Background—Health Service Board Education Plan 2023

The Health Service Board (HSB) Education Policy 202 outlines educational practices and reporting expectations for Commissioners throughout each calendar year. Commissioners complete an annual Education Survey to request education topics. The Commissioners and San Francisco Health Service System (SFHSS) leadership work in partnership to provide educational opportunities that enhance continuous learning to effectively carry out their duties in alignment with the Strategic Plan years 2023-2025.

The requested 2023 Board Education topics are

- Healthcare Cost Trends (Active and Retirees);
- Equity Data Reporting; and
- Data Transparency.

Education sessions are open to the public and members are encouraged to attend. Commissioners complete an education evaluation after every session to be completed within one week of the session.

San Francisco Health Service System
Health Service Board

Board Education

Healthcare Ecosystem and Market Review

Iftikhar Hussain, Chief Financial Officer — SFHSS
Mike Clarke, Lead Actuary — Aon

August 10, 2023

Healthcare Ecosystem and Market Review—Agenda

- Background and Board Education Modules, Today Through December
- “U.S. Healthcare 101” — our complex ecosystem
- Health system merger/acquisition (M&A) impacts
- SFHSS strategic focuses for health vendor innovation
- SFHSS Request for Information (RFI) / Request for Proposal (RFP) consideration factors
- HSB control vs. influence
- Future education modules (September to December)

- **Appendix**—additional health care cost data from California Health Care Foundation (CHCF) report titled Health Care Costs 101: Spending Growth Outpaces Economy (June 2021)

Healthcare Ecosystem and Market Review—Background

- At the May 25, 2023, and June 8, 2023, HSB meetings, a request was made to better understand the healthcare ecosystem and how current state developments, health system and vendor innovations, and benefit design can support the SFHSS Strategic Plan.

- Today, we provide a review of the U.S. healthcare ecosystem, and introduce three education modules that will follow in the September, November, and December HSB meetings:
  - Module #1: Market / health system innovation—September 14, 2023
  - Module #2: Benefit design and assessment tools—November 9, 2023
  - Module #3: Future state opportunities for SFHSS—December 14, 2023

HSB Board Education Modules, Today Through December

Incorporate Strategic Goals Throughout: Foster Equity, Advance Primary Care, Affordable/Sustainable, Support Mental Health and Well-Being, Optimize Service

August HSB

- **Holistic health ecosystem overview & outline September to December education modules**
  - "U.S. Healthcare 101"—our complex ecosystem
  - Health system merger/acquisition (M&A) impacts
  - Vendor market: current state, notable innovation
  - SFHSS considers any RFI/RFP for vendors
  - HSB control vs. influence
  - Outline education modules

September HSB

- **Module 1: Market / Health System innovation**
  - Vendor innovation
  - Health system innovation
  - New research on health care / behavior / outcomes
- **SFHSS announces any RFI or RFP and timelines.**

November HSB

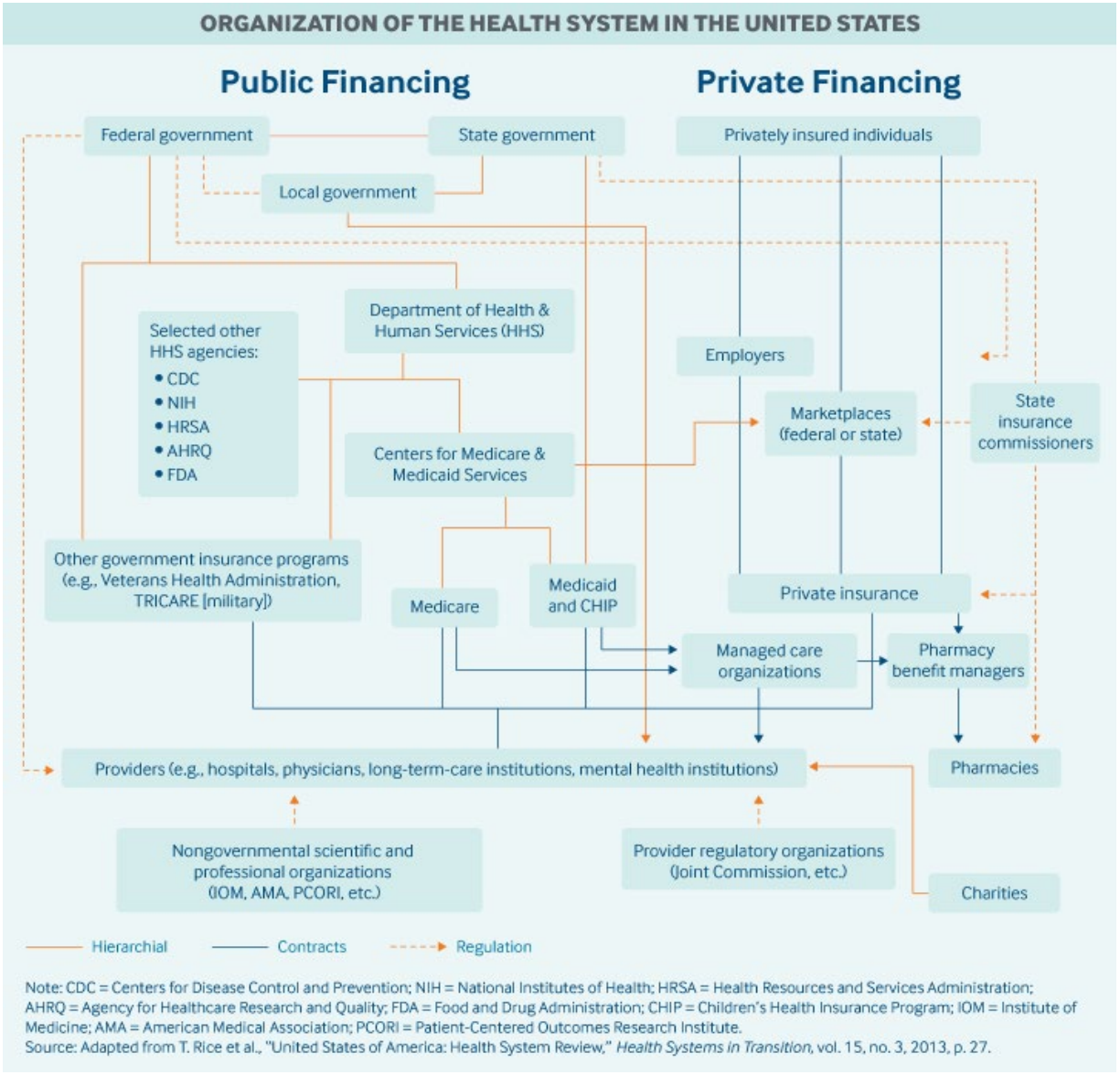
- **Module 2: Benefit design benchmarking and plan design influence on member plan use behavior**
  - Impact of design components on plan utilization
  - HMO plan design competitive landscape (Aon HVI data, 10-County)
  - Plan design / program incentives to drive optimized health behaviors
- **Equity reporting / clinical outcomes**
- **BoS Hearing: strategy/vision on sustainability + projected increases**

December HSB

- **Module 3: Future state opportunities for SFHSS**
  - Harmonizing design features across Non-Medicare HMO plans and between the two MAPD plans
  - Ideal state of design / vendors / network / etc.

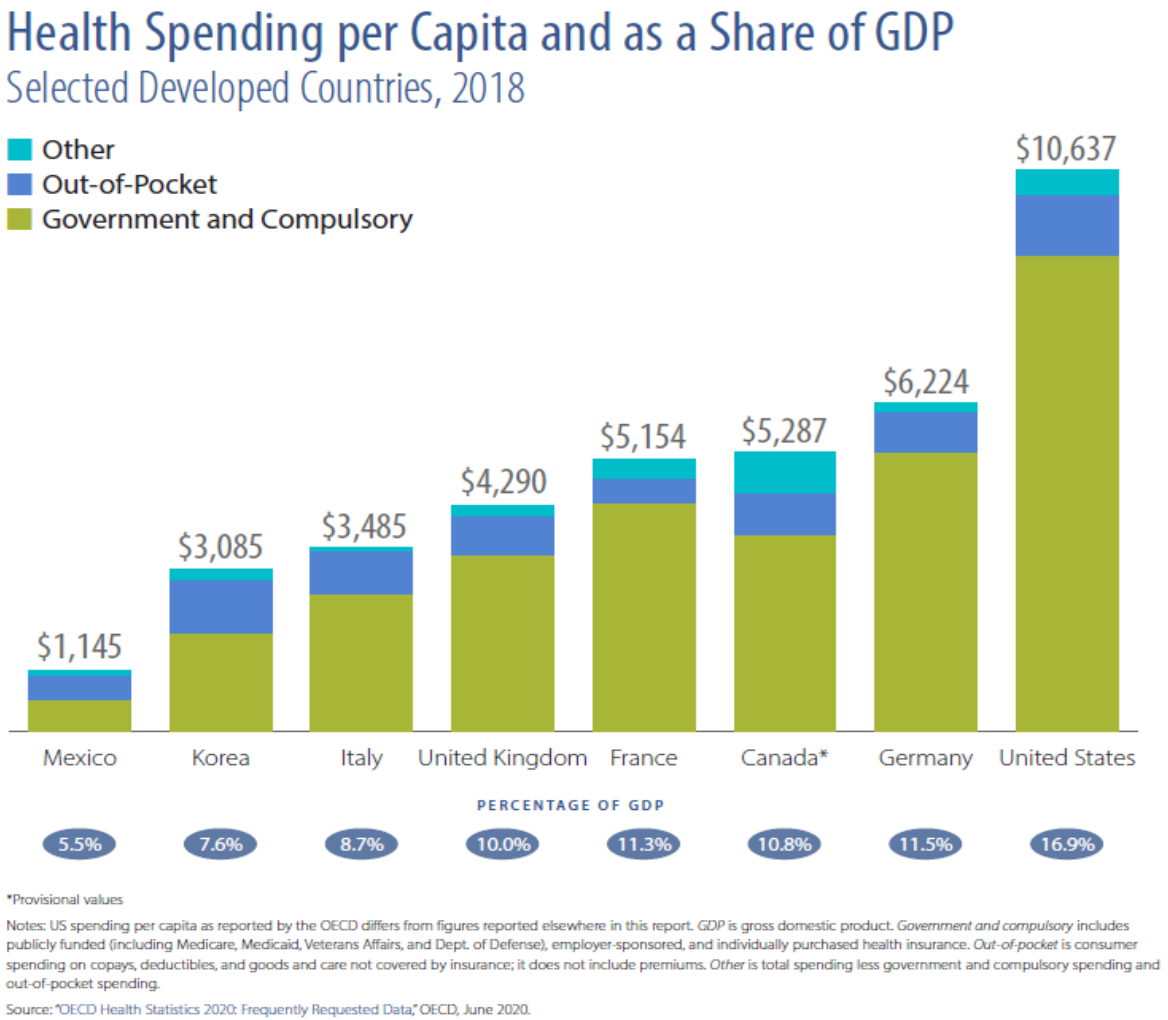
U.S. Healthcare 101—Our Complex Ecosystem

- Providers—hospitals, doctors, other practitioners, pharmacies, labs, etc.—operate within a very complex revenue source and regulatory ecosystem



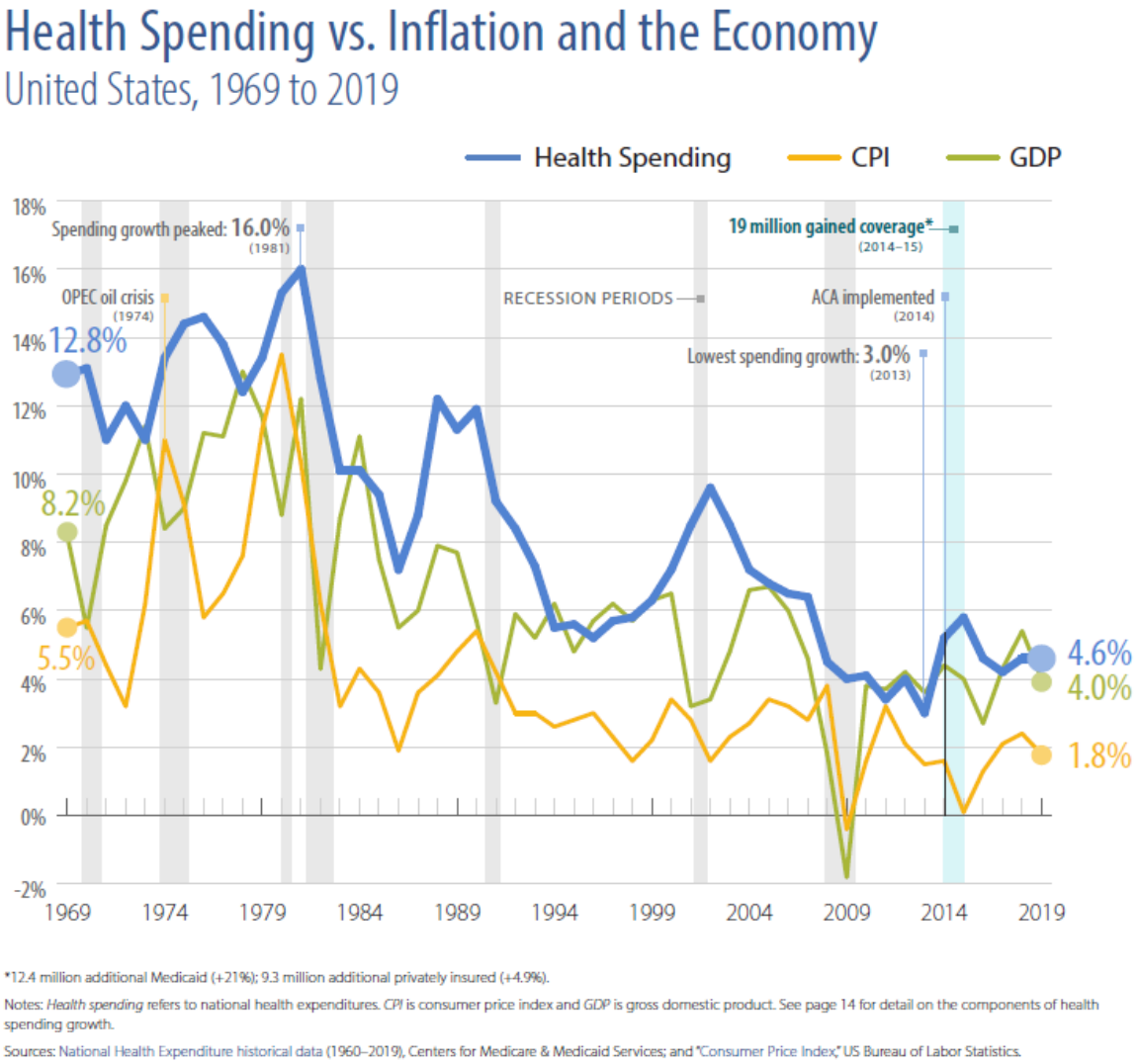
Source: https://www.commonwealthfund.org/international-health-policy-center/countries/united-states

U.S. Health System Complexity Drives Much Higher Spend Versus The Rest of the World



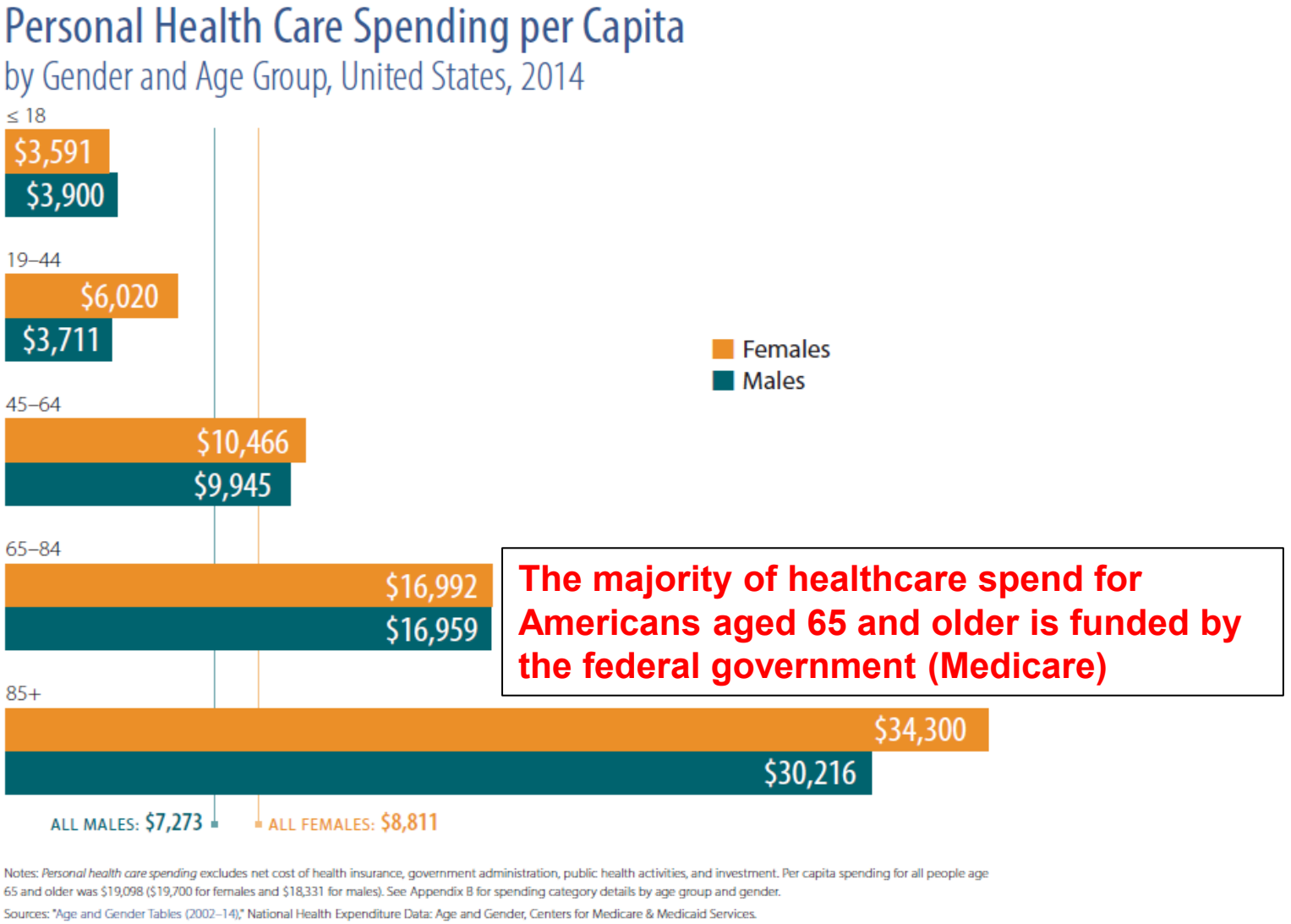
Source: California Health Care Foundation (CHCF) report titled Health Care Costs 101: Spending Growth Outpaces Economy (June 2021)

Health Spending Inflation Has Long Exceeded General Inflation



Source: California Health Care Foundation (CHCF) report titled Health Care Costs 101: Spending Growth Outpaces Economy (June 2021)

Healthcare Costs Increase Significantly as People Age



The majority of healthcare spend for Americans aged 65 and older is funded by the federal government (Medicare)

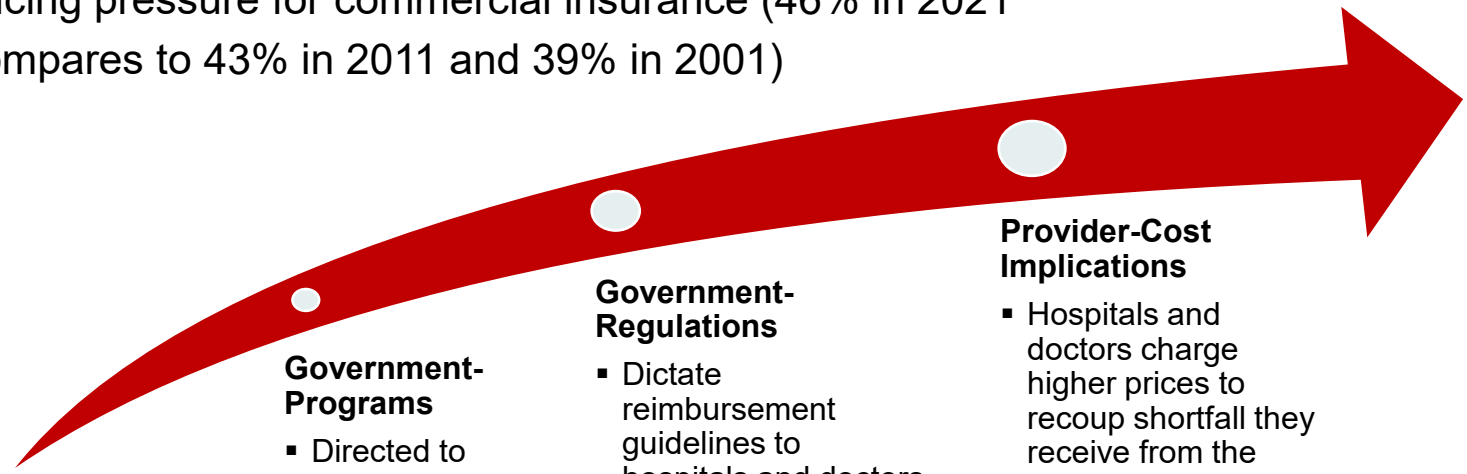
Source: California Health Care Foundation (CHCF) report titled Health Care Costs 101: Spending Growth Outpaces Economy (June 2021)

The Government in the U.S. Healthcare Cost Structure

46% of 2021 U.S. healthcare spend—$1.65 trillion—came through Medicare, Medicaid, and other Public Insurance programs

- Medicare: age 65+ and disabled Americans (and those qualifying with End Stage Renal Disease)
- Medicaid: low-income Americans
- Children's Health Insurance Program

The increasing share of U.S. healthcare dollars from public sources magnifies provider pricing pressure for commercial insurance (46% in 2021 compares to 43% in 2011 and 39% in 2001)



Source: https://www.chcf.org/publication/us-health-care-spending-who-pays/#related-links-and-downloads

Key Stakeholder Positions in our $4 Trillion U.S. Healthcare System (18%+ of U.S. Gross Domestic Product)

Health systems who remain financially strong enough to survive continue to drive growth both organically and via mergers/acquisitions—but must manage through unprecedented labor availability concerns and market demand pressures.

Private equity firms and large retailers see substantial revenue potential in developing digital and distribution solutions that improve access to healthcare—ultimately improving individual health.

Health plan administrators/insurers are constantly pressed to deliver optimal cost control via provider discounts and fees, while advancing member advocacy and health improvement platforms to effectively compete in an ever-expanding new solution marketplace funded by private equity firms and large retailers.

Government programs continue to act to limit growth in public program funding (recent examples: Medicaid redetermination process, CMS funding changes for Medicare Advantage plans), increasing health system revenue pressures that ultimately are felt in higher service prices paid within employer-sponsored health plans.

Health System M&A Impacts

- Kaiser Family Foundation study, September 2020: “Provider Consolidation Leads to Higher Prices”[1]
  - Observed in multiple studies for both hospital consolidations and physician group consolidations (e.g., “horizontal consolidation”)
  - Observed in vertical integration consolidations: “One study analyzing highly concentrated hospital markets in California found that an increase in the share of physicians in practices owned by a hospital was associated with a 12% increase in premiums for private plans sold in the state’s Marketplace”
- A May 2022 Health Affairs study found that vertical consolidation between physicians and large health systems led to a 12 percent increase in primary care physician prices and a 6 percent increase in specialist prices.[2]
- The latest Bay Area news: UCSF in talks to acquire several Dignity Health assets including St. Mary’s Medical Center and St. Francis Memorial Hospital.[3]

[1] https://www.kff.org/health-costs/issue-brief/what-we-know-about-provider-consolidation/
[2] https://www.healthaffairs.org/doi/abs/10.1377/hlthaff.2021.00727?journalCode=hlthaff
[3] https://www.sfchronicle.com/sf/article/ucsf-saint-marys-catholic-hospital-18197090.php

SFHSS Strategic Focuses for Health Vendor Innovation

- SFHSS has focused on **HMO network strategies** with optimal health plans to deliver effective and affordable care to members, while also maintaining a PPO plan who members who prefer a more open provider access model (and to provide coverage for those living outside of HMO plan areas).

- HMO plan choice for active employees and early retirees expanded in 2022 with the most recent RFP process, as **Health Net CanopyCare** was newly offered alongside:

  - Blue Shield of California's broad network Access+ HMO and narrow network Trio HMO; and

  - Kaiser's Staff Model HMO.

- Medicare retirees continue to have the UnitedHealthcare (UHC) Medicare Advantage (MA) PPO available nationally, along with Kaiser MA HMO in California, Hawaii, Oregon, and Washington—**both Kaiser and UHC have the highest Star Rating possible from the federal government (5 Stars)**, Medicare's measure of MA plan quality and performance.

SFHSS Strategic Focuses for Health Vendor Innovation

- Plan innovation comes from **advancement of primary care initiatives** within health system/physician practice partnerships, as well as advanced **advocacy models** to support member care and navigation needs. SFHSS plan examples include:
  - **Kaiser HMO:** frequent discussions to review Workforce Health and Well-Being resources available to members, including how to more effectively raise member awareness of/engagement in these resources—as well as review of health outcomes data where Kaiser consistently delivers high quality results.
  - **Blue Shield of California HMOs:** semi-annual meetings with Brown & Toland Medical Group and Hill Physicians leadership teams to review advanced primary care, health equity, and mental health resource focuses within Blue Shield's Accountable Care Organization (ACO) platforms.
  - **UnitedHealthcare MAPD PPO:** quarterly meetings to review clinical program engagement, geriatric care needs, and House Calls program utilization.

SFHSS continually partners with health plans to enhance awareness and engagement for members to use the right services and programs at the right time

SFHSS RFI/RFP Consideration Factors

- In general, best practice is to RFP health plans **every three to five years** to ensure plan spend remains affordable and sustainable—though SFHSS effort required must be considered relative to potential for substantial RFP outcomes.

- Why might SFHSS recommend health plan RFPs in the near term?

  - **Non-Medicare medical/Rx plans:** strive for higher discounts/lower unit cost spend for broad HMO network providers (such as Sutter Health and Stanford Health Care); keep administrative fees reasonable into the near term; assure SFHSS is aligning with health plan partners best suited to deliver optimal results to SFHSS strategic goals.

  - **Medicare Advantage (MA) medical/Rx plans:** optimize plan premiums through group MA plans best positioned to improve member health and support member care needs; assure stable network contracting relationships with key providers serving SFHSS MA plan members.

  - **Dental plans:** maximize network dentist access while minimizing plan spend (active self-funded PPO) / insured premiums (dental HMOs and retiree PPO).

HSB's Role—Control Versus Influence

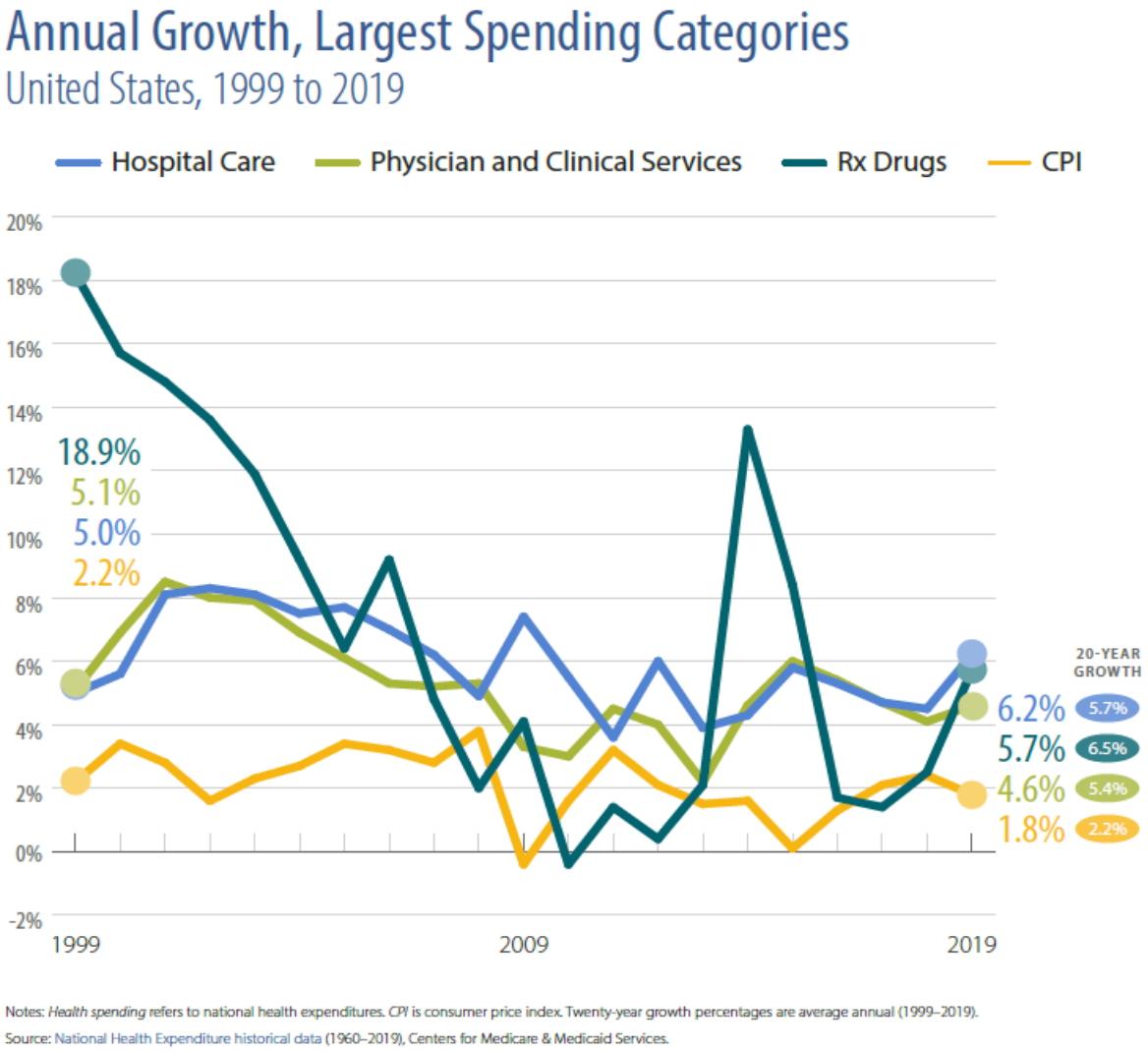
- The HSB has a critical role in guiding the present and future state of health plan offerings, financials, and key initiatives for SFHSS members:

Control (via Authority to Approve)	Influence
Health Plan Total Cost Rates	Member Health Resources Awareness
Health Plan Design Features	Information to the Public About Health Care Trends and Developments
HSB Policies (e.g., reserves, rate stabilization, legal settlements, Board education)	Near-Term and Long-Range Key Initiatives for Consideration
Request for Proposal Recommendations	Concerns Requiring Health Plan Attention

Upcoming HSB Board Education Modules

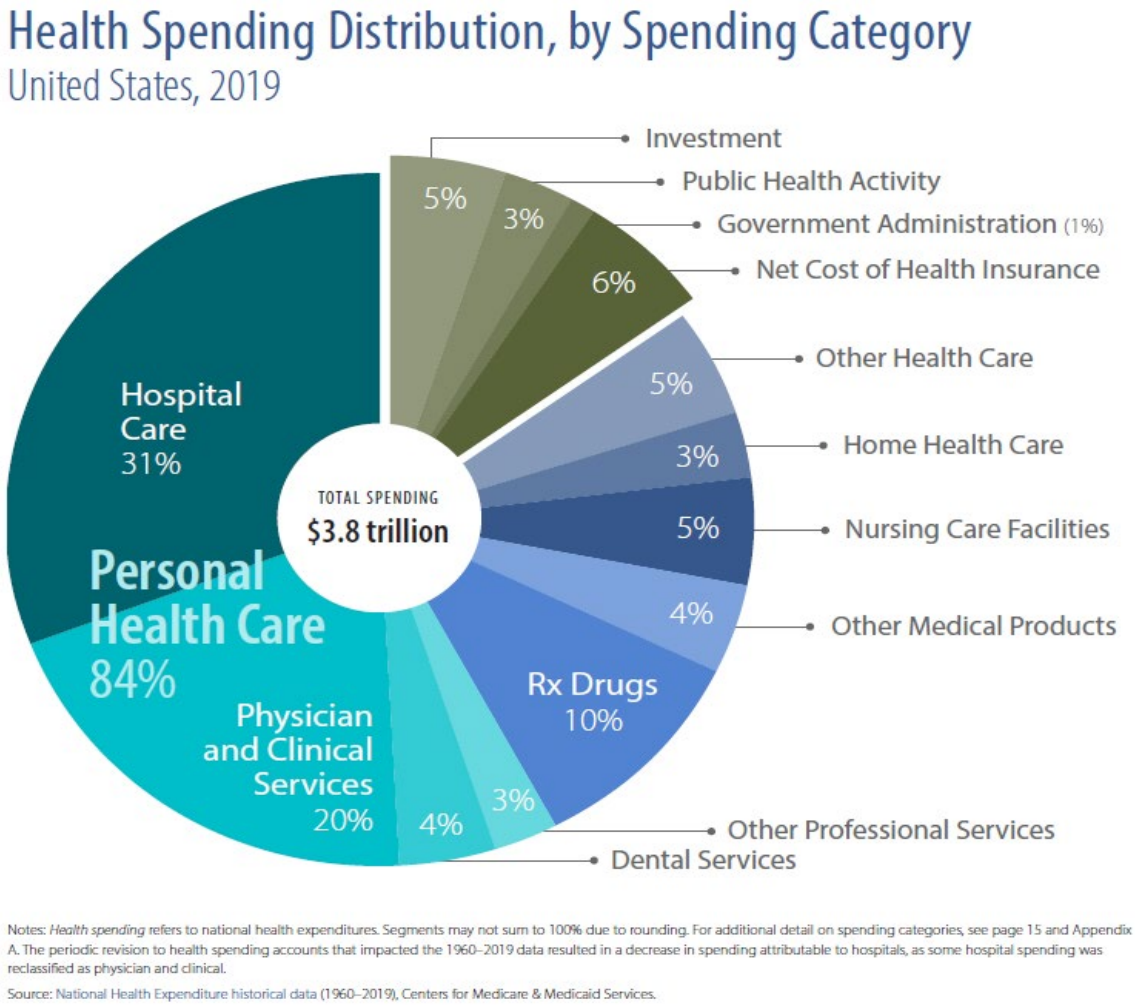
- Module #1: Health system and market innovation — September 14, 2023
- Module #2: Benefit design and assessment tools — November 9, 2023
- Module #3: Future state opportunities for SFHSS — December 14, 2023

Appendix—Hospital Care and Drugs Drive Highest Health Care Growth



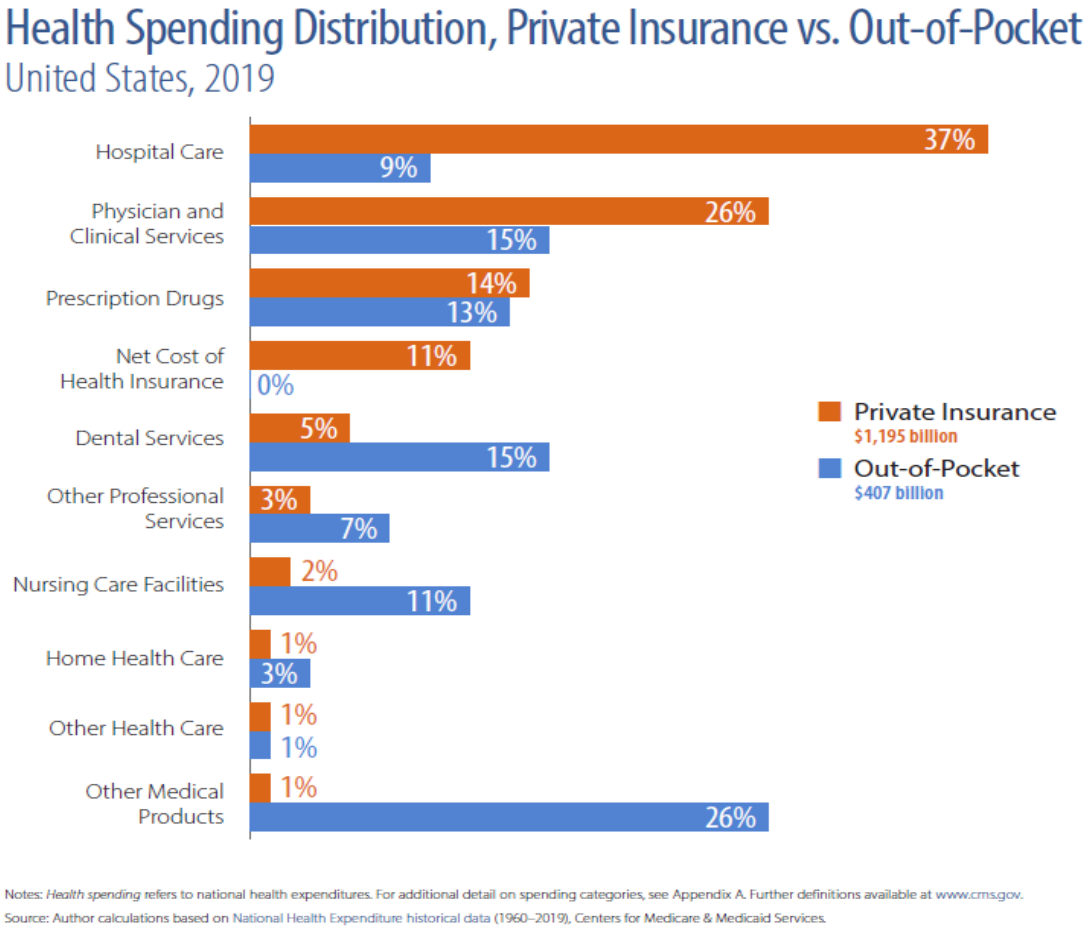
Source: California Health Care Foundation (CHCF) report titled Health Care Costs 101: Spending Growth Outpaces Economy (June 2021)

Appendix—Hospital Care, Physician/Clinical Services, and Drugs Drive 61% of Health Spending in the U.S.



Source: California Health Care Foundation (CHCF) report titled Health Care Costs 101: Spending Growth Outpaces Economy (June 2021)

Appendix—Out-of-Pocket Costs for People in the U.S. Can Be Significant, Especially for Nursing Care Which is Not Covered by Typical Medical Plans



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