

San Francisco Health Service System Health Service Board

Board Education

Determining City Contributions for
SFHSS Retiree Medical Plans

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Determining City Contributions—SFHSS Retiree Medical Plans

- In August 2023, Aon presented on healthcare transition from active employment to early retiree status to the Health Service Board (HSB) of the San Francisco Health Service System (SFHSS).
- This document summarizes the approach to determining City Contributions for retiree health plans—Non-Medicare and Medicare—including City Charter language references.¹
- The City covers some or all of the cost of retiree health coverage based on formulas defined in the City Charter—amounts vary by plan as well as dependent coverage tier (Retiree Only, Retiree Plus One Dependent, and Retiree Plus Two or More Dependents).
- Determination of City Contributions for retiree health coverage is defined by the City Charter—versus Memorandums of Understanding (MOUs) defining the determination of City Contributions for active employees.

¹ <https://sfhss.org/sites/default/files/2022-03/HSS%20Charter%20and%20Admin%20Codes%20Sections%20Updated%202022.pdf>

Determining City Contributions—SFHSS Retiree Medical Plans

Total Rates Perspective—Active Employees, Early Retirees, and Medicare Retirees

- Overall cost rates before segmenting into member and City contributions vary among active employees, early (e.g., non-Medicare) retirees, and Medicare retirees.

Why Are Early Retiree Rates Higher Than Active Employee Rates for the Same Plan?

- Average health plan utilization, and thus overall claims spent per member, is higher for early retirees than for active employees, as health care needs generally increase with age.
- Cost rates are established separately for active employees and early retirees for plan cost accounting reasons (Government Accounting Standard 45 announced in June 2004 required that effective for fiscal year 2007-2008 budgets, state and local governments would have to move from a cash [e.g., pay-as-you-go] basis for accounting for the costs of benefits other than pensions, to an accrual basis).
- The City covers this difference in total cost for an early retiree via the City Charter formula.

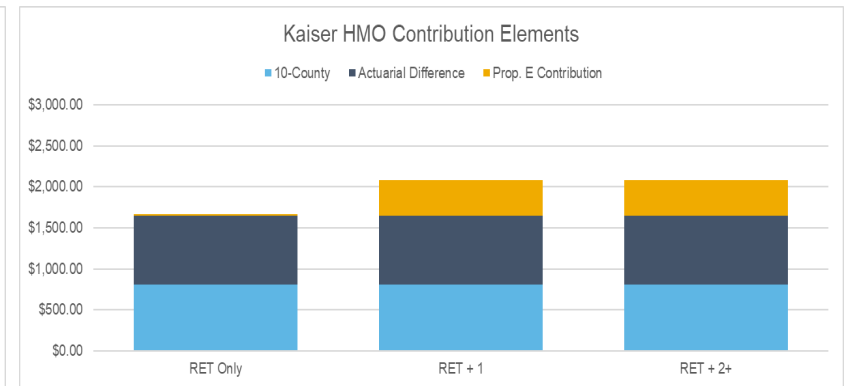
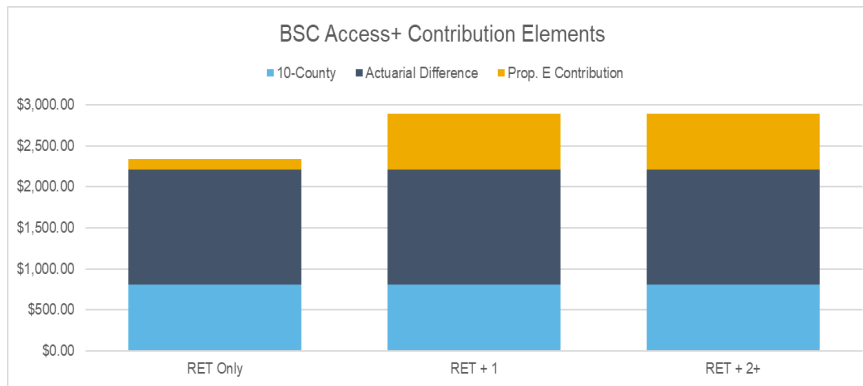
Why Are Early Retiree Rates Higher Than Medicare Advantage Plan Rates?

- The federal government funds the majority of overall plan costs for Medicare Advantage (MA) plans via payments determined by the Centers for Medicare and Medicaid (CMS)—see page 8 of the 2024 plan year UHC MAPD plan renewal document (June 2023) for an illustration.

Determining City Contributions—SFHSS Retiree Medical Plans

Early Retiree City Contributions Based on Three Formula Components

EXAMPLES FOR EARLY RETIREE EMPLOYER CONTRIBUTIONS: BSC Access+, Kaiser plans



Impact for early retirees from the City Contribution formula:

- Most of the dollars paid by the employers for Non-Medicare Retiree City Contributions go to the retiree in coverage.
- The Prop. E portion of the formula provides some City Contribution for the **first dependent** in coverage—but a far lower dollar amount than for the retiree in coverage.
- There is no City Contribution for the **second and further dependents** in retiree coverage—the retiree must pay the full total cost increment from the Retiree + 1 tier to the Retiree + 2+ tier to cover their second and higher dependents.

Determining City Contributions—SFHSS Retiree Medical Plans

Determining City Contributions—Three Components for Retiree Health Plans¹

Charter-Defined City Contribution Elements for Retiree Health Plans (see Appendix for Charter language)		
Same Element for All Plans	First Amount that Varies by Plan	Second Amount that Varies by Plan
<p>(1) 10-County Survey Amount</p> <p>[Sections A8.423 and A8.428(b)(2)]</p> <p>In rate cards, stated as "10-County Amount" and "Single Retiree Offset"</p>	<p>(2) Retiree Only tier total rate MINUS Active Employee Only tier total rate</p> <p>[Section A8.428(b)(3)]</p> <p>In rate cards, stated as "Actuarial Difference"</p>	<p>(3) Half of what's left over, if anything, after subtracting (1) and (2) amounts from total cost rate for RET Only and RET + 1 DEP tiers</p> <p>[Sections A8.428(c) and A8.428(b)(3)(iii)]</p> <p>In rate cards, stated as "Retiree Prop. E Employer Contribution"</p> <p>RET + 2+ DEPS tier amount for this item is SAME as RET + 1 DEP amount [Section A8.428(c)]²</p>

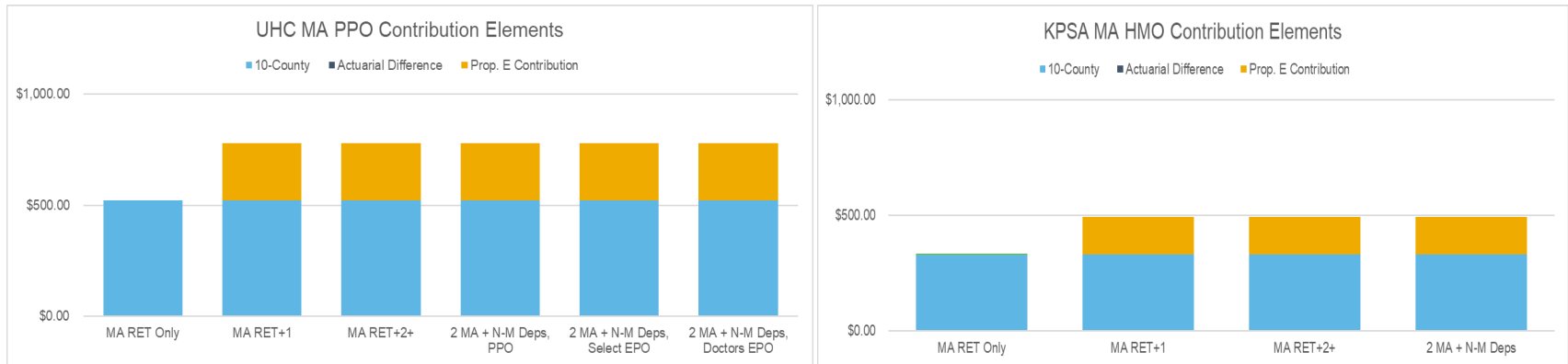
¹ In no case will City Contributions exceed the total cost rate for a plan [Section A8.428(b)(2)]—this is why the “10-County Amount” and “Single Retiree Offset” amounts in Medicare Advantage (MA) plan rate cards equal the Retiree Only tier total cost rate for these plans.

² Prop. E language specific to dependents in Section A8.428(c): “The City and County, the San Francisco Unified School District and the San Francisco Community College District shall contribute to the health service system fund 50% of the monthly contributions required **for the first dependent** of Retired Persons in the system.”

Determining City Contributions—SFHSS Retiree Medical Plans

Medicare Retiree City Contributions Based on Three Formula Components

EXAMPLES FOR MEDICARE RETIREE EMPLOYER CONTRIBUTIONS: UHC MAPD, Kaiser



Impact for Medicare retirees from the City Contribution formula:

- Retiree Only coverage for MA plans is fully covered by the City since MA total plan rates are lower than the 10-County Amount. The “10-County Amount” for MA plans is the Retiree Only total rate. This is why there is no “Actuarial Difference” in Medicare retiree rate cards.
- The Prop. E portion of the formula provides some City Contribution for the **first dependent** in coverage—namely for the MA plans, 50% of the first dependent’s total cost rate.
- There is no City Contribution for the **second and further dependents** in retiree coverage—the retiree must pay the full total cost increment from the Retiree + 1 tier to the Retiree + 2+ tier to cover their second and higher dependents.

Determining City Contributions—SFHSS Retiree Medical Plans

Why Early Retirees Pay Higher Contributions For **Dependent** Coverage Than Active Employees

- The “Actuarial Difference” part of the City contribution formula covers the total rate difference within a plan between the Active Employee Only tier and Early Retiree Only tier.
- The City contribution difference for dependents lies in MOUs for active employees versus the City Charter formula for retirees. For example, when transitioning from the 93/93/83 MOU as an active employee to City Charter-based formula as an early retiree:

	Self Only Tier	Self Plus 1 Dependent Tier	Self Plus 2+ Dependents Tier
Active Employee	City pays 93% for most plans*	City pays 93% for most plans*	City pays 83% for most plans*
Early Retiree	"Actuarial Difference" bridges total rate difference between Actives and Early Retirees	City pays 50% of incremental cost for first dependent (“Prop. E”)	No incremental City contribution for second/additional dependents

* For active employees, City contribution for highest cost plan is same as that for second highest cost plan

Retiree City Contribution Impact for Those Hired On or After January 10, 2009

- Subsections (4), (5), and (6)—with summary table in (7)—under Section A8.423(b) outline the City’s contribution structures for individuals hired on or after January 10, 2009—which includes less than the full City Contribution for certain retirees who were hired on or after January 10, 2009 (see Appendix for details).

Determining City Contributions—SFHSS Retiree Medical Plans

- Overall, 9% of early retirees and 1% of Medicare retirees cover two or more dependents (source: 2023 SFHSS Demographic Report):

Dependent Coverage Tier	Early Retirees		Medicare Retirees	
	Count	Percentage	Count	Percentage
Retiree Only	3,467	64%	17,712	70%
Retiree + 1 Dependent	1,468	27%	7,363	29%
Retiree + 2+ Dependents	482	9%	252	1%
Total Early Retirees	5,417	100%	25,327	100%

- Per SFHSS, there are 802 new retirements so far in 2023 through August 21.
 - 76% of new retirees are individuals who are not yet Medicare eligible—8% of which will be Medicare eligible within one year, and 58% of which are within 5 years of Medicare eligibility.
 - Of all new and existing non-Medicare retirees, 14.5% will be Medicare eligible within one year, and 67% will be Medicare eligible within 5 years.
- 117 of the new retirements were sworn Fire and Police employees.
 - All 117 were not yet Medicare eligible—18% will be Medicare eligible within 5 years, and 14 members waived coverage.
- There are a total of 1,337 new and existing non-Medicare retirees from Fire and Police (sworn)—9.3% will be Medicare eligible within one year, and 44% will be Medicare eligible within 5 years.

In Closing

Aon will continue to calculate City Contribution amounts for SFHSS retiree health plan rate cards based on City Charter language as outlined in this presentation.

Appendix Pages That Follow

- 2024 rate card examples for early retirees and Medicare retirees
- City Charter language for three elements that determine City contributions for retirees
- City contribution provisions for those hired on or after January 10, 2009

Appendix: Rate Card Example—Early Retiree City Contribution Calculation (2024 BSC Access+ Plan)

	Active Employees	Early Retirees		
	Employee Only	Retiree Only	Retiree Plus One Dependent	Retiree Plus Two or More Dependents
Medical	\$1,087.36	\$2,521.75	\$3,652.65	\$4,555.17
Vision	\$4.15	\$4.15	\$8.32	\$11.76
Expense	\$3.00	\$3.00	\$3.00	\$3.00
Claims Stabilization Amount/Self-Funded Policy	\$9.63	\$22.33	\$32.35	\$40.35
Sutter Legal Settlement	(\$33.78)	(\$78.33)	(\$113.46)	(\$141.50)
Total	\$1,070.36	\$2,472.90	\$3,582.86	\$4,468.78

10-County Amount	(1) 10-County Amount, March 2023 Report	\$805.85	\$0.00	\$0.00
Single Retiree Offset	(2) Actuarial Difference: \$2,472.90 minus	\$0.00	\$805.85	\$805.85
"Actuarial Difference"	\$1,070.36 = \$1,402.54	\$1,402.54	\$1,402.54	\$1,402.54
Retiree Prop. E Employer Contribution		\$132.26	\$687.24	\$687.24
Total—City Contribution Amounts		\$2,340.65	\$2,895.63	\$2,895.63
2024 Early Retiree Contribution Rate		\$132.25	\$687.23	\$1,573.15

(3) Prop E: 50% of what's left after subtracting 10-County Amount and Actuarial Difference from total cost rate for RET Only and RET+1 tiers (then RET+2+ tier Prop. E amount same as that for RET+1 tier)

Appendix: Rate Card Example—Medicare Retiree City Contribution Calculation (2024 UHC MAPD Plan)

	All Members in Medicare			Full Family — 2 in Medicare, 1+ Non-Medicare		
	Retiree Only	Retiree + 1	Retiree + 2+	1+ Non-Medicare in UHC PPO/C.N.A.	1+ Non-Medicare in UHC Select EPO	1+ Non-Medicare in UHC Doctors EPO
Premium	\$514.31	\$1,028.62	\$1,542.93	\$1,732.43	\$1,911.10	\$1,756.97
Vision	\$4.15	\$8.32	\$11.76	\$11.76	\$11.76	\$11.76
Expense	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00
Total	\$521.46	\$1,039.94	\$1,557.69	\$1,747.19	\$1,925.86	\$1,771.73

(1) 10-County Amount: in MA rate cards, this equals Retiree Only total rate since that is less than the 10-County Amount

10-County Amount (or single tier premium, if less)	\$521.46	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Single Retiree Offset	\$0.00	\$521.46	\$521.46	\$521.46	\$521.46	\$521.46
"Actuarial Difference"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Retiree Prop. E Employer Contribution	\$0.00	\$259.24	\$259.24	\$259.24	\$259.24	\$259.24
Total—City Contribution Amounts	\$521.46	\$780.70	\$780.70	\$780.70	\$780.70	\$780.70
Medicare Retiree 2024 Contribution Rate	\$0.00	\$259.24	\$776.99	\$966.49	\$1,145.16	\$991.03

(2) Actuarial Difference: \$0 since (1) provides full City Contribution for Retiree Only tier

(3) Prop E: 50% of what's left after subtracting 10-County Amount and Actuarial Difference from total cost rate for RET Only and RET+1 tiers (then RET+2+ tier Prop. E amount same as that for RET+1 tier)

Appendix: Charter Language for City Contributions

- The basis for each City Contribution element is listed within these statements in the City Charter document:

1) 10-County Amount:

Section A8.423 sets forth the annual 10-County Survey process to determine the average contribution made with respect to each employee by said 10 counties toward the health care plans provided for their employees.

Section A8.428(b)(2) under Employer Contributions: The City and County, the School, District and the Community College District shall contribute to the health service system fund with respect to each of their members an amount equal to the lesser of "the average contribution," as certified by the health service board in accordance with the provisions of Section A8.423, or the cost of the plan selected by the member.

Aon commentary: Medicare plan rates historically have been less than the 10-County Amount (application of last paragraph above).

Appendix: Charter Language for City Contributions

- The basis for each City Contribution element is listed within these statements in the City Charter document (continued):

2) First element that varies for each plan—difference between Retiree Only tier and Active Employee Only tier total cost rates (referred in Rate Cards as “Actuarial Difference”):

Section A8.428(b)(3) under Employer Contributions for Retired Employees Who Were Hired on or Before January 9, 2009: “For Retired Persons identified in A8.428 Subsections (a)(1), (a)(2) and (a)(3), the Employers shall contribute to the health service fund, amounts subject to the following limitations: Monthly contributions required from Retired Persons and the surviving spouses and surviving domestic partners of active employees and Retired Persons participating in the system shall be equal to the monthly contributions required from members in the system for health coverage excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining, with the following modifications:

- (i) the total contributions required from Retired Persons who are also covered under Medicare shall be reduced by an amount equal to the amount contributed monthly by such persons to Medicare;
- (ii) because the monthly cost of health coverage for Retired Persons may be higher than the monthly cost of health coverage for active employees, the City and County, the School District and the Community College District shall contribute funds sufficient to defray the difference in cost to the system in providing the same health coverage to Retired Persons and the surviving spouses and surviving domestic partners of active employees and Retired Persons as is provided for active employee members excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining

Appendix: Charter Language for City Contributions

- The basis for each City Contribution element is listed within these statements in the City Charter document (continued):

3) Second element that varies for each plan—Retiree Prop. E Contribution

Section A8.428(b)(3)(iii) under Employer Contributions for Retired Employees Who Were Hired on or Before January 9, 2009: after application of Subsections (3), (3)(i) and (3)(ii), the City and County, the School District and the Community College District shall contribute 50% of Retired Persons' remaining monthly contributions.

Section A8.428(c): The City and County, the San Francisco Unified School District and the San Francisco Community College District shall contribute to the health service system fund 50% of the monthly contributions required **for the first dependent** of Retired Persons in the system.

Aon commentary: the above paragraphs result in the application of the Prop. E Contribution (50% of remainder after 10-County Amount and “Actuarial Difference” are applied) to the Retiree Only tier and Retiree Plus One Dependent tier. The Retiree Plus One Dependent tier Prop. E Contribution also applies to the Retiree Plus Two or More Dependents tier.

As a result, there is no incremental City Contribution for the second and further dependents, beyond that provided for the Retiree Plus One Dependent tier.

Appendix: Individuals Hired On/After January 10, 2009

Retiree Medical Coverage/City Contribution Relative to “Full City Contribution” For Those Hired On or After January 10, 2009	
Years of Credited Service at Retirement	Percentage of Employer Contribution Established in City Charter A8.428 Subsection (b)(3)
Less than 5 years of Credited Service with the Employers (except for the surviving spouses or surviving domestic partners of active employees who died in the line of duty)	No Retiree Medical Benefits Coverage
At least 5 but less than 10 years of Credited Service with the Employers; or greater than 10 years of Credited Service with the Employers but not eligible to receive benefits under Subsections (a)(4), (b)(4) and (b)(5) (A8.428 Subsection (b)(6))	0% — Access to Retiree Medical Benefits Coverage, Including Access to Dependent Coverage, But No Employer Contribution; Employee Pays Health Insurance Premium
At least 10 but less than 15 years of Credited Service with the Employers (A8.428 Subsection (b)(5))	50%
At least 15 but less than 20 years of Credited Service with the Employers (A8.428 Subsection (b)(5))	75%
At least 20 years of Credited Service with the Employers; Retired Persons who retired for disability; surviving spouses or surviving domestic partners of active employees who died in the line of duty (A8.428 Subsection (b)(4))	100%