



City and County of San Francisco
Edwin M. Lee
Mayor

San Francisco Department of Public Health

Barbara A. Garcia, MPA
Director of Health

MEMORANDUM

DATE: May 15, 2014

TO: Dr. Edward Chow, Health Commission President, and Members of the Health Commission

THROUGH: Barbara A. Garcia, MPA, Director of Health

FROM: Colleen Chawla, Deputy Director of Health and Director of Policy & Planning

RE: SFDPH Review of Proposed Amendments to the Health Care Security Ordinance

BACKGROUND

On April 1, 2014, Supervisor Campos introduced amendments to the Health Care Security Ordinance (HCSO) at the Board of Supervisors. A detailed summary of the proposed changes was provided to the Health Commission last month, and the text of the legislation is attached for your review. This memo briefly summarizes the proposed changes and presents a preliminary analysis of the proposed legislation and its impact on the San Francisco Department of Public Health (SFDPH).

SUMMARY OF PROPOSED CHANGES TO THE HCSO

In its current form the HCSO has two components: an employer spending requirement that obligates San Francisco employers to make health care expenditures on behalf of their employees; and Healthy San Francisco, a health care access program administered by SFDPH. Employers meet their obligation by providing health insurance, health reimbursement accounts (HRAs), or paying into the City Option. Under the City Option, SFDPH allocates the employer contribution either to Healthy San Francisco (HSF) or to a Medical Reimbursement Account (MRA), depending on the employee's eligibility for Healthy San Francisco.

The proposed legislation makes two major changes:

- 1) **All health care expenditures must be irrevocable**, regardless of the employer's chosen method of compliance. Under the existing law, employer contributions made to HRAs expire after two years of non-use, at which point the allocated funds revert to the employer.

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- 2) **Creation of the Health Care Access Assistance Program (HCAAP) under the San Francisco Department of Public Health.** The HCAAP is to be funded in whole or part by employer health care expenditures, and is intended to maximize enrollment in Covered California and increase access to health care services. SFDPH is charged with administering the program and developing policies and procedures, including the dissemination of information to the public to promote program awareness, and the development of an appeals process for applicants. The HCAAP has three components:
- a. Covered San Francisco, which would provide eligible participants with financial assistance to offset costs of health insurance purchased through Covered California;
 - b. Health Care Access Accounts, which would replace the existing City MRAs for persons not eligible for Healthy San Francisco or Covered San Francisco; and
 - c. Healthy San Francisco, which would continue to function as a health access program for the uninsured, but with new eligibility guidelines.

SFDPH REVIEW OF PROPOSED LEGISLATION

SFDPH agrees with the intent of the proposed legislation

SFDPH supports the intent of the HCAAP proposal, which aligns with the principles of the 2013 Universal Healthcare Council (UHC) principles that enrollment in health insurance should be maximized and affordability of health care should be addressed. However, SFDPH believes that it would be premature to prescribe the structure of a subsidy program in statute without further, more in-depth analysis and modeling. SFDPH continues to be committed to addressing the issues of affordability that were raised by the UHC and wants to ensure that any program we design both meets the needs of San Franciscans and is financially sustainable.

Programmatic cost of Covered San Francisco has not yet been determined

Since health insurance affordability subsidies were discussed in the UHC, SFDPH has been analyzing the key issues involved in implementing a program such as Covered San Francisco. As part of the analysis, SFDPH is attempting to quantify the number of individuals potentially eligible for each program under the HCAAP, the programmatic definition of affordability, the level of benefit that would be required to make insurance affordable, the cost of providing the required benefit to those individuals, and to what extent the anticipated revenues from the employer spending requirement would cover the cost of the program. These are complex calculations with many variables and the cost has not yet been determined. The actual cost of the program will be heavily dependent on the age and income distribution of the population enrolled.

The program must be affordable for the City in the long-term

The implications of implementing a long-term subsidy program must be carefully considered. There are several elements that have yet to be analyzed, including: the financial impact of providing regular and ongoing subsidies for the purchase of health insurance for an indefinite period of time; the ethical responsibility to maintain subsidies once they have been initiated; the impact of cost fluctuations in the marketplace on the cost of the program; and the actual experience of implementation of the Affordable Care Act on individuals and on the marketplace.

The ongoing financial integrity of the program is heavily influenced by employer choices for compliance with the HCSO and the ACA, the eligibility structure for the three programs under HCAAP, employee

enrollment in ACA coverage, and the pricing of insurance products on Covered California. In addition to programmatic costs, SFDPH would also incur additional administrative costs, likely for a third party administrator, for the implementation of such a program.

Proposed timeline for implementation will be difficult to meet

The legislation requires full implementation of HCAAP by October 1, 2014. Given the significant policy analysis, program design, programmatic, and administrative requirements outlined above, implementation could take more than a year. Moreover, we are only at the beginning stages of full ACA implementation. Early experience indicates that consumers have a steep learning curve with new coverage options, and useful patterns for how San Francisco residents and employees are using the health insurance and health care will not emerge until next year at the earliest.

There may be other solutions that would also serve the intent of the proposed HCAAP

Covered San Francisco is one option for addressing the affordability of health insurance. Analysis to date suggests there may be other options and it may be premature to statutorily commit SFDPH to one programmatic choice. Such options include establishing Healthy San Francisco as a Bridge to Health Care, revisiting City MRA guidelines to maximize enrollment into health insurance, and exploring the feasibility of administering premium and cost-sharing assistance through private non-profit foundations.

UNIVERSAL HEALTHCARE COUNCIL GUIDANCE

The intent of the proposed amendments to the HCSO – to increase affordability and access to health care services – are consistent with the findings of the 2013 UHC. The Universal Healthcare Council found that the HCSO can continue to exist alongside the ACA, but that affordability issues remain for some San Francisco individuals, families, and businesses. SFDPH is already implementing several of the UHC suggestions to address these issues.

Healthy San Francisco Eligibility extended

The UHC suggestions included maintaining Healthy San Francisco eligibility for participants until their enrollment in Covered California is confirmed. In February 2014, based on community feedback regarding the difficulty of transitions to Covered California, SFDPH extended the deadline for individuals to move from Healthy San Francisco to Covered California. Covered California-eligible participants are able to remain on Healthy San Francisco until December 31, 2014. With this extension SFDPH is providing financial counseling to affected individuals, including the impact of the federal penalty.

Outreach to medical reimbursement accountholders

During the Covered California open enrollment period, correspondence was sent to current medical reimbursement accountholders to let them know of their responsibilities under the ACA, the ability of their account funds to be used to purchase health insurance to meet that responsibility, and their current account balance.

Analyzing affordability issues and potential solutions

SFDPH has been analyzing the affordability barriers for the populations identified in the UHC, which include employees of small business, part-time employees, and individuals with incomes between 250-400% of the federal poverty level. SFDPH has been working to quantify the potential population with affordability issues, estimate the level of need, assess cost, and consider the long-term implications of

subsidizing health insurance. Additional analysis is needed to fully evaluate potential solutions and identify, develop, and implement a sustainable option.

NEXT STEPS

Today, the Board of Supervisors' Neighborhood Services & Safety Committee heard testimony on the proposed ordinance. SFDPH provided testimony as outlined in this memo. The members of the committee expressed unanimous support for the component of the legislation that requires that valid employer health care expenditures to be irrevocable. The committee agreed that additional discussions with SFDPH regarding the programmatic elements of the proposed legislation were warranted. The legislation was held in committee upon the call of the chair, with the intention that it would be calendared again for hearing, as early as two weeks from today, after further discussion between Supervisor Campos's staff and SFDPH.

SFDPH is exploring program design with Covered California and other stakeholders and continuing its analysis of affordability. We will keep in close communication with the Health Commission during this process, and will be prepared to provide additional information at the next Board hearing.

Attachments:

Text of the proposed legislation as introduced on April 1st, 2014