

# SAN FRANCISCO HEALTH SERVICE SYSTEM

Affordable, Quality Benefits & Well-Being

## Memorandum

DATE: April 8, 2021

TO: Dr. Stephen Follansbee, President and Members of the Health Service Board

FROM: Larry Loo, MPH Chief Financial Officer

RE: Financial Report as of February 28, 2021

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The following is a report on the revenues and expenses of the Employee Benefit Trust Fund (Trust Fund) and the General Fund Administration Budget through eight months of Fiscal Year (FY) 2020-21 ending February 28, 2021. This report also includes the projected fiscal year-end changes. The Health Sustainability Fund, which is a part of the Trust Fund is reported out in additional detail. The discussion below is based on the most complete information available for the reporting period and are subject to adjustments as additional transactions throughout the fiscal year are recognized. In general, all funds are projected to perform positively relative to budget throughout the remainder of the fiscal year.

### Executive Summary

#### **Employee Benefit Trust Fund**

- Projecting an \$18.5 M increase by fiscal year-end (FYE) in the fund balance, from \$116.1 M at prior fiscal year-end June 30, 2020 to \$134.6 M on June 30, 2021
- The projected FYE changes in the fund balance by each self-insured plan are as follows:
  - UHC PPO: \$3.0 M projected increase
  - Blue Shield Access +: \$14.2 M projected increase
  - Blue Shield Trio: \$2.6 M projected increase
  - Delta Dental PPO (Actives only): \$603 K projected decrease
- Cumulative year-to-date (YTD) expenses compared to revenues reported through eight months by self-insured plans are as follows:
  - UHC PPO: cumulative expenses were \$1.8 M less than revenues
  - Blue Shield Access +: cumulative expenses were \$9.3 M less than revenues
  - Blue Shield Trio: cumulative expenses were \$1.7 M less than revenues
  - Delta Dental PPO plan (Actives only): cumulative expenses were \$627 K greater than revenues
- Insured plans and other benefit revenues and expenses are projected to net each other out by fiscal year-end. Cumulative expenses YTD are \$300 K less than revenues.
- Healthcare Sustainability Fund: projecting a FYE \$4.0 M increase in the fund balance
- Performance Guarantees: \$173 K received through eight months
- Pharmacy Rebates: received \$3.9 M in pharmacy rebates through eight months and project a FYE total of \$7.3 M.

#### **General Fund**

- Projecting a net positive year-end balance of \$143 K.

**Employee Benefit Trust Fund (Trust Fund)**

At the beginning of FY 2020-2021, the Trust Fund beginning balance was \$116.1 M. Based on activity through eight months ending February 28, 2021, the FYE Trust Fund balance is projected to be \$134.6 M at the end of the fiscal year. The projected \$18.5 M increase includes reserves for unpaid claims in the self-funded health plans.

Overall, the self-funded plans are projected to generate an increase to the fund balance. Discussion at the self-funded plan level follows below.

The February revenues and expenses for the insured plans and other benefits includes an increase in revenues relative to the prior months due to reconciliation of revenues at the beginning of the plan year.

The following table summarizes the projected changes in fund balance.

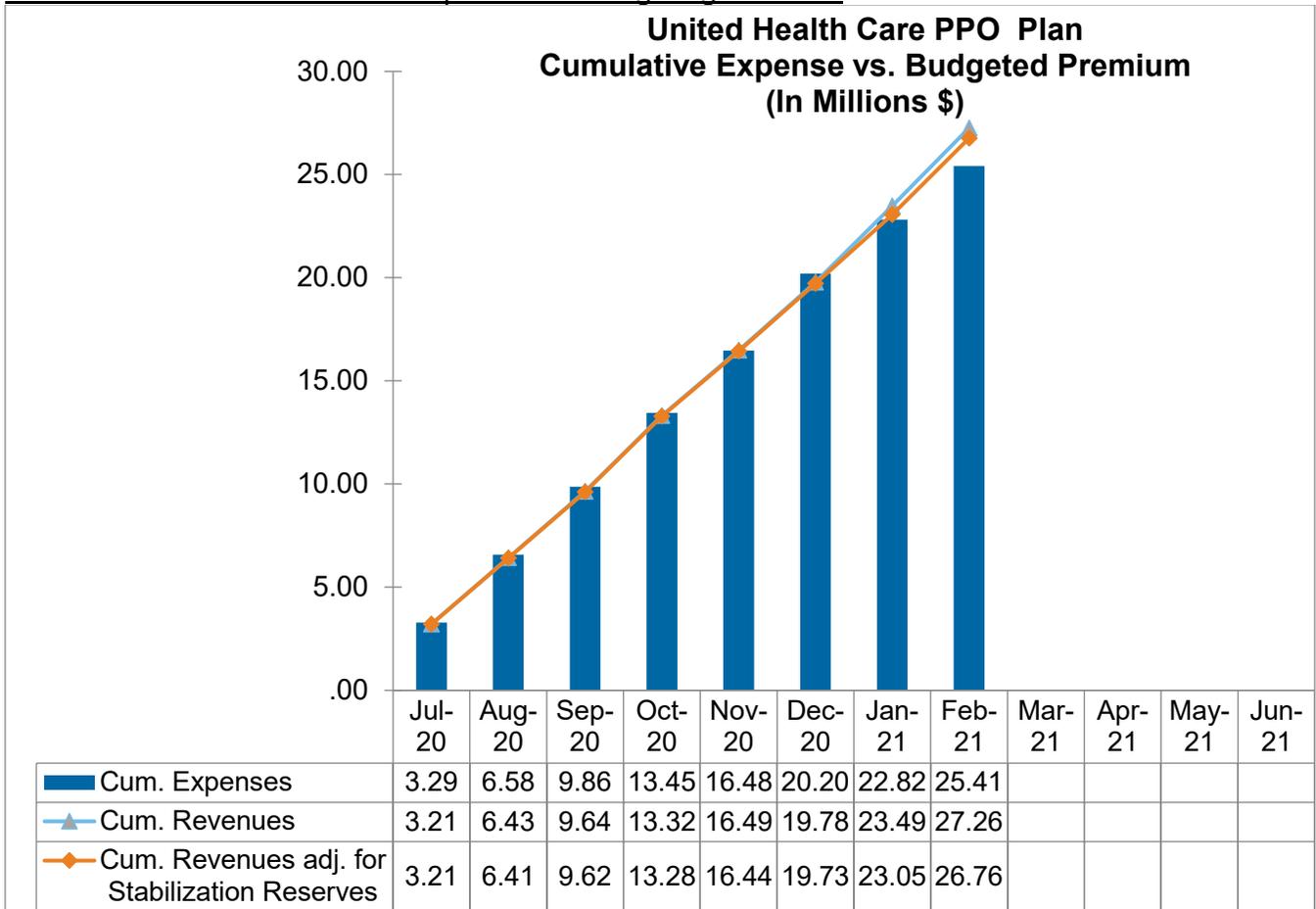
	Projected Fiscal Year-End Change in Fund Balance (in Millions)	Page
United Health Care PPO Self-Funded Plan*	\$ 3.0	3
Blue Shield Access+ Flex-Funded Plan*	14.2	4
Blue Shield Trio Flex-Funded Plan*	2.6	5
Delta Dental Self-Funded Plan (Actives only)	(0.60)	6
Health Care Sustainability Fund	(0.39)	7
Interest	- -	7
Performance Guarantees	0.17	7
Performance Guarantees – Surrogacy and Adoption Assistance Plan	(0.06)	7
Forfeitures	0.11	7
Transfers Out	(0.63)	7
TOTAL	\$18.5	
* Includes Pharmacy Rebates	\$7.3	8

**United Health Care PPO**

Fiscal year-end projection of a \$3.0 M increase in fund balance is due to the following:

- Rate Stabilization Effect:
  - \$58 K associated with the increase in 2020 rates (for the first six months of FY 2020-21) due to rating buy-up of the 2018 calendar year-end claims stabilization deficit
  - \$372 K associated with the increase in 2021 rates (for the second six months of FY 2020-21) due to rating buy-up of the 2019 calendar year-end claims stabilization deficit
- Pharmacy Rebate(s):
  - \$1.5 M increase due to pharmacy rebates expected by FYE 2020-21
- Claims:
  - \$1.1 M increase due to trended favorable claim expense

**Fiscal Year-to-Date Cumulative Experience Through Eight Months**



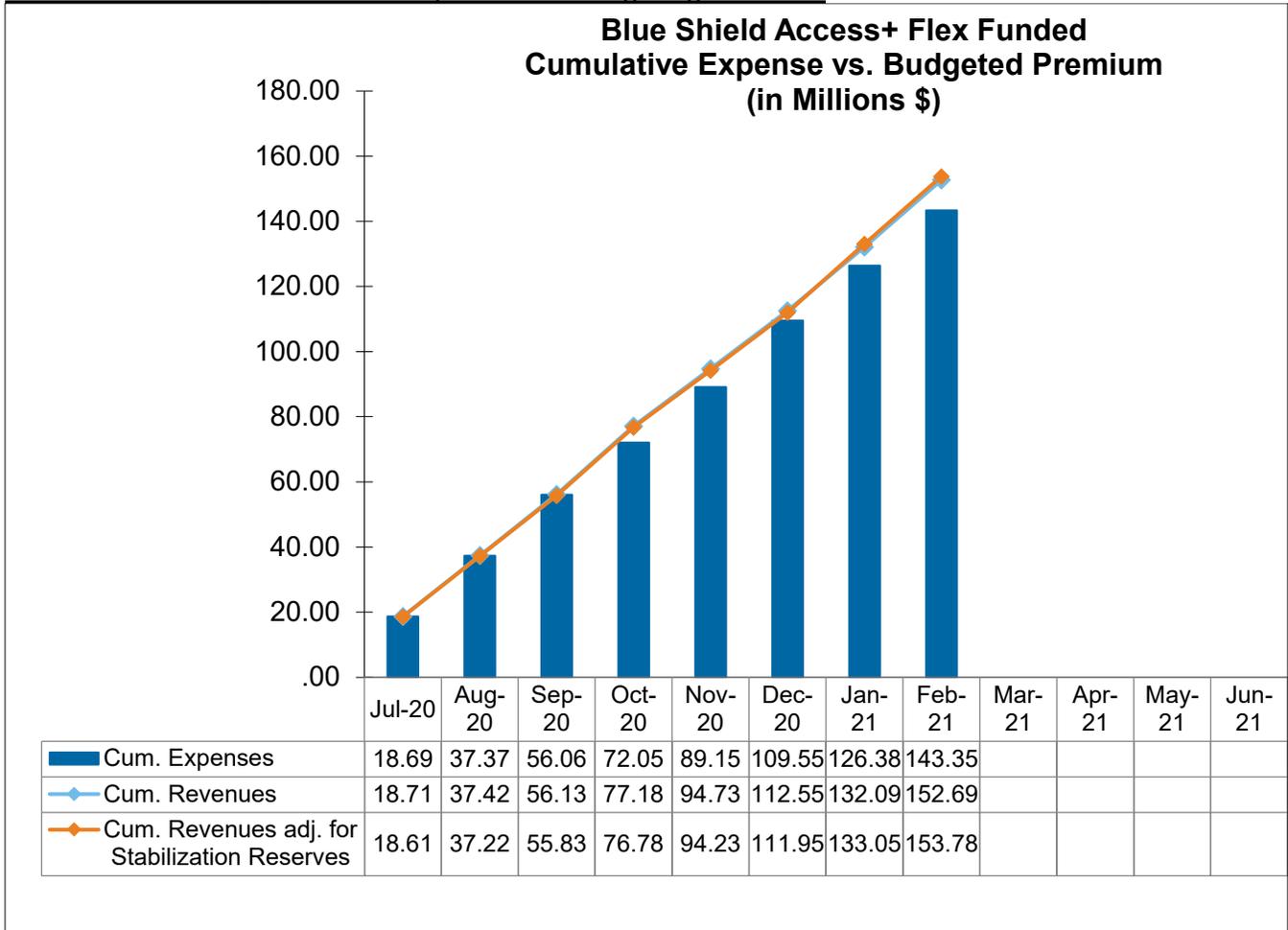
With eight months of experience, cumulative expenses for UHC PPO are \$1.24 M less than the expected costs regardless of whether cumulative expenses are compared to the actual revenues (\$25.41 M - \$26.76 M) and when the cumulative expenses are compared to cumulative revenues with the \$0.50 M buyup for the rate stabilization reserves (\$25.41 M - (\$27.76 M - \$0.50 M)).

**Blue Shield Access+ Flex Funded Plan**

Fiscal year-end projection of a \$14.2 M increase in fund balance is projected due to the following:

- Rate Stabilization Effect:
  - \$597K associated with the increase in 2020 rates (for the first six months of FY 2020-21) due to the rating buy-up of the 2018 year-end claim stabilization deficit
  - \$807K associated with the decrease in 2021 rates (for the second six months of FY 2020-21) due to the rating buy-down from the 2019 year-end claim stabilization surplus
- Pharmacy Rebate(s): \$4.0 M of pharmacy rebates
- Claims: \$10.5 M increase due to trended favorable claims expense

**Fiscal Year-to-Date Cumulative Experience Through Eight Months**



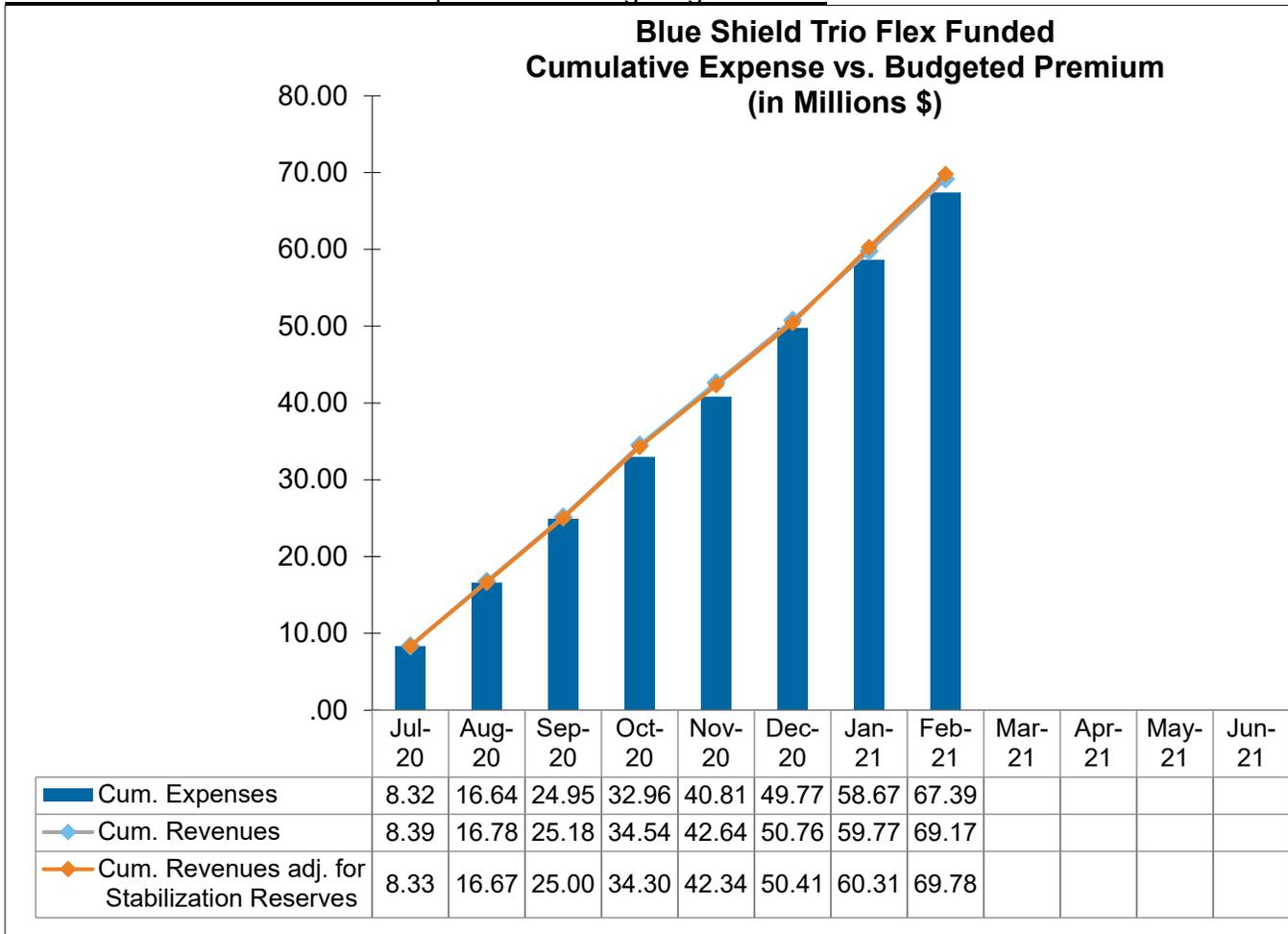
With eight months of experience, cumulative expenses for BSC Access+ are \$10.43 M less than the expected costs regardless of whether cumulative expenses are compared to the actual revenues (\$143.35 M – \$153.78 M) and when the cumulative expenses are compared to the cumulative revenues with a net \$1.09 M buy-down for the rate stabilization reserves (\$143.35 M – (\$152.69 + \$1.09 M)).

**Blue Shield Trio Flex-Funded Plan**

Fiscal year-end projection of a \$2.6 M increase in fund balance is projected due to the following:

- Rate Stabilization Effect:
  - \$0.35 million associated with the increase in 2020 rates (for the first six months of FY 2020-21) due to the rating buy-up of the 2018 year-end claim stabilization deficit
  - \$0.47 million associated with the decrease in 2021 rates (for the second six months of FY 2020-21) due to the rating buy-down from the 2019 year-end claim stabilization surplus
- Pharmacy Rebate(s):
  - \$1.8 M of pharmacy rebates
- Claims:
  - \$885 K increase due to trended favorable claims expense

**Fiscal Year-to-Date Cumulative Experience Through Eight Months**



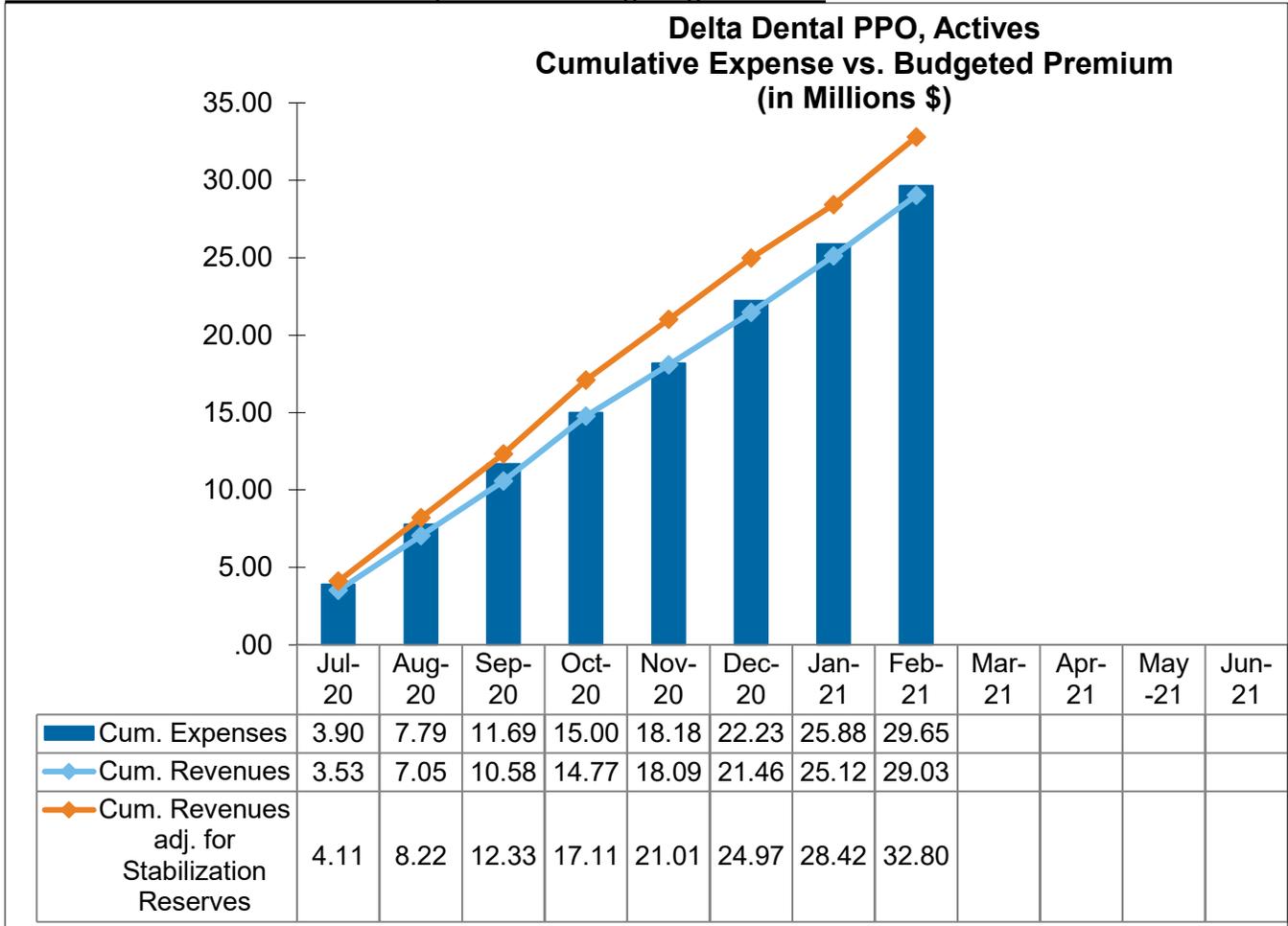
With eight months of experience, cumulative expenses for BSC Trio are \$2.39 M less than the expected costs regardless of whether cumulative expenses are compared to the actual revenues (\$67.39 M – \$69.78 M) and when cumulative expenses are compared to cumulative revenues with the net \$0.61 M buy down for the rate stabilization reserves (\$67.39 M – (\$69.17+\$0.61 M)).

**Delta Dental PPO (Actives Only) Self-Funded Plan**

Fiscal year-end projection of a \$603 K decrease in fund balance is projected due to the following:

- Rate Stabilization Effect:
  - \$3.5 million decrease in fund balance associated with subsidizing 2020 rates (for the first six months of FY 2020-21) from the 2018 year-end claim stabilization reserve
  - \$2.8 million decrease in fund balance associated with subsidizing 2020 rates (for the second six months of FY 2020-21) from the 2019 year-end claim stabilization reserve
- Claims:
  - \$5.7 M increase due to trended favorable claims expense

**Fiscal Year-to-Date Cumulative Experience Through Eight Months**



With eight months of experience, cumulative expenses for Delta Dental PPO for Actives are \$3.15 M less than the expected costs regardless of whether the cumulative expenses are compared to actual revenues (\$29.65 M – \$32.80 M) and when cumulative expenses are compared with cumulative revenues with the \$3.78 M buy down from the rate stabilization reserve (\$29.65 M – (\$29.03 M + \$3.78 M)).

**Other Trust Fund Notes**

**Healthcare Sustainability Fund**

With eight months of actual revenues and expenses, a projected positive balance of \$4.0 million is expected at fiscal year-end 2020-21. When the carryforward amount from the previous fiscal year is netted out, however, there is a projected net reduction in the Health Care Sustainability Fund of \$385 K.

<b>SAN FRANCISCO HEALTH SERVICE SYSTEM</b> <small>Affordable, Quality Benefits &amp; Well-Being</small>	<b>Healthcare Sustainability Fund FY 2020-21</b>		
	<b>FY 2020-21 Revised Budget</b>	<b>FY 2020-21 Actuals Feb YTD</b>	<b>FY 2020-21 Projection</b>
<b>REVENUES/PREMIUMS</b>			
Annual Revenues	\$ 2,560,688	\$ 1,714,311	\$ 2,560,688
Carryforward from Fund Balance	4,401,072	4,401,072	4,401,072
<b>TOTAL</b>	<b>\$ 6,961,760</b>	<b>\$ 6,115,384</b>	<b>\$ 6,961,760</b>
<b>EXPENDITURES</b>			
<b>Annual Expenditures</b>	<b>\$ 3,060,356</b>	<b>\$ 1,416,804</b>	<b>\$ 2,484,482</b>
<b>One-Time Expenditures</b>	\$ 1,074,537	\$ 206,743	\$ 461,287
<b>TOTAL</b>	<b>\$ 4,134,893</b>	<b>\$ 1,623,546</b>	<b>\$ 2,945,769</b>
<b>BALANCE</b>	<b>\$ 2,826,867</b>	<b>\$ 4,491,837</b>	<b>\$ 4,015,991</b>
<b>BALANCE NET OF CARRYFORWARD</b>			<b>\$ (385,081)</b>
*Projection based on 8 months of actuals including the carryforward funding from FY 2019-20			

**Interest**

Year-to-date, there is no updated interest posted in the Trust Fund.

**Performance Guarantees**

A total of \$173K of Performance Guarantees have been received year-to-date in this fiscal year.

**Performance Guarantees for Adoption and Surrogacy Assistance Plan**

Performance guarantees are used to fund the Adoption and Surrogacy Assistance Plan. Through eight months, a total of \$55,116 has been reimburse to members under this program.

**Forfeitures and Transfers Out**

The IRS allows forfeitures from Flexible Spending Accounts to be used to fund the administration of the accounts. Since the funding for the administration is in the General Fund and the forfeitures reside in the Trust, a transfer is made at the close of each fiscal year from the Trust Fund to the General Fund. There was a posting of \$108 K in October from the prior fiscal year. This delayed reporting of forfeitures by the plan administrator was due to the response to the COVID-19 pandemic.

Pharmacy Rebates

The pharmacy rebates from the self-insured health plans are normally reported at the end of each quarter. The following table summarizes the FY 2020-21 pharmacy rebates received as of this report and fiscal year-end projection. Through February 28, 2021, \$3.91 M of pharmacy rebates were received. These rebates offset the claims expense of the self-funded plans above.

Self-Insured Plan	Amount Received Year-to-Date	Projected Fiscal Year-End
UHC	\$903,088	\$1,500,000
Blue Shield (Access + and Trio)	3,014,019	5,800,000
Total	\$3,917,106	\$7,300,000

**GENERAL FUND ADMINISTRATION BUDGET**

Based on the financial results for the first eight months year-to-date, there is a projection of \$143K or 1.1% net surplus at the end of the fiscal year.

<div style="display: flex; justify-content: space-between; align-items: center;"> <div style="font-size: small;"> <b>SAN FRANCISCO HEALTH SERVICE SYSTEM</b> Affordable, Quality Benefits &amp; Well-Being                 </div> <div style="text-align: center;"> <b>General Fund Administration Budget FY 2020-21 ANNUALIZED AS OF 02/28/21</b> </div> </div>						
	FY 2020-21 Approved Budget	FY 2020-21 Revised Budget	Non-COVID-19 Actuals	COVID-19 Actuals	Total Actual YTD	FYE 2020-21 Projection
<b>REVENUES</b>						
Non-Operating Revenue	\$ 9,131	\$ 9,131	\$ -	\$ -	\$ -	\$ -
Work Order Recovery	11,467,900	11,467,900	7,645,320	-	7,645,320	11,467,900
Other Revenue	625,297	625,297	-	-	-	625,297
General Fund Carryforward	-	344,070	344,070	-	344,070	344,070
Interfund Transfer	-	101,477	101,477	-	101,477	101,477
<b>TOTAL REVENUES</b>	<b>\$ 12,102,328</b>	<b>\$ 12,547,875</b>	<b>\$ 8,090,867</b>	<b>\$ -</b>	<b>\$ 8,090,867</b>	<b>\$ 12,538,744</b>
<b>EXPENDITURES</b>						
Personnel Services	\$ 5,203,105	\$ 5,280,982	\$ 3,362,223	\$ 92,463	\$ 3,454,686	\$ 5,271,511
Mandatory Fringe Benefits	2,680,495	2,704,095	1,715,026	41,627	1,756,652	2,564,859
Non-personnel Services	2,299,146	2,475,244	1,396,497	1,352	1,397,850	2,472,051
Materials & Supplies	49,085	65,660	14,521	-	14,521	65,346
Services of Other Departments	1,870,497	2,021,894	968,250	-	968,250	2,021,894
<b>TOTAL EXPENDITURES</b>	<b>\$ 12,102,328</b>	<b>\$ 12,547,875</b>	<b>\$ 7,456,518</b>	<b>\$ 135,442</b>	<b>\$ 7,591,960</b>	<b>\$ 12,395,661</b>
<b>BALANCE</b>	<b>\$ -</b>	<b>\$ 0</b>	<b>\$ 634,349</b>	<b>\$ (135,442)</b>	<b>\$ 498,907</b>	<b>\$ 143,083</b>

\*Projection based on 8 months of actuals including the carryforward funding from FY 2019-20



**STATEMENT OF REVENUES AND EXPENSES  
FY 2020-2021  
FOR 8 MONTHS ENDED FEBRUARY 28, 2021**

<i>ACTIVE &amp; RETIRED COMBINED</i>	Year-To-Date Revenues	Year-To-Date Expenses	Year-To-Date Net Excess (Shortage)
<b>SELF-INSURANCE</b>			
UHC PPO, including ASO *	27,258,223	25,413,430	1,844,793
Blue Shield Access+ *	152,687,563	143,347,932	9,339,632
Blue Shield Trio *	69,166,939	67,394,853	1,772,086
Delta Dental - Active only, including ASO	29,025,041	29,652,790	(627,749)
<b>TOTAL SELF-INSURANCE</b>	<b>278,137,766</b>	<b>265,809,005</b>	<b>12,328,761</b>
<b>INSURANCE PRODUCTS</b>			
UHC MAPD	56,905,747	56,905,747	-
Kaiser-HMO	306,283,075	305,294,026	989,049
Vision Service Plan, All (City Plan & HMO)	5,886,877	5,881,168	5,709
Sub-total HMO	369,075,699	368,080,942	994,758
Delta Dental - Retired	11,158,130	11,158,130	-
Delta Care	547,692	547,824	(131)
UHC Dental	289,419	300,441	(11,022)
Sub-total Dental	11,995,242	12,006,395	(11,153)
Long Term/Short Term Disability	4,890,386	4,884,043	6,343
Flexible Benefits	2,083,425	2,080,402	3,023
Flexible Spending-Dependent Care	2,803,496	3,087,531	(284,034)
Flexible Spending -Medical Reimbursement	6,088,980	6,526,062	(437,082)
Best Doctors (discontinued on 1/1/20)	-	-	-
Healthcare Sustainability Fund (\$3.00)	1,714,311	1,623,546	90,765
Adoption & Surrogacy	-	55,116	(55,116)
<b>TOTAL INSURANCE PRODUCTS</b>	<b>398,651,540</b>	<b>398,344,037</b>	<b>307,503</b>
<b>SAVINGS AND INVESTMENTS</b>			
Interest	-	-	-
Performance guarantees	173,836	-	173,836
Forfeitures	108,942	-	108,942
<b>TOTAL SAVINGS &amp; INVESTMENTS</b>	<b>282,778</b>		<b>282,778</b>
<b>TRANSFERS OUT OF FORFEITURES</b>			<b>0</b>
<b>TOTAL FUNDS</b>	<b>677,072,084</b>	<b>664,153,042</b>	<b>12,919,042</b>

\* Expenses are net of pharmacy rebates - see report for details

	FY20-21 Year-to-Date Actual Net as of 02/28/21	FY20-21 Projected Year-End Annual Net
<b>SUMMARY</b>		
<b>Self Insurance</b>		
UHC PPO	1,844,793	3,069,308 (a)
Blue Shield-Access+	9,339,632	14,256,841 (b)
Blue Shield-Trio	1,772,086	2,575,207 (b)
Delta Dental PPO, Actives	(627,749)	(603,374) (c)
<b>Insurance Products</b>		
Medical HMOs	994,758	-
Dental	(11,153)	-
LTD/Flexible Benefits/FSA/Best Doctors	(711,750)	-
Healthcare Sustainability Fund (\$3.00)	90,765	(385,081) (d)
<b>Savings &amp; Investments</b>		
Interest	-	-
Performance guarantees	173,836	173,836 (e)
Performance guarantees - Surrogacy and adoption	(55,116)	(55,116) (f)
Forfeitures	108,942	108,942
<b>Transfers Out</b>	<b>0</b>	<b>(625,297) (g)</b>
<b>TOTAL</b>	<b>12,919,042</b>	<b>18,515,266</b>
<b>Net assets</b>		
Beginning of the year		116,114,257
End of the year		134,629,523

- (a) Annual Projection is net of claim stabilization of \$0.1 million to increase 2020 rates, \$0.4 million to increase 2021 rates, and Pharmacy rebate of \$1.5 million  
(b) Annual Projection is net of claim stabilization of \$0.9 million to increase 2020 rates, \$1.3 million to decrease 2021 rates, and Pharmacy rebate of \$5.8 million  
(c) Annual Projection is net of claim stabilization of \$3.5 million to reduce 2020 rates and \$2.8 million to reduce 2021 rates  
(d) \$3.00 per member per month for communications, wellness, actuarial work; is part of a total premium.  
(e) Only reflects performance guarantees received in FY 2020-2021  
(f) Reflects use of fund balance  
(g) Transfer of \$0.6M from forfeitures to General Fund per FY 2020-2021 budget