stabilization “buy-down”)	\$1,190.07	\$2,329.95	\$3,178.13
Kaiser CA	\$1,229.20	\$1,838.35	\$2,343.95

2018 Monthly Contributions (Non-Medicare Tiers)	Ret Only	Ret + 1	Ret + 2+
BSC Trio	\$29.44	\$395.26	\$979.28
BSC Access+	\$70.44	\$478.92	\$1,131.01
UHC City Plan	\$117.64	\$687.58	\$1,535.76
Kaiser CA	\$0.00	\$304.57	\$810.17