

ANALYSIS OF THE 2013 HEALTH CARE SECURITY ORDINANCE ANNUAL REPORTING FORMS

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CITY AND COUNTY OF SAN FRANCISCO

GENERAL SERVICES AGENCY

OFFICE OF LABOR STANDARDS ENFORCEMENT

TABLE OF CONTENTS

Contents

Executive Summary _____	1
Introduction _____	2
Data Collection _____	5
Findings _____	6
Conclusion _____	16

Executive Summary

The San Francisco Health Care Security Ordinance (HCSO) requires employers with 20 or more employees to make minimum health care expenditures on behalf of their covered employees. For 2013, covered employers with 20-99 employees were required to make health care expenditures of \$1.55 per hour on behalf of each covered employee, and employers with 100 or more employees were required to make health care expenditures of 2.33 per hour.

Every April 30, employers covered by the HCSO are required to submit an HCSO Annual Reporting Form to the Office of Labor Standards Enforcement (OLSE) summarizing their health care expenditures for the prior calendar year. For calendar year 2013, 4,393 employers submitted forms, an increase of 4.5% from 2012.

The 2013 HCSO Annual Reporting Forms show that employers' health care expenditures were very consistent with those for prior years. The findings from the employer reports include:

- Employers reported that an average of 258,091 employees were covered by the HCSO in each quarter of 2013.
- Covered employers reported making a total of \$2.10 billion in health care expenditures.
- Most employers continued to satisfy the employer spending requirement by providing health insurance to their covered employees. In 2013, employers spent 89% of all reported health care dollars on health insurance, they contributed 3.9% to the City Option, and they allocated 6.0% to Health Reimbursement Accounts (HRAs). This expenditure pattern closely mirrors the reported expenditures from 2011 and 2012.
- Twenty-two percent of all employers (974 of 4,393) reported allocating funds to HRAs on behalf of an average of 17.2% of covered employees each quarter.
- Employers reported that 10.0% percent of covered employees, or an average of 25,897 each quarter, received contributions to an HRA as the *only* health benefit provided by their employer.
- The overall HRA reimbursement rate remained very steady. Employers reported allocating \$126.0 million to HRAs and reimbursing \$30.8 million or 24.4%, compared with 24.6% for 2012. However, the *median* reimbursement rate increased to 21.2% from 17.6% in 2012, and fewer employers reported very low reimbursement rates below 10%.

Introduction

A. STATUTORY AUTHORITY

The San Francisco Health Care Security Ordinance (HCSO) was passed unanimously by the Board of Supervisors in July of 2006 and codified as Chapter 14 of the San Francisco Administrative Code. The HCSO is comprised of two main components:

- 1) A health access program –comprised of Healthy San Francisco” (HSF) and Medical Reimbursement Accounts (MRAs) – created by the Department of Public Health; and
- 2) An employer spending requirement, which mandates that employers subject to the HCSO “make Required Health Care Expenditures to or on behalf of each of their Covered Employees each quarter.”¹

The City’s Office of Labor Standards Enforcement (OLSE) is charged with enforcing the employer spending requirement. Pursuant to the ordinance, employers are required to maintain accurate records of their health care expenditures and to provide information to the OLSE on an annual basis regarding their compliance with the health care expenditure requirement. The OLSE established procedures for covered employers to submit an Annual Reporting Form (ARF) by April 30th every year summarizing their compliance with the Employer Spending Requirement in the previous calendar year.

B. THE HCSO EMPLOYER SPENDING REQUIREMENT

Since 2008, the HCSO has required “covered employers” to make health care expenditures for their “covered employees.” Covered employers are private sector San Francisco employers with 20 or more employees worldwide and nonprofit employers with 50 or more employees worldwide. In 2013, for-profit employers with 20-99 employees (and non-profits with 50-99 employees) were required to make health care expenditures of \$1.55 per hour paid on behalf of each covered employee, and employers with 100 or more employees were required to make health care expenditures of \$2.33 per hour.

The HCSO defines “health care expenditure” as “any amount paid by a covered employer to its covered employees or to a third party on behalf of its covered employees for the purpose of providing health care services for covered employees or reimbursing the cost of such services for its covered employees.”

In 2013, employers could make valid health care expenditures on behalf of covered employees in a number of ways, including:

¹ The HCSO is codified in Chapter 14 of the San Francisco Administrative Code, and is available via the HCSO website: www.sfgov.org/olse/hcso.

- 1) payments for health, dental, or vision insurance;
- 2) payments to the “City Option”;
- 3) allocations to a revocable reimbursement program, such as a Health Reimbursement Account (HRA); and
- 4) contributions to irrevocable reimbursement accounts , such as a Health Savings Account or Medical Reimbursement Account.

C. 2011 AMENDMENT AND MAYORAL DIRECTIVE

The San Francisco Board of Supervisors passed an amendment to the HCSO in November 2011, which went into effect on January 1, 2012. The amendment established new rules for employers who contribute to reimbursement programs to satisfy the spending requirement of the HCSO as well as for those who impose health care surcharges to cover the cost of the employer spending requirement. In conjunction with the amendment to the HCSO, Mayor Lee issued Executive Directive 11-04, which instructed OLSE to collect additional data from employers that contribute to Health Reimbursement Arrangements (HRAs or “reimbursement plans”). This report summarizes employers’ reported HRA utilization rates and plan restrictions as requested.

D. POLICY CHANGES FOR 2014 AND BEYOND

Key provisions of the federal Affordable Care Act took effect on January 1, 2014, and additional provisions will become effective in 2015 and 2016. These new rules and regulations are changing the health care policy landscape and they affect how employers comply with the San Francisco HCSO. In particular, the new rules prohibit stand-alone medical Health Reimbursement Accounts (meaning those not paired with an insurance plan) that reimburse individuals for the full range of tax deductible medical expenses. The OLSE released a series of Frequently Asked Questions from October to December 2013 that provide guidance on complying with the HCSO in 2014, taking into account some of the changes in federal law.

In addition, the San Francisco Board of Supervisors passed an amendment to the HCSO on June 17, 2014, which phases in (over 3 years) a requirement that all health care expenditures be made irrevocably. HRA allocations have typically reverted to the employer after a certain period and have therefore been “revocable.” The new amendment limits contributions to these types of revocable benefits to 40% of the required health care expenditures for 2015, 20% for 2016, and prohibits them in 2017 and beyond.

This report reflects how employers complied with the HCSO *before* the new federal laws took effect and *before* the San Francisco Board of Supervisors passed the 2014 amendment to the HCSO. The 2013 data provide a baseline from which the City will be able to measure changes in health care spending as employers respond to Affordable Care Act and the 2014 HCSO Amendment.

E. THE 2013 ANNUAL REPORTING FORM

The 2013 Annual Reporting Form is a web-based form, and the questions are very similar to the questions on the prior year's form. Employers reported on:

- The total number of persons employed (worldwide) in each calendar quarter
- The number of employees covered by the HCSO in each calendar quarter
- Health care expenditures made in each calendar quarter of 2013 (see below); and
- Surcharges collected from customers to cover, in whole or in part, the cost of complying with the HCSO.

Employers provided information on four types of health care expenditures:

- **Health insurance** – payments for insurance premiums, including medical, dental, and vision insurance.
- **Payments to the City Option** – Contributions to the San Francisco Health Plan, which are allocated to Healthy San Francisco or to Medical Reimbursement Accounts (MRAs).
- **Allocations to Health Reimbursement Arrangements (HRAs)** – Funds allocated to an employer-funded account or program that reimburses employees tax free for qualified medical expenses. HRA allocations are typically “revocable,” meaning that they revert to the employer after a specified period of time.
- **Contributions to Health Savings Accounts (HSAs) and Medical Savings Accounts (MSAs)** – These are tax-exempt accounts that employees can use to pay or reimburse medical expenses. An employee must be covered under a high deductible health plan to have an HSA or MSA. Funds contributed to these accounts are owned by the employee. See IRS Publication 969 for more information.

The only significant difference between the 2013 HCSO Annual Reporting Form and the 2012 form was the addition of a question on the number of employees who received access to an HRA as their only health benefit. Changes in federal law limit employers' use of “stand-alone” medical HRAs (those that reimburse for medical expenses and are not paired with employer-sponsored health insurance) as of January 1, 2014. The addition of the new question allows the City to estimate how many individuals may be impacted by changing rules about HRAs.

To see screenshots of the [Annual Reporting Form](#) (PDF) and [instructions](#), visit the HCSO website at www.sfgov.org/olse/hcso.

Data Collection

Pursuant to San Francisco Administrative Code Subsection 14.4(c), the OLSE requires all employers covered by the HCSO to submit the Annual Reporting Form. The OLSE notifies covered employers of their obligation to submit the ARF by U.S. Mail and by email.

In conjunction with the San Francisco Office of the Treasurer and Tax Collector, the OLSE identified mailing addresses for a total of 6,338 employers that may have been covered by the HCSO in 2012. This list included employers who reported having 20 or more employees on their business registration certificate application or payroll tax filing and employers who reported \$1 million or more in taxable payroll in San Francisco. The number of employers on the final mailing list declined from approximately 9,500 last year due to database consolidation at the Office of the Treasurer and Tax Collector. The OLSE's mailing to these employers directed them to the website for the 2013 Annual Reporting Form and included instructions for completing the form.

The OLSE also sent email reminders of the requirement to submit the ARF to 6,321 email addresses on March 26 and April 24, 2014. This email list included addresses for individuals who signed up for HCSO notifications through the OLSE website as well as the email addresses submitted with the prior year's ARFs.

The OLSE dedicates significant staff time to help employers complete the reporting form each year. The agency's staff responded to 221 emails in March and April alone and more than 600 phone calls.

The OLSE does not audit or otherwise verify the reports that employers submit. Some employers may have misunderstood the questions on the ARF or failed to provide accurate information. Moreover, not all covered employers fulfilled the requirement to submit the ARF, and the employers that did submit the ARF may not be representative of the population of covered employers as a whole. Finally, any ARFs or corrections to an ARF submitted after May 31, 2014 are not included in this analysis.

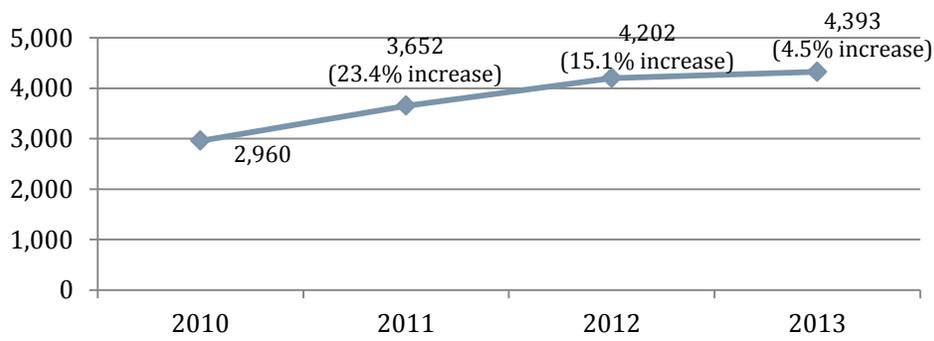
Findings

POPULATION SUMMARY

Annual Submissions

Covered employers submitted 4,393 Annual Reporting Forms for 2013, an increase of 4.5% from the 2012 ARF submissions.

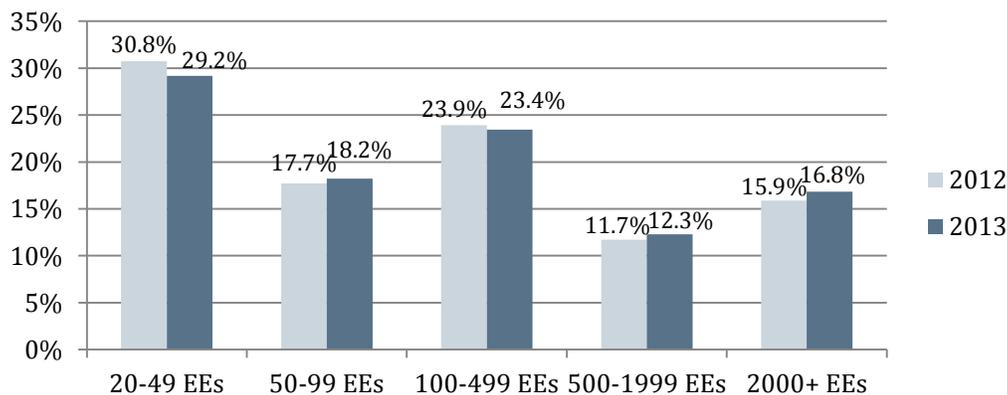
Chart 1: Annual Reporting Form Submissions



Submissions by Employer Size

The HCSO defines a “medium-size business” as an employer for which an average of 20 to 99 persons per week perform work for compensation during a quarter. A “large business” is an employer for which an average of 100 or more persons per week perform work for compensation during a quarter. Medium-sized businesses filed 2,083 or 47.4% of the ARF submissions, and large businesses filed 2,310 ARFs, or 52.6%. The proportion of ARFs submitted by large employers has increased slightly from 50.0% for 2011 to 51.5% for 2012 and 52.6% this year.

Chart 2: Submissions by Employer Size*

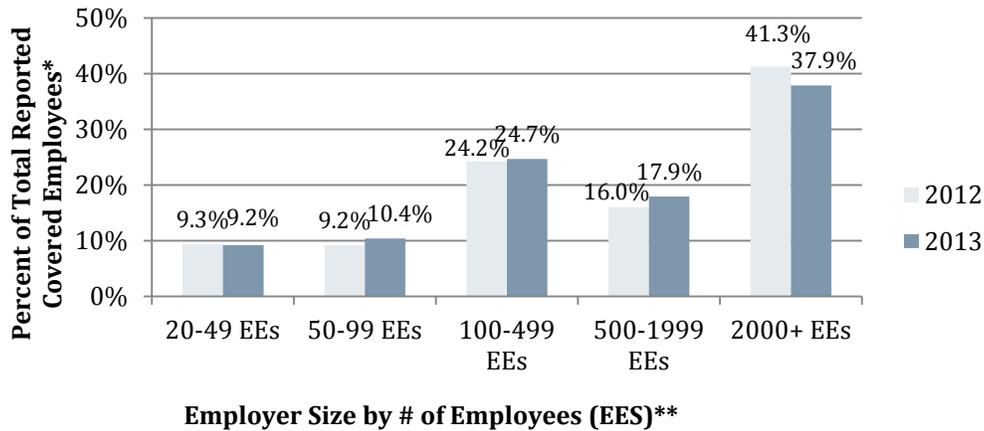


* Number of employees worldwide, based on the highest quarter reported by the employer.

Covered Employees by Employer Size

Employers reported that the HCSO applied to an average of 258,091 employees across the four quarter of 2013. Of those employees, 19.5% worked for medium-sized businesses with between 20 and 100 employees. The pattern is generally consistent with prior years, with 18.5% of covered employees working for medium-sized businesses in 2012, and 20.7% in 2011.

Chart 3: Covered Employees, by Employer Size



* Based on average number of covered employee reported per quarter.

** Number of employees worldwide, based on the highest quarter reported by the employer.

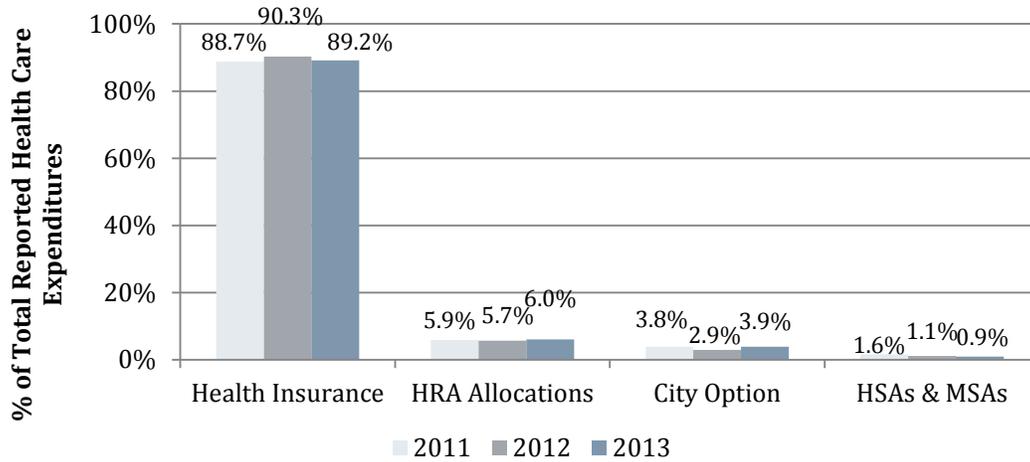
EMPLOYERS' HEALTH CARE EXPENDITURE CHOICES

Health Care Expenditure Dollars

Employers reported making health care expenditures totaling \$2.10 billion on behalf of their employees covered by the HCSO. These employers spent \$1.87 billion (89.2% of the total) on health insurance premiums, including medical, dental, and vision premiums. They reported allocating \$125.9 million (6.0%) to Health Reimbursement Accounts (HRAs). In addition, they reported contributing \$81.8 million (3.9%) to the City Option (including Healthy San Francisco and the City's Medical Reimbursement Accounts program) as well as \$19.8 million (0.9%) to employee-owned reimbursement accounts, including Health Savings Accounts (HSAs) and Medical Savings Accounts (MSAs).

Despite steady increases in ARF submissions in recent years, the proportion of total dollars reportedly used for each category of health care expenditure has remained consistent.

Chart 4: Health Care Dollars, by Expenditure Type



Employers with a total of 20-49 employees reported allocating a higher proportion of their total health care expenditures (9.5%) to Health Reimbursement Accounts than larger employers. Those same employers also spent a smaller portion (85.1%) on insurance than larger employers. The largest employers with 2000 or more employees contributed a larger share (6.2%) to the City Option than other employers.

TABLE 1: TOTAL DOLLAR EXPENDITURES FOR 2013, BY EMPLOYER SIZE (MILLIONS)

	20-49 Employees (EEs)*	50-99 EEs	100-499 EEs	500-1999 EEs	2000+ EEs	All employers
Health Insurance	\$120.1 m (85.1%)	\$162.7 m (87.6%)	\$572.3 m (89.4%)	\$319.6 m (91.2%)	\$699.9 m (89.1%)	\$1,874.6 m (89.2%)
HRA Allocations	\$13.4 m (9.5%)	\$13.0 m (7.0%)	\$51.1 m (8.0%)	\$14.0 m (4.0%)	\$34.5 m (4.4%)	\$126.0 m (6.0%)
City Option Contributions	\$4.7 m (3.3%)	\$5.7 m (3.1%)	\$11.3 m (1.8%)	\$11.4 m (3.3%)	\$48.7 m (6.2%)	\$81.8 m (3.9%)
HSA and MSA Contributions	\$2.9 m (2.1%)	\$4.3 m (2.3%)	\$5.2 m (0.8%)	\$5.4 m (1.5%)	\$2.1 m (0.3%)	\$19.8 m (0.9%)
Total Expenditures	\$141.1 m	\$180.12 m	\$639.8 m	\$350.4 m	\$785.2 m	\$ 2,102.4 m

*Number of employees worldwide, based on the highest quarter reported by the employer.

Employer Compliance Strategies

Many employers utilize more than one health care expenditure option to satisfy the requirements of the HCSO. For example, an employer might provide health insurance for its full-time employees, and contribute to the City Option for its part-time employees.

Of the 4,393 employers who submitted valid ARFs, 2,507 (57.1%) reported making their full required expenditures on health insurance, while 700 employers (15.9%) reported making health insurance premium payments along with allocations to HRAs. Another 714 (16.3%) reported making health insurance payments and contributing to the City Option. A slightly smaller portion of employers opted to use a combination of health insurance and HRAs in 2013 than did so in 2012, and a slightly higher percentage opted to spend funds on both health insurance and the City Option.

TABLE 2: EMPLOYER COMPLIANCE STRATEGY OVERVIEW

	2013 Compliance Strategy		2012 Compliance Strategy	
	Employer (#)	% of Total	Employers (#)	% of Total
Insurance Only*	2,507	57.1%	2,407	57.3%
Insurance* + HRA	700	15.9%	720	17.1%
City Option + Insurance	714	16.3%	590	14.0%
HRA Only	194	4.4%	190	4.5%
City Option Only	148	3.4%	143	3.4%
Other**	130	3.0%	154	3.7%
Total	4,393		4,204	

* Includes high deductible health insurance plans that are combined with Health Savings Accounts.

** Includes 69 employers who reported health care expenditures on health insurance, HRAs, and the City Option, 11 who reported City Option contributions and HRA allocations, and 49 employers who reported making no or making invalid health care expenditures.

Covered Employee Benefits

Employers reported on an average of 258,091 employees covered by the HCSO per quarter. Of those, an average of 183,825 employees per quarter received health insurance benefits (71.2% of covered employees). An average of 44,303 employees per quarter received HRA allocations (17.2% of the total), 24,116 employees received the benefit of contributions to the City Option (9.3%), and 8,306 received contributions to Health Savings Accounts (3.2%).

Some covered employees likely received more than one type of benefit, and others may not have received the benefits due under the HCSO. For this reason, the sum of the average covered employees receiving each type of benefit does not equal the total average number covered employees.

TABLE 3: AVERAGE EMPLOYEES (EES) BY HEALTH BENEFIT TYPE & EMPLOYER SIZE

	20-49 EEs*	50-99 EEs	100-499 EEs	500-1999 EEs	2000+ EEs	Total	% of Total Covered EEs (258,091)
EES w/ Insurance**	16,029	18,788	48,951	33,924	66,134	183,825	71.2%
EES w/ HRAs	6,170	6,328	10,815	5,276	15,156	43,746	17.2%
EES with City Option	1,893	1,916	3,233	2,905	14,169	24,116	9.3%
EES with HSAs	1,216	1,481	2,429	1,130	2,020	8,306	3.2%

*Number of employees worldwide, based on the highest quarter reported by the employer.

**Average number of covered employees with this type of benefit each quarter. Note that an employee may receive multiple types of benefits, and may be counted in more than one row.

Covered employees received an average of \$8,145 per year in health benefits, with large employers making average health care expenditures of \$8,547 per covered employee per year, and medium-sized employers averaging \$6,488. These average expenditures include both part-time and full-time employees.

TABLE 4: AVERAGE HEALTH CARE EXPENDITURE PER EMPLOYEE (EE), BY EMPLOYER SIZE*

	20-49 EEs*	50-99 EEs	100-499 EEs	500-1999 EEs	2000+ EEs	Total
Health Care Expenditures per Covered Employee**	\$ 5,970	\$ 6,945	\$ 10,039	\$ 7,578	\$ 8,033	\$ 8,145

*Number of employees worldwide, based on the highest quarter reported by the employer.

** Total health care expenditures divided by the average number of reported covered employees in each quarter of 2013.

The average health care expenditures per employee are much higher than the maximum health care expenditures required under the HCSO. For 2013, medium-sized employers were required to make expenditures of up to \$3,199 per covered employee per year (\$1.55 per hour x a maximum of 2,064 hours per year, as defined in the Ordinance), and large employers were required to make expenditures of up to \$4,809 (\$2.33 x 2,064). The higher average expenditures shown above are largely the result of higher spending on health insurance. Table 5 separates spending on insurance premiums from other reported health care expenditures.

TABLE 5: AVERAGE EXPENDITURE PER EMPLOYEE (EE), BY EXPENDITURE TYPE

	20-49 EEs*	50-99 EEs	100-499 EEs	500-1999 EEs	2000+ EEs	Total
Average Annual Insurance Premium \$ per Covered EE**	\$ 7,494	\$ 8,660	\$11,691	\$ 9,422	\$ 10,583	\$ 10,198
Average HRA Allocations per EE***	\$ 2,157	\$ 2,014	\$ 4,636	\$ 2,658	\$ 2,245	\$ 2,843
Average City Option Contribution per EE†	\$ 2,476	\$ 2,975	\$ 3,488	\$ 3,922	\$ 3,437	\$ 3,390
Average HSA/MSA Contributions per EE‡	\$ 2,388	\$ 2,935	\$ 2,099	\$ 4,738	\$ 1,019	\$ 2,387

* Number of employees worldwide, based on the highest quarter reported by the employer.

** Total spent on insurance premiums divided by the average number of covered employees in each quarter of 2013 for whom the employer contributed to insurance premiums.

*** Total HRA allocations divided by the average covered employees in each quarter of 2013 who received allocations.

† Total City Option contributions divided by the average covered employees in each quarter who received contributions.

‡ Total HSA/MSA contributions divided by the average covered employees in each quarter who received contributions.

HEALTH REIMBURSEMENT ACCOUNTS

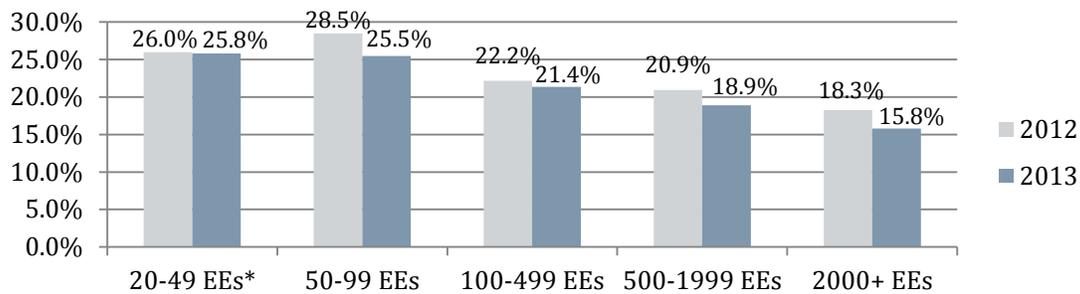
Health Reimbursement Accounts (HRAs) are employer-funded accounts that reimburse employees for qualified medical expenses. Allocations to HRAs remain the property of the employer, and most employers opt to reclaim contributions to those accounts if the employee does not utilize the funds within a specified period of time.

To qualify as valid health care expenditures under the HCSO, employers cannot reclaim HRA funds until they have been available to the employee for a minimum of 24 months. The employer must also give the employees notices each quarter, including information regarding account balance and expiration dates.

Employers Providing HRAs

Twenty-two percent of all employers (974 of 4,393) reported allocating funds to HRAs in 2013, down slightly from 23.7% of employers in 2012. Employers with between 20 and 49 total employees were most likely to report using HRAs, with 25.8% of employers in that size category reporting that they use an HRA.

Chart 5: Percent of Employers Contributing to HRAs, by Employer Size



*Number of employees worldwide, based on the highest quarter reported by the employer.

Employees Receiving HRA Benefits

Employers allocated funds to HRAs on an average of 44,303 employees each quarter, meaning that on average, 17.2% of employees covered by the HCSO each quarter received HRA allocations. Similarly, employers reported that an average of 17.5% employees had HRAs for 2012.

For the first time this year, the OLSE asked employers to report on the number of employees for whom they only provided an HRA allocation to satisfy the HCSO employer spending requirement. This was of interest to the OLSE and the San Francisco Board of Supervisors because the federal Affordable Care Act places new restrictions on “stand-alone” HRAs, meaning those that are not paired with health insurance.

Employers reported that they provided HRA allocations as the only health care benefit to an average of 25,897 employees each quarter out of the average of 44,303 that received HRA allocations. The responses indicate that an average of 18,406 received another benefit, such as an insurance plan, alongside their HRA allocation.

TABLE 6: EMPLOYEES WITH HRA BENEFITS, BY EMPLOYER SIZE

	20-49 EEs	50-99 EEs	100-499 EEs	500-1999 EEs	2000+ EEs	Total	% of Total EEs (258,091)
Average EEs w/ any HRA Allocations*	6,198	6,439	11,015	5,282	15,369	44,303	17.2%
Average EEs w/ Only HRAs**	3,600	3,961	6,399	2,457	9,480	25,897	10.0%

* The average number of employees for whom employers reported making any HRA allocations in each quarter (includes those who received HRA allocations alongside other benefits)

** The average number of employees for whom employers reported making only HRA allocations to satisfy the HCSO employer spending requirement

HRA Reimbursement Rates

Employers reimbursed their employees \$30.7 million from HRAs during 2013, or 24.4% of the \$126.0 million that employers contributed for the year. The 2013 overall reimbursement rate was very similar to the 2012 rate of 24.6%. Medium-sized employers with 50-99 employees reported the highest overall reimbursement rate of 34.1%.

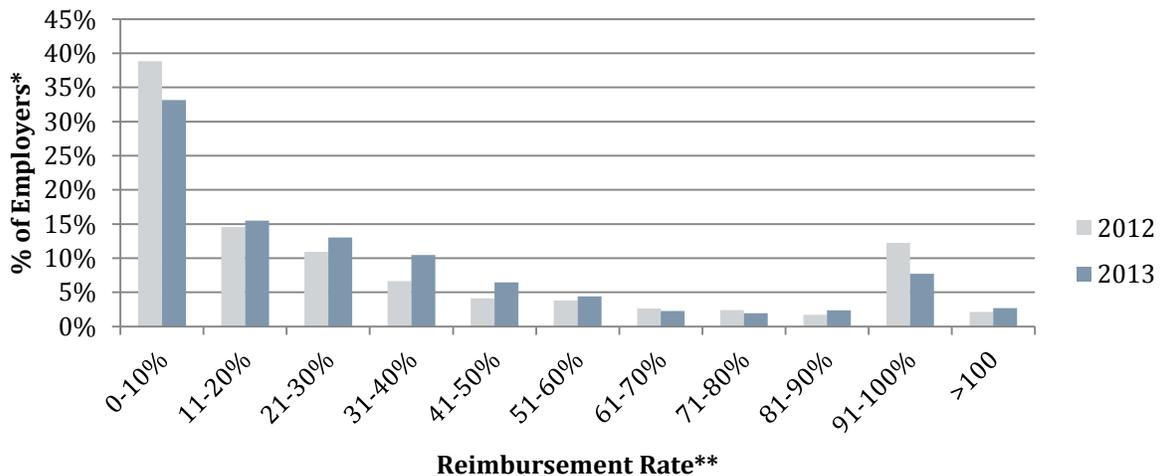
TABLE 7: HRA REIMBURSEMENTS BY EMPLOYER SIZE

	20-49 EEs*	50-99 EEs	100-499 EEs	500-1999 EEs	2000+ EEs	Total
Employers with HRAs (#)	331	204	220	117	117	974
Total Allocations (millions \$)	\$ 13.4 m	\$ 13.0 m	\$ 51.1 m	\$ 14.0 m	\$ 34.5 m	\$ 126.0 m
Total Reimbursements (millions \$)	\$ 3.1 m	\$ 4.4 m	\$ 8.8 m	\$ 4.7 m	\$ 9.7 m	\$ 30.8 m
Reimbursement Rate (%)	23.5%	34.1%	17.2%	33.3%	28.2%	24.4%

*Number of employees worldwide, based on the highest quarter reported by the employer.

While the overall rate remained steady, the median reimbursement rate across all 974 employers with HRAs increased from 17.6% in 2012 to 21.2% in 2013. In addition, the portion of employers reporting very low rates of 10% or below decreased from 39% in 2012 to 33% in 2013.

CHART 6: DISTRIBUTION OF HRA REIMBURSEMENT RATES



*Percentage of employers with HRAs reporting the reimbursement rate indicated.

** Employer HRA reimbursements to employees in 2013 divided by that employer's HRA allocations for 201.

HRA Reimbursements Compared to MRA Reimbursements

While employers report that privately held HRAs consistently reimburse less than one quarter of the amount contributed each year, the City-administered Medical Reimbursement Account (MRA) program reimburses an amount equivalent to half of contributions each year. The City's MRA program reimbursed \$20.1 million in 2013 and received \$52.8 million in contributions during the year, for an overall annual reimbursement rate of 58.1% (up from 52.6% in 2012).

TABLE 6: HRA AND MRA REIMBURSEMENT RATES

	HRAS 2012	HRAS 2013	City Option MRA 2012*	City Option MRA 2013*
Total Contributions	\$107.20 million	\$126.0 million	\$27.93 million	\$34.7 million
Total Reimbursements	\$26.40 million	\$30.8 million	\$14.70 million	\$20.17 million
% of Total Reimbursed	24.6%	24.4%	52.6%	58.1%

* Total MRA dollars invoiced and claims paid provided by the Department of Public Health

HRA Restrictions

Table 7 shows the number of employers who allocated funds to HRA accounts and the portion that placed one or more restrictions on those accounts. More than half (52.0%) of employers with HRA programs imposed one or more restrictions on the types of health care costs they reimburse.

TABLE 7: EMPLOYERS WITH RESTRICTED HRAS, BY EMPLOYER SIZE

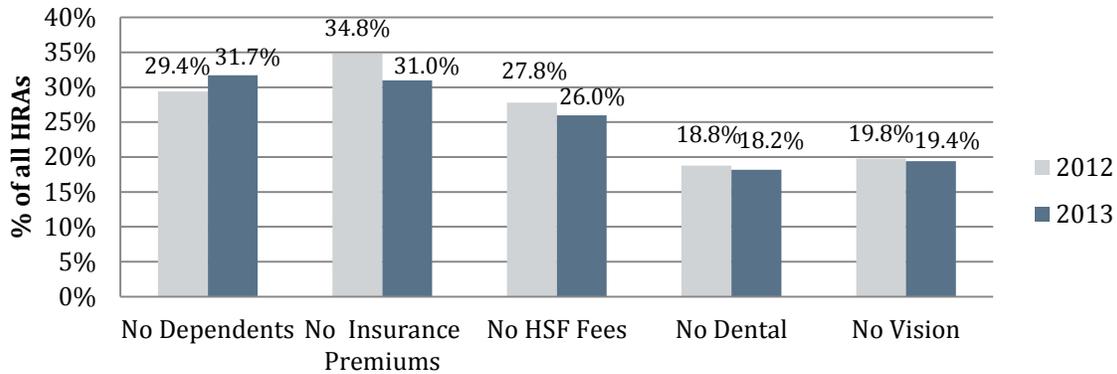
	SIZE OF EMPLOYER					Total
	20-49 EEs*	50-99 EEs	100-499 EEs	500-1999 EEs	2000+ EEs	
All Employers with HRAs (#)	331	204	220	117	117	974
Employers with one or more restrictions (#)	163	105	114	55	69	506
<i>Employers with one or more restrictions (%)</i>	49.2%	51.5%	51.8%	53.9%	59.0%	52.0%

*Number of employees worldwide, based on the highest quarter reported by the employer.

Chart 7 provides information on the types of expenditures that employers excluded from HRA programs. These are *specific* exclusions from the broad range of IRS-recognized medical expenses, which include medical, dental and vision services, prescription medications, insurance premiums and others. Of the 974 employers that offered HRAs in 2013, 31.7% did not reimburse employees for their dependents' health care expenses, 31.0% did not reimburse employees for the cost of health insurance premiums, 26.0% did not reimburse Healthy San Francisco fees,

18.8% did not reimburse for dental care expenses, and 19.4% did not reimburse for vision expenses. The pattern of restrictions is similar to the pattern from 2012, although a larger share restricted reimbursements for dependents' costs, and fewer restricted reimbursements for insurance premiums.

Chart 7: HRA Restrictions, by Type of Restriction

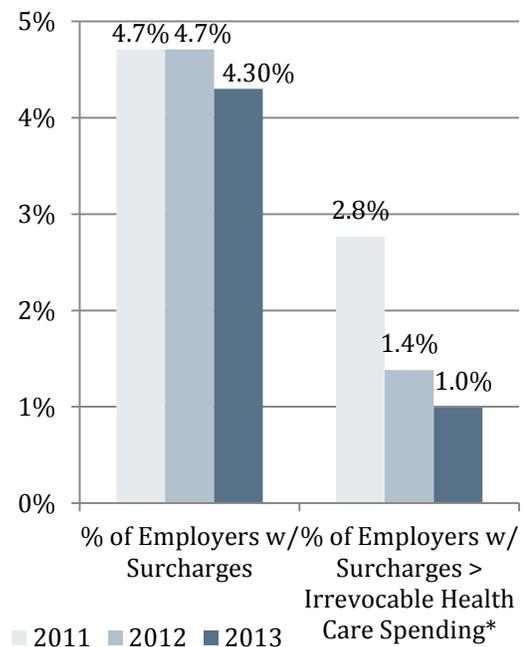


SURCHARGES

One hundred eighty-eight (188) employers reported collecting \$14,966,306 in surcharges from their customers to cover “in whole or in part” the cost of complying with the HCSO employer spending requirement. The proportion of employers reporting that they collected surcharges from customers remained fairly stable, with 4.3% of employers reporting surcharges in 2013 (188 of 4,393), compared with 4.7% in 2012.

Employers who collect more in health care surcharges than they irrevocably spend on health care during the year must “irrevocably pay or designate an amount equal to that difference for health care expenditures for their covered employees.” Forty-three (43) employers (1.0% of all employers) initially reported that they collected more in surcharges they irrevocably spent on health care. The Office of Labor Standards Enforcement will notify of these employers of the potential violation of the HCSO and ensure that they make additional health care expenditures as required.

Chart 8: Employer Surcharges





Conclusion

In recent years, San Francisco employers covered by the HCSO have reported stable health care spending patterns. In 2014 and 2015, however, health care expenditures are likely to shift significantly. Beginning on January 1, 2014, the federal Affordable Care Act dramatically limited the types of HRAs employers can offer, and the 974 San Francisco employers who reported using HRAs in 2013 have likely adjusted how they comply with the HCSO. In addition, the Board of Supervisors amended the HCSO in June 2014 to phase out the use of all “revocable” health care expenditures (such as revocable HRA allocations) by 2017. The information the OLSE collected for 2013 will be a useful baseline against which to measure the impact of changes in local and federal law on employer spending and health care access in San Francisco.