



Health Service System

CITY & COUNTY OF SAN FRANCISCO

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Date: July 27, 2010
To: John Arntz, Director Department of Elections
From: Catherine Dodd, Director Health Service System
Subject: Revised - Commentary on proposed Charter amendment
Copy: Rhys Evans, FIA, ASA, MAA, Mercer
Robin Courtney, CFO Health Service System

The proposed Charter amendment introduces new limits on what the employer (City and County of San Francisco) can contribute to fund Health Service System medical and dental benefits. In doing so it is estimated to save the City and County \$83.3 million per year by shifting these costs directly to the employees. Since approximately thirty-six percent of the employees work in Enterprise departments (non-General Fund), the remaining sixty-four percent of the estimated savings would go towards the City's General Fund, or \$53.3 million. As an employer the City and County, because of collectively bargained agreements, currently contributes more than the proposed new limits, and if this Charter amendment becomes law, the balance of the contributions required to fully fund the HSS benefits will ultimately have to shift to the employees. This Charter amendment does not address the underlying factors that will continue to drive increases in the cost of providing healthcare benefits.

The magnitude of the required change to employee premium contributions varies greatly by plan with the biggest impact falling on those employees enrolled in the City Plan PPO. Although many employees reside within the service areas of the current HSS HMOs and as such have the option to change to a HMO at open enrollment requiring lower premium contributions, this is not universally the case. For certain employee groups that reside and work in more rural areas the City Plan PPO is the only HSS plan available to them. This latter group of employees will be disproportionately impacted by the proposed amendment.

This or any change to the current premium contribution structure that ultimately leads to a much higher increase in the premium contributions required from the HSS membership (employees and retirees) relative to that required from participating employers will jeopardize the success of HSS's recent Early Retiree Reinsurance Program (ERRP) application. The ERRP is a new federally funded program established under the Patient Protection and Affordable Care Act (PPACA) passed this year that reimburses up to 80% of claims between \$15,000 and \$90,000 for each non-Medicare-eligible early retiree age 55 or older. By the program's design, all ERRP revenues received can only be deposited into the HSS Trust Fund and must subsequently be used to subsidize the premium contribution requirements of the whole membership and all participating employers. This proposed Charter amendment will therefore eliminate this anticipated subsidy of premium contributions not only for the City and County but also for City

College and the Unified School District who are also employers within the San Francisco Health Service System. Anticipated first full year (2010/2011 plan year) ERRP receipts are \$23 million. The ERRP program is set to run until 2014 or to the point where federal funds are exhausted, whichever is the earlier. While the proposed Charter amendment alleviates the financial burden to the City and County's General Fund, it does not in any way add to the HSS Trust Fund.

The additional implications of material increases in participant premium contribution requirements and how this may impact HSS as it complies with the many new mandates introduced under the PPACA cannot be determined until the federal government proposes all the regulations of the PPACA.

The comments to date have focused on the potential direct impact to the HSS, the employees and participating employers arising from the proposed Charter amendment. An unintended consequence may occur from the resulting instability in enrollment that will arise from rapid and material escalations in employee premium contributions. As the premium contributions of all categories of participants' (employees, early retirees and Medicare retirees) are interconnected by virtue of the current provisions of the Charter i.e. retiree contributions are determined by reference to the current Charter determined employee premium contributions, the effect of the proposed amendment will invariably impact the retired membership in addition to the employees.