

Health Service System Annual Benefit Contracts and Procurement Assessment

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Agenda

- Annual SFHSS Contracts and Assessment Review Summary
- Prescription Drug Plan (PDP) Carve Out Consideration for Plan Year 2028
- Next Steps
- Board Discussion

Annual SFHSS Review Summary – No RFP for Most Benefits

No RFP recommendation because no RFP triggers hit or favorable long-term rate guarantees and commitments negotiated by SFHSS.

Benefit Area / Plan	Current Procurement Analysis
New York Life Life and Disability	Recent RFP; Rate guarantees Life / LTD / Supp. Life / AD&D (5 yrs) & STD (3 yrs)
VSP Vision (Basic/Prem/CVC)	Newly negotiated 5-year rating commitment (2027 – 2031)
P&A FSA, DCFSA, COBRA and AB528	RFP completed in 2026 for PY 2027; 5-year rate guarantees.
Delta Dental Active ASO-PPO Dental	Recent Active ASO-PPO RFP showed network and member continuity concerns outweighed limited financial gains from cost shifting.
Delta Dental Retiree PPO Dental	Voluntary retiree-paid option; no immediate procurement trigger; continue rate, network, and access monitoring.
DeltaCare Active & Retiree DHMO	Fully insured, low-cost, small but stable enrollment YOY; no current service or performance issues; 100% voluntary retiree dental option.
UHC Dental Active & Retiree DHMO	Fully insured, low-cost, smallest dental enrollment; 100% voluntary retiree dental option.
KP & BSC Access+/Trio – HMOs	Board education; Revised PY2028 renewal strategy.
BSC PPO	Evaluate Medicare Rx management.

Recommendation Summary

Given the scope and timeline of the procurement cycles, SFHSS can effectively support one major RFP each year.

Benefit Area	Recommendation for PY2028 Procurement Planning
New York Life Life / LTD / Supp. Life / AD&D / STD	No RFP during guarantee period (2026-2030); continue implementation and performance monitoring.
VSP Vision	No RFP during current rating commitment (2027-2031); SFHSS to continue monitoring service, access and member experience.
P&A FSA / DCFSA & COBRA / AB528	No RFP; recent procurement complete; SFHSS to continue monitoring service levels and implementation.
Delta Dental, DeltaCare, UHC Dental	No RFP; monitor active and retiree dental rates, network, access and member experience; expand retiree dental plan education.
Medical for Active and Non-Medicare Retirees (Blue Shield, HealthNet, Kaiser)	No RFP; SFHSS to evaluate renewal, plan design, network, contribution, PPO/CNA, and pharmacy levers through Board education and PY2028 renewal strategy.
Medicare – Kaiser Senior Advantage	No RFP; SFHSS to continue renewal monitoring, CMS/risk adjustment monitoring, and retiree experience review.
Blue Shield MAPD	Preserve current annual renewal as back-up to targeted standalone PDP procurement for PY2028.
Medicare – Blue Shield MAPD PPO	SFHSS to return to Board with scope, risks, savings assumptions, timeline, and recommendation for a targeted Medicare Advantage and carved out Prescription Drug Plan (PDP) procurement process for PY2028.

Prescription Drug Plan (PDP) Carve Out Consideration for Plan Year 2028

What We Will Cover in This Section



Reminder of the types of plans available and which plans SFHSS has had in the past.



What do we mean by a pharmacy carve out of the prescription drug plan?



Why does it make sense to carve out the prescription drug plan? What changed?



How are Members impacted by a prescription drug plan carve out?

How Pharmacy Coverage Can Be Included in Employer-Sponsored Group Medicare Plans

Plan Type	Pharmacy	SFHSS Status
Medicare Supplement + Prescription Drug Plan (PDP)	Carved Out	▪ Have had this plan structure in the past. ▪ The Health Service Board, with the rising cost of its Medicare Supplement plan, determined that a Medicare Supplement plan was not sustainable and the approach was changed for Plan Year 2017.
Medicare Advantage Prescription Drug (MAPD)	Bundled	▪ Currently have this structure with Blue Shield of California and Kaiser Medicare Plans.
Medicare Advantage (MA) + Prescription Drug plan (PDP)	Carved out but coordination is required between the medical and pharmacy plan	▪ Considering for Plan Year 2028

What Does Carving Out a Prescription Drug Plan Mean?

Current Bundled Medicare Prescription Drug Plan (MAPD)



Bundled Medical & Pharmacy Plan

- **One** ID Card
- **One** Enrollment
- **Required** to share data

Medicare Advantage only + Carved Out Prescription Drug Plan



Medical Plan and Pharmacy Plan

- **Two** ID Cards
- **One** Enrollment
- **Required** to share data

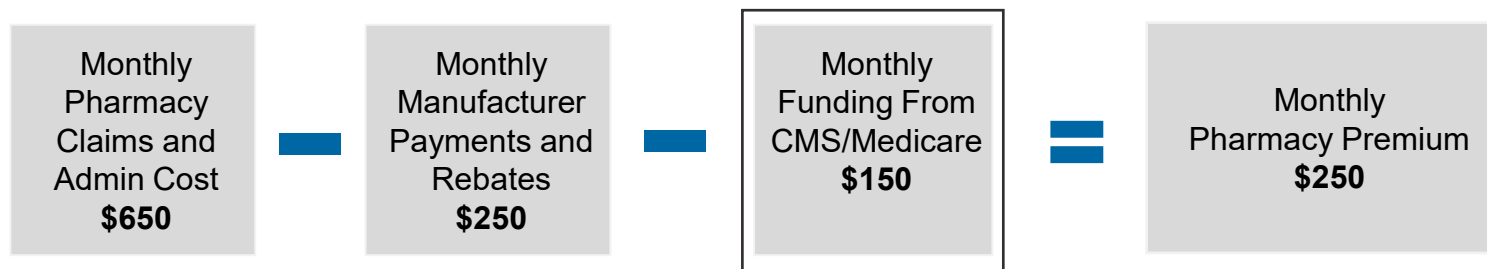
Why Consider Prescription Drug Plan Carve Out Now?

- Like the Medicare medical plan, Medicare Part D prescription drug plans receive funding from CMS. The more CMS funding that a plan receives, the lower the employer's premium can be for the plan.
- The Inflation Reduction Act (IRA) passed in 2022 phased in many changes to Medicare Part D prescription drug plans:
 - Set out of pocket limits on retiree spending
 - Allowed Medicare to negotiate prices for certain drugs
 - Changed the mix of funding CMS sent to plans:
 - Risk adjusted funding - which is known as the **Direct Subsidy** - has become a larger portion of funding received by plans from CMS.
 - Prior to the IRA, the Direct Subsidy payment was very small but has now become a significant way to manage plan cost increases.

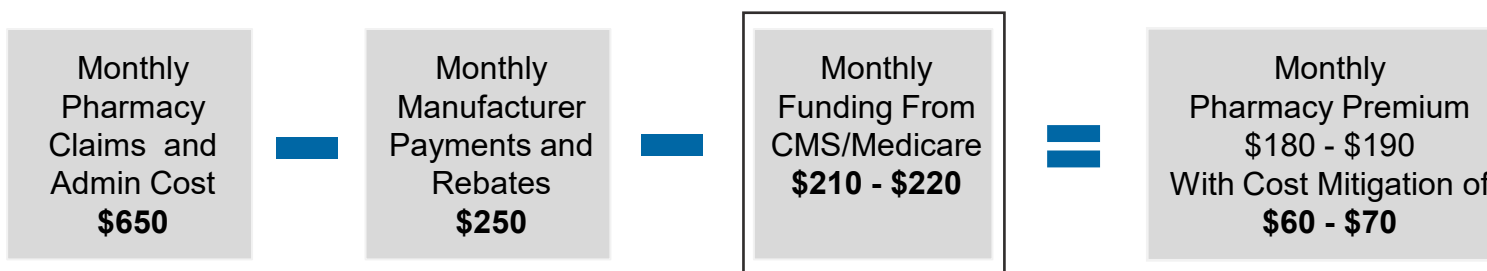
Understanding Plan Cost and Funding—Example

As reviewed earlier, Part D prescription drug plans also receive funding from CMS.

With Pharmacy Bundled—Monthly Amounts (example)



With Pharmacy Carved Out—Monthly Amounts (example)



Cost mitigation impact distribution to members and employers is based on City Charter formulas (could generate \$15M or more annual savings total).

Projected \$60-\$70 of monthly cost mitigation per covered person is based on Aon market experience.

California Public Employees' Retirement System (CalPERS) Carving Out in 2027

The CalPERS Board approved separating the medical and prescription drug for their United Healthcare and Blue Shield of California MA Plans for 2027.

"Recommended for Approval: Product Change for UHC Group Medicare Advantage (MA) Plan"

"In the UHC Group MA Plan, the medical and pharmacy benefits are combined within the plan. To significantly improve the 2027 premiums, CalPERS recommends separating the UHC medical and pharmacy benefits from the UHC Group MA plan, which will result in higher reimbursements from CMS. This sample product change was approved by the board for the Blue Shield MA plan for 2027."

[CalPERS Report of Preliminary 2027 Health Premium Estimates](#)

Member Impacts

Consideration	Expected Impacts
Formulary	- Varies by carrier—strive for minimal change. - Note: formularies, even within the same carrier, change each year.
Plan Design	- No change - Current SFHSS Design: 30-day supply copayments: Generics \$5, Brand \$20, Non-Preferred Brand \$45, Specialty \$20
Enrollment	No change
ID Cards	2 ID cards—one for medical and one for pharmacy. - Like in the past, members will show a pharmacy card for Part D covered drugs and a medical card for Part B covered drugs. - If there is confusion, the pharmacy will ask for the right card. - HSS would embark on a communications and education campaign with retirees on pharmacy ID cards.
Plan Materials & Communication	- Separate medical plan and pharmacy plan materials. - HSS would also conduct member education.
Plan Coordination	Required: the pharmacy vendor will be required to share prescription data with the medical plan for care coordination.

Next Steps

- ❑ Develop scope, schedule, and present RFP goals, objectives, criteria and timeline to the Board by or before November 12, 2026 Regular Meeting
- ❑ Include Standalone PDP RFP (carved out Rx from Blue Shield Medicare Advantage Plan - MAPD) for PY2028 in Annual Blackout Notice
- ❑ Issue Standalone PDP RFP for PY2028 (est. December 2026 – March 2027)
- ❑ Issue renewal request letter to Blue Shield for current MAPD (December 2026) *[standard SFHSS redundancy/backup practice]*

Board Discussion

Appendix

Glossary of Terms

Bundled:

A Medicare plan design in which medical and prescription drug coverage are combined into a single plan. Members typically have one enrollment, one insurance carrier, and one ID card.

Formulary:

A health plan's list of covered prescription drugs. The formulary determines which medications are covered, how they are categorized (tiers), and the member's cost share and utilization requirements, such as prior authorization or step therapy.

Prescription Drug Plan (PDP):

A stand-alone Medicare Part D plan that provides prescription drug coverage only. The PDP does not provide medical or hospital benefits.

Medicare Advantage Prescription Drug (MAPD) Plan:

A Medicare Advantage plan that combines medical, hospital, and prescription drug coverage into a single integrated plan. Instead of purchasing separate medical and prescription drug coverage, members receive both through one plan.

Risk Score Background

Background

- According to the Kaiser Family Foundation 66.6M people get coverage through Medicare. 85% get their coverage in the individual market versus employer coverage. Because of this when CMS makes changes, they often make it based on how the individual market works versus the group market.
- In the individual market people can enroll in Medicare Advantage Prescription Drug Plans, Medicare Supplement Plans + PDP plans. However, Medicare Advantage and stand-alone PDP plan enrollment is generally **not allowed**. This structure **is allowed** in the group market and is a common approach.

Risk Scores

- Risk scores drive plan funding
- Risk scores for Part D plans are based on age, gender, location and information about individual health status reported to CMS.
- Medicare Advantage plans are the only plans that collect health status information. Risk scores for MA enrollees are higher and drive more plan funding.

Example funding x risk score

- $\$300 \times 0.75 \text{ risk score} = \225
- $\$300 \times 1.00 \text{ risk score} = \300

Risk Score Impact

Impact

- When a member is in a stand-alone PDP (carved out), **CMS increases the risk score**, because the majority of beneficiaries in a stand-alone PDP have Original Medicare or a Medicare Supplement, which do not report health information. Without the increase, known as normalization, the risk scores would be low and not fund the plan appropriately.
- Employer plans can have an MA plan and a separate PDP and get the benefit of MA data collection and the CMS risk score increase. In fact, CalPERS announced their intent to do this for 2027.