

HEALTH SERVICE SYSTEM
CITY & COUNTY OF SAN FRANCISCO

Memorandum

DATE: April 14, 2016
TO: Randy Scott, Vice President and Members of the Health Service Board
FROM: Pamela Levin, Chief Financial Officer
RE: Proposed increase of \$0.95 PMPM in HSS Healthcare Sustainability Fund

The FY 2016-17 and FY 2017-18 budget for the Healthcare Sustainability Fund (\$2.05) was approved by the Health Service Board (Board) at the February 11, 2016 meeting. The two year budget was predicated on continuation of the \$2.05 charge to HSS members and the four employers: City and County of San Francisco, San Francisco Unified School District (USD), City College of San Francisco (CCD), and San Francisco Superior Court.

A proposal to increase the \$2.05 charge by \$0.95, from \$2.05 to \$3.00, in Plan Year 2017 was discussed at the February Board meeting. This increase will fund the expansion of new and existing initiatives that support the allowable expenditure categories as outlined in the Charter. The categories are Communications, Wellness and Initiatives that Reduce the Cost of Healthcare. Information justifying the increase will be presented in this report including historical data on the revenues and expenditures of the Healthcare Sustainability Fund and the activities that will be funded by the revenue generated by the increase (approximately \$750,000 annually).

No external sources are available to provide additional funding to allow the Health Service System (HSS) to expand new and existing initiatives outlined in this report. The General Fund is constrained and has limited flexibility to fund services benefiting the other employers.

Historical Data

In FY 2001-02 the Healthcare Sustainability Fund was financed by a \$1.00 charge per member per month. It was increased in FY 2004-05 to \$1.04 and to \$2.05 in FY 2012-13.

According to the Annual Salary Ordinances, the Communications Manager was first budgeted in the \$1.04 in FY 2006-07 and the Health Promotion and Wellness Coordinator was first budgeted in FY 2011-12. In FY 2015-16, a Graphic Artist was added to assist in communication of Wellness benefit information using various formats including electronic and print.



Prior to FY 2013-14 the \$2.05 was primarily used to fund the two positions, open enrollment and communications. Beginning in FY 2013-14, a portion of both the ongoing Wellness and the All Payer Claims Database (APCD) expenditures were posted to the Healthcare Sustainability Fund.

Prior to FY 2015-16 there was an unexpended balance in ongoing expenditures. The amount left at the end of the fiscal years accumulated in the fund balance, which is designated for onetime projects. This is consistent with the Government Finance Officer Association’s best practices. Beginning in FY 2015-16, HSS was able to start development and implementation of many one-time projects that enhance and improve member communications, audit capabilities, and preparation for eBenefits. The projects include redesigning the website to provide member friendly access to benefit information and to the Wellness program, upgrading the phone system to improve member experience, and development of the user interface for the member self-service portion of the eBenefits.

Summary

Table 1 summarizes the revenues and expenditures since the charge increased from \$1.04 to \$2.05. The increase was effective January 1, 2013 which impacts the last six months of FY 2012-13.

Table 1 - \$2.05 Revenues and Expenditures						
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
	Actuals	Actuals	Actuals	Projected	Budget	Budget
Annual - Ongoing						
Revenues	\$ 1,129,641	\$ 1,522,908	\$ 1,563,884	\$ 1,610,259	\$ 1,619,295	\$ 1,684,067
Expenditures	<u>784,186</u>	<u>789,234</u>	<u>1,171,704</u>	<u>1,525,310</u>	<u>1,619,295</u>	<u>1,684,067</u>
Balance	\$ 345,455	\$ 733,674	\$ 392,180	\$ 84,949	\$ -	\$ -
One-Time Projects						
Funding	\$ -	\$ 1,079,129	\$ 1,471,309	\$ 1,471,309	\$ 976,263	\$ 276,263
Expenditures	-	<u>-</u>	<u>-</u>	<u>495,046</u>	<u>700,000</u>	<u>136,000</u>
Balance	\$ -	\$ 1,079,129	\$ 1,471,309	\$ 976,263	\$ 276,263	\$ 140,263

An examination of the growth in revenues and expenditures year-over-year is found in Table 2.

Table 2 - \$2.05 Ongoing Revenues and Expenditures Growth Year Over Year						
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
	Actuals *	Actuals	Actuals	Projected	Budget	Budget
Revenues	Baseline	35%	3%	3%	1%	4%
Expenditures	Baseline	1%	48%	30%	6%	4%
* On January 1, 2013, the \$1.04 was increased to \$2.05						

As illustrated in Table 2, the growth in revenues is disproportionate to the growth in expenditures beginning in FY 2014-15. The FY 2015-16 projection shows a year-over-year increase in expenditures of 30% and 3% increase in revenues over the FY 2013-14 actuals.

Moreover, when the FY 2017-18 budget is compared to FY 2013-14 actuals, which was the first full year of the \$2.05, the expenditures have increase by 113% while the revenues have only increased 11%. At this rate of growth, there is no room to enhance existing efforts or to add new initiatives if the \$2.05 is not increased.

Table 3 - \$2.05 Ongoing Revenues and Expenditures				
	FY 2013-14	FY 2017-18		
	Actuals	Budget	\$ Change	% Change
Revenues	\$ 1,522,908	\$ 1,684,067	\$ 161,159	11%
Expenditures	\$ 789,234	\$ 1,684,067	\$ 894,833	113%

Table 4 summarizes the major categories that are funded through the \$2.05 and the associated costs.

Table 4 - \$2.05 Revenues and Expenditures by Charter Approved Category					
	FY 2015-16 Projection	FY 2016-17 Request	% Change FY 2015-16 Projection and FY 2016- 17 Request	FY2017-18 Request	% Change FY 2016-17 Request and FY 2016-17 Request
Revenues	\$1,610,259	\$1,619,295	1%	\$ 1,684,067	4%
Expenditures					
Personnel *	\$ 422,350	\$ 553,298	31%	\$ 572,924	4%
Communications	500,906	607,281	21%	600,190	-1%
Wellness	213,726	30,000	-86%	35,000	17%
Initiatives to Reduce the Cost of Healthcare	328,090	365,500	11%	421,245	15%
SFGTV	11,056	11,056	0%	11,056	0%
Contingency for Unforeseen Issues	49,182	52,160	6%	43,652	-16%
Grand Total Ongoing	\$1,525,310	\$1,619,295	6%	\$ 1,684,067	4%
Balance	\$ 84,949	-		-	
* Personnel costs for FY 2016-17 and FY 2017-18 have been updated to reflect actual positions since the budget was presented. The balancing entry was in Contingency for Unforeseen Issues					

In FY 2016-17, the cost of personnel, including cost of living adjustments and retirement rated attributable to the positions, increased by 31% over the FY 2015-16 projections. The Communications budget was increased in order to fund mailings to retirees on wellness, promotion of the annual wellness campaigns, and wellness services. Initiatives to Reduce the Cost of Healthcare increased 11% due to expenses associated with the APCD.

In order to balance the FY 2016-17 and FY 2017-18 budget, the Wellness (non-communication) budget decreased by 86%. The Well-Being Assessment and Incentives were replaced with a departmental approach funded in the General Fund. No additional funding was available through the budget process for new initiatives for USD, CCD or retirees.

Proposed Ninety Five Cent Increase

Increasing the \$2.05 to \$3.00 will yield approximately \$750,000 annually. This increase will provide additional funding for activities that are critical for preserving and improving sustainable, quality health benefits and to enhance the well-being of employees, retirees and their families.

The additional revenue will be used to fund:

Increases in cost of personnel

Currently, twenty-seven percent (27%) of the \$2.05 is used to fund the three positions that are charged to the Trust. In FY 2017-18, thirty-four percent (34%) of the annual revenues will be used to support the staff. It is estimated that by FY 2019-20, thirty-six percent (36%) of the total annual revenues will be supporting personnel.

The increase in the cost for personnel is due to two issues. The bargaining agreements provide for salary increases beginning in FY 2017-18 equal to the change in the Consumer Price Index (CPI-U). Per the Controller's Office, the California Department of Finance projects the CPI-U to be 2.5% for FY 2017-18 through FY 2019-20. The City will negotiate twenty-four (24) open Memoranda of Understanding (MOUs) in FY 2016-17 and the salary increase may be greater than the CPI-U. In addition, per the Controller's Office, the City's cost of retirement will continue to increase.

Website

In FY 2015-16, HSS will begin the upgrade of the website and it is anticipated to be fully implemented in FY 2017-18. The ongoing maintenance of the site and any enhancements are not budgeted in the on-going costs. HSS anticipates that eBenefits, Wellness and other new initiatives will require oncoming work to ensure the website meets the member's needs.

Wellness

As previously mentioned in FY 2016-17 funding in the \$2.05 for Wellness (non-communications) was substantially decreased in order to balance the budget. Additional funding is required for expansion of the Wellness program to CCD, and USD, and retirees. HSS is planning to survey the retirees this spring and tailor programs around the results.

Production of educational videos

Currently, the Benefits Analysts must make all benefit changes requested by members in eMerge. With the advent of eBenefits, members will be able to enter their own data during Open Enrollment and make many of the updates resulting from qualifying events.

This paradigm shift will require assistance from HSS either in-person, on the phone or online. Based on research, online videos are effective in guiding people through this change process. The additional funding from the increase to \$3.00 will fund creation of videos in various formats to assist members in navigating eBenefits. The formats will include voice and animation to introduce, educate and guide HSS members on using newly developed self-service tools. Subject matter may also include how to sign up for benefits during Open Enrollment, update addresses, and request changes as a result of qualifying events.

In addition, educational videos will be used to answer questions employees or retirees may have about their benefits. This will include subjects on how benefits change after the transition from employee to retiree, how to keep benefits active during unpaid leaves of absence and for new employees, an employee new hire orientation on their benefits package.

Expansion of annual operational audits

It is critical that operational audits are completed annually in order to ensure eligibility and prevent overuse of benefits, and lower the cost of Healthcare. Audits are needed to ensure federally mandated written communications and plan materials are received by members at their correct addresses. Implementation of eBenefits will increase the electronic delivery of health benefit information to members. With this new capability, federal law requires that employers obtain and maintain consent from their employees on an annual basis. Successful implementation of eBenefits will also require new types of audits to ensure members are correctly utilizing the system.

Recommendation

It is recommended that the Board approve an increase the \$2.05 charge for the Healthcare Sustainability Fund to \$3.00 effective Plan Year 2017. The increase will be factored into the premiums during the Rates and Benefits process.