

# SAN FRANCISCO HEALTH SERVICE SYSTEM

Affordable, Quality Benefits & Well-Being

## Memorandum

DATE: June 8, 2017

TO: Randy Scott, President and Members of the Health Service Board

FROM: Pamela Levin, Chief Financial Officer

RE: Update on Financial Report as of April 30, 2017

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This report summarizes revenues and expenses of the Employee Benefit Trust Fund (Trust Fund) and the General Fund Administration Budget for the time period of July 1, 2016 to April 30, 2017, as well as fiscal year-end projections through June 30, 2017.

### Employee Benefit Trust Fund

On June 30, 2016, the Trust Fund balance was \$68.6 million. Based on activity through April 2017, the fund balance is projected to be \$73.6 million as of June 30, 2017. The projected \$5.0 million increase includes reserves for unpaid claims and is a result of the following changes:

1. City Plan Self-Funded Plan - \$10.2 million decrease in fund balance resulting from:
  - a. \$0.8 million increase in fund balance from pharmacy rebates (additional information on page 4)
  - b. \$11.0 million decrease in fund balance:
    - \$7.0 million associated with subsidizing 2016 rates (for the first six months of FY 2016-17) from the claim stabilization reserve
    - \$3.8 million associated with subsidizing 2017 rates (for the second six months of FY 2016-17) from the claim stabilization reserve
    - \$0.2 million due to unfavorable claim experience
2. Blue Shield Flex-Funded Plan - \$11.1 million increase in fund balance resulting from:
  - a. \$23.6 million increase in fund balance:
    - \$2.2 million associated with the increase in 2016 rates (for the first six months of FY 2016-17) to recover the 2014 deficit
    - \$2.6 million associated with the increase in 2017 rates (for the second six months of FY 2016-17) to recover the 2015 deficit
    - \$3.4 million from pharmacy rebates (additional information on page 4)

- \$5.5 million reduction in legislative fees due to elimination of the federal Health Insurance Tax (HIT) in 2017
  - \$9.9 million in the HIT refund for 2016 plan year. When the 2016 rates were approved, it was assumed that the HIT would be applicable to the BSC Flex Funded Plan due to the California Department of Managed Health Care (DMHC) filing as a fully insured plan. Blue Shield of California and the DMHC revisited the definition and as a result flex-funded plans are being treated as not fully insured by Blue Shield and DMHC and therefore were not required to pay the HIT, for 2016.
- b. \$12.5 million decrease in fund balance due to unfavorable claim experience, which increased by 4.8% over the same period of last year
3. Delta Dental Self-Funded Plan - \$4.1 million increase in fund balance resulting from:
- a. \$5.9 million increase in fund balance due to favorable claim experience
- b. \$1.8 million decrease in fund balance:
- \$0.6 million decrease in fund balance associated with subsidizing 2016 rates (for the first six months of FY 2016-17) from the claim stabilization reserve
  - \$1.2 million decrease in fund balance associated with subsidizing 2017 rates (for the second six months of FY 2016-17) from the claim stabilization reserve
4. Healthcare Sustainability Fund. For the first six months of FY 2016-17, the charge is \$2.05 per member per month charge and for the second six months the charge is \$3.00 per member per month. This is one of the components of the premiums and is allocated between the employer and employee based on the applicable contribution model.

The table on the following page reflects the year-to-date actuals through April 30, 2017. The Revised Budget reflects funding for services that were encumbered in FY 2015-16 but unexpended. The Balance is the difference between the Revised Budget and the Projection. Projected savings are represented by a positive number while expenditures that exceed the budget are represented by a (negative) number. On-going expenditures that will not be completed by the end of FY 2016-17, as a result of procurement delays and staffing resources, will be carry forwarded into FY 2017-18.

<b>Healthcare Sustainability Fund FY 2016-17</b>					
<b>Ongoing</b>	<b>Original Budget</b>	<b>Revised Budget</b>	<b>April YTD Actuals</b>	<b>Projection</b>	<b>Balance</b>
<b>Revenues/Premiums</b>	\$1,619,295	\$1,769,295	\$1,637,420	\$1,769,295	\$0
Carryforward for encumbrances		204,967	204,967	204,967	0
<b>Total Revenues</b>	<b>\$1,619,295</b>	<b>\$1,974,262</b>	<b>\$1,842,387</b>	<b>\$1,974,262</b>	<b>\$0</b>
<b>Expenditures</b>					
Personnel Services and Mandatory Fringes	\$487,734	\$512,734	\$293,249	\$473,940	\$38,794
Communications					
Open Enrollment Communications	280,168	353,212	247,480	250,051	103,161
Operations Communications	97,923	97,923	21,980	84,657	13,266
Wellness Communications	200,165	264,918	54,303	131,000	133,918
Other Communications	29,025	29,025	8,072	8,687	20,338
<b>Total Communications</b>	<b>607,281</b>	<b>745,078</b>	<b>331,836</b>	<b>474,395</b>	<b>270,683</b>
Wellness	30,000	130,000	49,732	79,732	50,268
Initiatives to Reduce Healthcare Costs	380,500	472,670	262,378	457,670	15,000
SFGTV/Board Meetings	11,056	11,056	15,408	23,000	(11,944)
Contingency for Unforeseen Issues	102,724	102,724	0	150,000	(47,276)
<b>Total Expenditures</b>	<b>\$1,619,295</b>	<b>\$1,974,262</b>	<b>\$952,604</b>	<b>\$1,658,737</b>	<b>\$315,525</b>
<b>Balance*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$889,783</b>	<b>\$315,525</b>	<b>\$315,525</b>

\* Ongoing balance to be carried forward into FY 2017-18

5. Interest - \$0.4 million increase in fund balance from HSS Trust cash balances.
6. Adoption and Surrogacy Assistance Plan - \$0.2 million (\$150,000) decrease in fund balance from performance guarantees for January – June 2017. The program is effective January 1, 2017, two reimbursements have been paid for a total of \$22,710 and one is being processed.
7. Transfers Out of Forfeitures - \$0.5 million decrease in fund balance associated with transfers to the General Fund pursuant to the FY 2016-17 budget

### Performance Guarantees

Performance Guarantees are incorporated in the HSS contracts to ensure the services provided to the members are of the highest quality and meet or exceed industry and clinical standards. The timeline in which penalties resulting from a failure to achieve the contracted PGs (collectively, “PGs”) are to be paid is based on the specific contract language which varies by vendor. Based on the vendor and the performance measure, the data upon which the payments are based, may not be available immediately after the end of the plan year and may be received in a different fiscal year.

PGs are segregated in the financial system within a cost code. Aon does not consider PGs as part of the calculations for either the Stabilization Reserves or Contingency Reserves pursuant to Health Service Board policy. The PGs are reflected in the Audited Financial

Statements in the line item entitled “Plan providers penalties and forfeitures”. At the end of each fiscal year the PGs become a component of the fund balance that is reported in the monthly financial statements. The \$68.6 million fund balance includes the \$7.6 million in PGs received since FY 2005-06. A total of \$47,269 has been received in FY 2016-17.

Pharmacy Rebates

The following table summarizes the FY 2016-17 pharmacy rebates as of April 30, 2017 and year-end projection. The rebates offset the amount of claims HSS pays to the vendors.

Vendor	Amount (year to date)	Time Period Covered	Year-End Projection
Blue Shield	\$2,119,426	October 2015 – June 2016	\$3,400,000
UHC	363,688	October 2015 – September 2016	800,000
Total	\$2,483,114		\$4,200,000

General Fund Administration Budget (including Enterprise Content Management System)

Based on the financial results for the first ten months of FY 2016-17, a year end balance of \$0.1 million is projected.



**ACTIVE & RETIRED COMBINED**

	Year-To-Date Revenues	Year-To-Date Expenses	Year-To-Date Net Excess(Shortage)
<b>SELF-INSURANCE</b>			
City Plan, including ASO *	51,571,661	60,883,217	(9,311,555)
Blue Shield Flex *	254,363,230	246,533,853	7,829,377
Delta Dental - Active only, including ASO	39,375,336	35,836,694	3,538,642
<b>TOTAL SELF-INSURANCE</b>	<b>345,310,227</b>	<b>343,253,764</b>	<b>2,056,464</b>
<b>INSURANCE PRODUCTS</b>			
Blue Shield-HMO	15,804,755	15,804,755	-
Kaiser-HMO	307,072,799	306,444,811	627,988
Vision Service Plan, All (City Plan & HMO)	4,228,649	4,228,649	-
Sub-total HMO	327,106,203	326,478,215	627,988
Delta Dental - Retired	11,304,139	11,207,474	96,665
Delta Care	816,678	816,989	(311)
Pacific Union	284,214	284,291	(77)
Sub-total Dental	12,405,031	12,308,754	96,277
Long Term/Short Term Disability	6,063,173	6,063,173	-
Flexible Benefits	1,064,274	1,064,274	-
Flexible Spending-Dependent Care	3,903,768	3,905,034	(1,266)
Flexible Spending -Medical Reimbursement	4,580,316	4,133,423	446,893
Best Doctors (\$1.40)	379,630	379,630	-
Healthcare Sustainability Fund (\$3.00)	1,637,420	1,051,845	585,575
<b>TOTAL INSURANCE PRODUCTS</b>	<b>357,139,815</b>	<b>355,384,348</b>	<b>1,755,467</b>
<b>SAVINGS AND INVESTMENTS</b>			
Interest	364,660	-	364,660
Performance guarantees	-	-	-
Forfeitures	-	-	-
<b>TOTAL SAVINGS &amp; INVESTMENTS</b>	<b>364,660</b>	<b>-</b>	<b>364,660</b>
<b>TRANSFERS OUT OF FORFEITURES</b>			
		-	-
<b>TOTAL FUNDS</b>	<b>702,814,703</b>	<b>698,638,112</b>	<b>4,176,591</b>

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

SUMMARY- In millions	FY16-17	FY16-17
	Year-To Date Actual As of Apr. 2017 - Net	Projected Annual-Net
Self Insurance		
City Plan	(9.3)	(10.2) (a)
Blue Shield-Flex	7.8	11.1 (b)
Dental, Actives	3.5	4.1 (c)
Insurance Products		
Medical HMOs	0.6	0.0
Dental	0.1	0.0
LTD/Flexible Benefits/FSA/Best Doctors	0.4	0.0
Healthcare Sustainability Fund (\$3.00)	0.6	0.3 (d)
Savings & Investments		
Interest	0.4	0.4
Performance guarantees	0.0	0.0 (e)
Performance guarantees - Surrogacy and adoption	0.0	(0.2) (f)
Forfeitures	0.0	0.0 (g)
Transfers Out of Forfeitures	0.0	(0.5) (h)
<b>TOTAL</b>	<b>4.2</b>	<b>5.0</b>
Net assets		
Beginning of the year		68.6
End of the year		73.6

(a) Annual Projection is net of claim stabilization of \$7.0 million used to reduce 2016 rates, \$3.8 million to reduce 2017 rates, and Pharmacy rebate of \$0.8 million

(b) Annual Projection is net of claim stabilization of \$2.2 million to increase 2016 rates, \$2.6 million to increase 2017 rates, Pharmacy rebate of \$3.4 million, reduction in Legislative Fees of \$5.5 million, and HIT refund of \$9.9 million for 2016

(c) Annual Projection is net of claim stabilization of \$0.6 million to reduce 2016 rates and \$1.2 million to reduce 2017 rates

(d) \$3.00 per member per month for communications, wellness, actuarial work; is part of a total premium, paid 90% to 100% by employer.

(e) Only reflects performance guarantees received in FY 2016-2017

(f) Reflects use of fund balance

(g) Will be adjusted after the runout period for 2016 FSAs

(h) Transfer of forfeitures to General Fund per FY 2016-2017 budget



**ACTIVE & RETIRED COMBINED**

	For ten months ended April 30, 2017	For ten months ended April 30, 2016	\$ Change	% Change	Notes	
<b>1 SELF-INSURANCE</b>						<b>1</b>
2 City Plan, including ASO						2
3 Revenues	51,571,661	35,758,396	15,813,265	44.2%	m	3
4 Expenses	(60,883,217)	(44,198,737)	(16,684,480)	37.7%	m	4
5 Net City Plan Excess(Shortage)	(9,311,555)	(8,440,341)	(871,214)	10.3%		5
6 Blue Shield-Flex						6
7 Revenues	254,363,230	242,076,982	12,286,248	5.1%	l	7
8 Expenses	(246,533,853)	(247,609,721)	1,075,868	-0.4%		8
9 Net Blue Shield-Flex Excess(Shortage)	7,829,377	(5,532,739)	13,362,116	-241.5%		9
10 Delta Dental - Active only, including ASO						10
11 Revenues	39,375,336	38,803,442	571,894	1.5%		11
12 Expenses	(35,836,694)	(35,434,922)	(401,772)	1.1%		12
13 Net Delta Dental - Active Excess(Shortage)	3,538,642	3,368,520	170,122	5.1%		13
14 <b>NET SELF-INSURANCE</b>	<b>2,056,464</b>	<b>(10,604,560)</b>	<b>12,661,024</b>	<b>-119.4%</b>		14
15 <b>INSURANCE PRODUCTS</b>						15
16 Blue Shield-HMO						16
17 Revenues	15,804,755	26,629,134	(10,824,379)	-40.6%	m	17
18 Expenses	(15,804,755)	(26,629,134)	10,824,379	-40.6%	m	18
19 Net Blue Shield HMO Excess(Shortage)	-	-	-	0.0%		19
20 Kaiser-HMO						20
21 Revenues	307,072,799	288,059,869	19,012,930	6.6%	d, l	21
22 Expenses	(306,444,811)	(287,474,696)	(18,970,115)	6.6%	d, l	22
23 Net Kaiser- HMO Excess(Shortage)	627,988	585,173	42,815	7.3%		23
24 Vision Service Plan, All (City Plan & HMO)						24
25 Revenues	4,228,649	4,141,885	86,764	2.1%		25
26 Expenses	(4,228,649)	(4,141,885)	(86,764)	2.1%		26
27 Net Vision Service Plan Excess(Shortage)	-	-	-	-		27
28						28
29 Delta Dental - Retired						29
30 Revenues	11,304,139	11,301,856	2,283	0.0%		30
31 Expenses	(11,207,474)	(11,226,981)	19,507	-0.2%		31
32 Net Delta Dental - Retired Excess(Shortage)	96,665	74,875	21,790	29.1%		32
33 Delta Care						33
34 Revenues	816,678	842,786	(26,108)	-3.1%	a	34
35 Expenses	(816,989)	(841,740)	24,751	-2.9%		35
36 Net Delta Care Excess(Shortage)	(311)	1,046	(1,357)	-129.7%		36
37 Pacific Union						37
38 Revenues	284,214	261,618	22,596	8.6%	d	38
39 Expenses	(284,291)	(267,514)	(16,777)	6.3%	d	39
40 Net Pacific Union Excess(Shortage)	(77)	(5,896)	5,819	-98.7%		40
41 Net Dental	96,277	70,025	26,252	37.5%		41
42						42
43 Long Term/Short Term Disability						43
44 Revenues	6,063,173	5,768,688	294,485	5.1%	d	44
45 Expenses	(6,063,173)	(5,768,688)	(294,485)	5.1%	d	45
46 Net Long Term/Short Term Disability Excess(Shortage)	-	-	-	0.0%		46
47 Flexible Benefits						47
48 Revenues	1,064,274	777,222	287,052	36.9%	k	48
49 Expenses	(1,064,274)	(777,222)	(287,052)	36.9%	k	49
50 Net Flexible Benefits Excess(Shortage)	-	-	-	0.0%		50
51 Flexible Spending-Dependent Care						51
52 Revenues	3,903,768	3,369,580	534,188	15.9%	d	52
53 Expenses	(3,905,034)	(3,560,384)	(344,650)	9.7%	f	53
54 Net Flexible Spending-Dependent Care Excess(Shortage)	(1,266)	(190,804)	189,538	-99.3%		54
55 Flexible Spending -Medical Reimbursement						55
56 Revenues	4,580,316	3,775,045	805,271	21.3%	d	56
57 Expenses	(4,133,423)	(4,309,604)	176,181	-4.1%	j	57
58 Net Flexible Spending-Medical Reimbursement Excess(Shortage)	446,893	(534,559)	981,452	-183.6%		58
59 Best Doctors (\$1.40)						59
60 Revenues	379,630	-	379,630		n	60
61 Expenses	(379,630)	-	(379,630)		n	61
62 Net Best Doctors Excess(Shortage)	-	-	-			62
63 Healthcare Sustainability Fund (\$3.00)						63
64 Revenues	1,637,420	1,345,905	291,515	21.7%	e	64
65 Expenses	(1,051,845)	(1,111,666)	59,821	-5.4%	e	65
66 Net Healthcare Sustainability Fund (\$3.00) Excess(Shortage)	585,575	234,239	351,336	150.0%		66
67 <b>NET INSURANCE PRODUCTS</b>	<b>1,755,467</b>	<b>164,073</b>	<b>1,591,394</b>	<b>969.9%</b>		67
68 <b>SAVINGS AND INVESTMENTS</b>						68
69 Interest	364,660	319,676	44,984	14.1%	b	69
70 Performance guarantees	-	224,710	(224,710)	-100.0%		70
71 Forfeitures	-	-	-			71
72 <b>TOTAL SAVINGS &amp; INVESTMENTS</b>	<b>364,660</b>	<b>544,386</b>	<b>(179,726)</b>	<b>-33.0%</b>		72
73 <b>TOTAL NET EXCESS (SHORTAGE)</b>	<b>4,176,591</b>	<b>(9,896,100)</b>	<b>14,072,691</b>	<b>-142.2%</b>		73

Notes: a decrease in membership  
b increase in interest rates  
c decrease in deductions  
d increase in membership  
e \$3 per member per month for communications, wellness, actuarial work  
k implementation of voluntary benefits effective 1/1/17  
f increase in claims  
h decrease in rates  
l increase in rates  
g increase in deductions  
j decrease in claims  
m conversion into New City Plan effective 1/1/17  
n effective 1/1/17



**Health Service System**  
CITY & COUNTY OF SAN FRANCISCO

HEALTH SERVICE SYSTEM - ADMINISTRATION  
STATEMENT OF REVENUES AND EXPENDITURES  
As of April 30, 2017

YEAR-TO DATE				ANNUAL					
Fav/(Unfav)				Fav/(Unfav)					
Budget	Actual	Variance	% Var	Original Budget	Carryforward/ Changes	Revised Budget	Projection	Variance	% Var
<b>REVENUES</b>									
385,442	30	(385,412)	-100.0%	462,530	0	462,530	462,530	0	0.0%
8,742,890	8,742,890	0	0.0%	10,456,135		10,456,135	10,456,135	0	0.0%
269,178	269,178	0	0.0%	0	269,178	269,178	269,178	0	0.0%
9,397,510	9,012,098	(385,412)	-4.1%	10,918,665	269,178	11,187,843	11,187,843	0	0.0%
<b>EXPENDITURES</b>									
4,201,095	4,107,084	94,011	2.2%	5,111,314	(70,000)	5,041,314	4,971,314	70,000	-1.4%
1,959,833	1,860,999	98,833	5.0%	2,351,799	0	2,351,799	2,351,799	0	0.0%
1,526,147	1,204,724	321,423	21.1%	1,737,982	93,394	1,831,376	1,831,376	0	0.0%
46,178	48,195	(2,018)	-4.4%	51,797	3,616	55,413	55,413	0	0.0%
1,589,951	1,229,161	360,790	22.7%	1,665,773	242,168	1,907,941	1,852,043	55,898	-2.9%
9,323,203	8,450,163	873,039	9.4%	10,918,665	269,178	11,187,843	11,061,945	125,898	-1.1%
74,307	561,935	487,628	656%	0	0	0	125,898	125,898	