

HEALTH SERVICE SYSTEM
CITY & COUNTY OF SAN FRANCISCO

Memorandum

DATE: April 14, 2016
TO: Randy Scott, President and Members of the Health Service Board
FROM: Pamela Levin, Chief Financial Officer
RE: Update on Financial Report as of February 29, 2016

This report summarizes revenues and expenses of the Employee Benefit Trust Fund (Trust Fund) and the General Fund Administration Budget through February 29, 2016, as well as fiscal year-end projections through June 30, 2016.

Employee Benefit Trust Fund

On June 30, 2015, the Trust Fund balance was \$81.5 million. Based on activity through February 2016, the fund balance is projected to be \$77.3 million as of June 30, 2016. The projected \$4.2 million decrease includes reserves for unpaid claims and is a result of the following changes.

1. City Plan - \$9.9 million decrease in fund balance resulting from:
 - a. \$0.8 million increase in fund balance:
 - \$0.6 million from pharmacy rebates (additional information on page 3)
 - \$0.2 million due to favorable claim experience
 - b. \$10.7 million decrease in fund balance:
 - \$3.7 million associated with subsidizing 2015 rates (for the first six months of FY 2015-16) from the claim stabilization reserve
 - \$7.0 million associated with subsidizing 2016 rates (for the second six months of FY 2015-16) from the claim stabilization reserve
2. Blue Shield Flex Plan - \$0.4 million increase in fund balance resulting from:
 - a. \$5.3 million increase in fund balance:
 - \$2.2 million associated with the increase in 2016 rates (for the second six months of FY 2015-16) to recover the 2014 deficit



- \$2.8 million from pharmacy rebates (additional information on page 4)
 - \$0.3 million due to favorable claim experience
- b. \$4.9 million decrease in fund balance associated with subsidizing rates in Plan Year 2015 (for the first six months of FY 2015-16) from the claim stabilization reserve
3. Self-insured dental plan - \$5.1 million increase in fund balance associated with:
- a. \$5.7 million due to favorable claim experience
 - b. \$0.6 million decrease in fund balance associated with subsidizing 2016 rates (for the second six months of FY 2015-16) from the claim stabilization reserve

The projections for the self-insured dental premiums and claims are based on the actual experience during the current fiscal year. For the most part, the projections are straight lined based on the number of months of actual premiums and claims data. The Board report that was presented last month was based on seven months of experience. As the fiscal year progresses the accuracy of the projections improve.

Several factors impact the timing of the claims. The 2015 plan year is a calendar year and covers two fiscal years - FY 2014-15 and FY 2015-16. If claims occur in the first six months of the plan year, they will be posted to one fiscal year, and if they occur during the second six months of the plan year, they will be posted to the subsequent fiscal year. The timing of claims vary month to month and year to year, therefore it is difficult to project.

Based on eight months of experience, \$5.1 million in excess premium equivalents over claims is projected. This projection is consistent with the amount that was presented in the Financial Report as of February 2015.

- 4. Interest - \$0.4 million increase in fund balance from HSS Trust cash balances
- 5. Forfeitures - \$0.5 million decrease in fund balance associated with transfers to the General Fund pursuant to the FY 2015-16 budget (additional information on page 4)
- 6. Performance guarantees - \$0.2 million increase in fund balance due from Blue Shield for the plan year 2014
- 7. Healthcare Sustainability Fund (\$2.05) - \$0.1 million increase in fund balance

The \$2.05 per member per month charge is one of the components of the premiums. Since the \$2.05 is incorporated in the premiums which has allocated between the employer and employee based on the contribution model. Based on the current contribution models, the employer pays the majority of the charge. Based on eight months of actuals, the Healthcare Sustainability Fund is projected to have a balance of \$84,949 at the end of fiscal year.

	Original Budget	Revised Budget	Feb YTD Actuals	Projection	Balance
Revenues/Premiums	\$ 1,555,310	\$ 1,555,310	\$ 1,073,090	\$ 1,610,259	\$ 54,949
Expenditures					
Personnel Services and Mandatory Fringes	481,308	\$ 481,308	\$ 222,227	\$ 422,350	\$ 58,958
Communications					
Open Enrollment Communications	288,867	288,867	284,763	304,763	(15,896)
Operations Communications	14,700	34,700	42,262	109,350	(74,650)
Wellness Communications	28,000	68,000	10,074	63,000	5,000
Other Communications	9,033	19,033	10,554	23,084	(4,051)
Total Communications	\$ 340,600	\$ 410,600	\$ 347,653	\$ 500,197	\$(89,597)
Wellness	286,460	286,460	119,929	269,170	17,290
Initiatives to Reduce Health Care Costs	257,500	257,500	226,800	268,090	(10,590)
SFGTV (Televising Board meetings)	-	-	6,724	11,767	(11,767)
Contingency for Unforeseen Issues	189,442	119,442		53,736	65,706
Total Expenditures	\$ 1,555,310	\$ 1,555,310	\$ 923,333	\$ 1,525,310	\$ 30,000
Revenue Less Expenses	\$ -	\$ -	\$ 149,757	\$ 84,949	\$ 84,949

The table above reflects the year to date actuals through February 29, 2016. The Revised Budget reflects an increased focus on Communications and the categories in which they are expended. 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.

Projected savings (expenditures that are less than the budget)

1. Personnel Services and Mandatory Fringes - \$58,958 savings associated with the difficulty in hiring a graphic artist
2. Wellness Communication - \$5,000 savings associated with communications that have been delayed due to resource constraints
3. Wellness - \$17,290 savings associated with initiatives that have been delayed due to resource constraints
4. Contingency for Unforeseen Issues - \$65,706 savings

Projected deficits (expenditures that are over the budget)

1. Open Enrollment Communications - \$15,896 projected over expenditure due to provision of additional materials for Open Enrollment

2. Operations Communications - \$74,650 projected over expenditure resulting from:
 - a. Issuance of a voluntary benefits survey to gauge member interest in the types of offerings
 - b. Affordable Care Act requirement to produce and mail the Minimal Essential Coverage IRS forms (a.k.a. 1095 forms)
 - c. Additional usage of contracted services for address validation audits
3. Other Communications - \$4,051 projected over expenditure due to purchase of additional software licenses
4. Initiatives to Reduce Health Care Costs - \$10,590 projected over expenditure due to Blue Shield charging for Medicare data used in the All Payers Claims Database
5. SFGTV - \$11,767 projected over expenditure due to not budgeting the workorder

Pharmacy Rebates

The following table summarizes the FY 2015-16 pharmacy rebates as of February 29, 2016 and year-end projection. The rebates reduce the amount of claims HSS pays to the vendors.

Vendor	Amount (year to date)	Time Period Covered	Year-End Projection
Blue Shield	\$1,626,097	April 2015 – September 2015	\$2,800,000
UHC	374,796	October 2014 – September 2015	600,000
Total	\$2,000,893		\$3,400,000

Forfeitures associated with Health Care and Dependent Care FSA

The Federal and IRS rules expressly state that the forfeitures can be used to fund administration. In addition, the Health Service Board approves the HSS Section 125 Cafeteria Plan (Plan) which is reviewed annually by HSS to ensure consistency with the Federal and IRS rules. The Health Service Board approves changes to the Plan annually.

The Plan Year 2015 run-out period will end on March 31, 2016 and HSS will reconcile the amount before the fiscal year-end. No additional information is available for Plan Year 2015.

General Fund Administration Budget (including Enterprise Content Management System)

Based on the financial results for the first eight months of FY 2015-16, the budget is projected to be fully expended. Any unexpended balance will be used to fund part-time staff for scanning documents that will be incorporated in the Enterprise Content Management System (ECM), purchase ergonomic equipment, and fund other essential expenditures.



ACTIVE & RETIRED COMBINED

	Year-To-Date Revenues	Year-To-Date Expenses	Year-To-Date Net Excess(Shortage)
SELF-INSURANCE			
City Plan, including ASO	28,377,185	33,918,902	(5,541,717)
Blue Shield Flex	190,621,191	193,034,505	(2,413,314)
Delta Dental - Active only, including ASO	31,034,669	27,425,683	3,608,986
TOTAL SELF-INSURANCE	250,033,045	254,379,090	(4,346,045)
INSURANCE PRODUCTS			
Blue Shield-HMO	21,587,098	21,587,098	-
Kaiser-HMO	228,448,498	228,622,487	(173,989)
Vision Service Plan, All (City Plan & HMO)	3,297,599	3,297,599	-
Sub-total HMO	253,333,195	253,507,184	(173,989)
Delta Dental - Retired	9,102,493	9,032,525	69,968
Delta Care	677,868	676,258	1,610
Pacific Union	208,135	214,171	(6,036)
Sub-total Dental	9,988,496	9,922,954	65,542
Long Term/Short Term Disability	4,582,624	4,582,624	-
Flexible Benefits	594,401	594,401	-
Flexible Spending-Dependent Care	2,673,643	2,974,479	(300,836)
Flexible Spending -Medical Reimbursement	2,974,524	3,134,723	(160,199)
Healthcare Sustainability Fund (\$2.05)	1,073,090	923,333	149,757
TOTAL INSURANCE PRODUCTS	275,219,973	275,639,698	(419,725)
SAVINGS AND INVESTMENTS			
Interest	254,015	-	254,015
Performance guarantees	223,443	-	223,443
Forfeitures	-	-	-
TOTAL SAVINGS & INVESTMENTS	477,458	-	477,458
TRANSFERS OUT OF FORFEITURES			
			-
TOTAL FUNDS	525,730,477	530,018,789	(4,288,312)

SUMMARY- In millions

Year-To Date Actual As of Feb. 2016 - Net FY15-16 Projected Annual-Net

Self Insurance		
City Plan	(5.5)	(9.9) (a)
Blue Shield-Flex	(2.4)	0.4 (b)
Dental, Actives	3.6	5.1 (c)
Insurance Products		
Medical HMOs	(0.2)	0.0
Dental	0.1	0.0
LTD/Flexible Benefits/Flexible Spending	(0.5)	0.0
Healthcare Sustainability Fund (\$2.05)	0.1	0.1 (d)
Savings & Investments		
Interest	0.3	0.4
Performance guarantees	0.2	0.2
Forfeitures	0.0	0.0
Transfers Out of Forfeitures	0.0	(0.5) (e)
TOTAL	(4.3)	(4.2)
Net assets		
Beginning of the year		81.5
End of the year		77.3

(a) Annual Projection is net of claim stabilization of \$3.7 million used to reduce 2015 rates, \$7.0 million to reduce 2016 rates, and Pharmacy rebate of \$0.6 million

(b) Annual Projection is net of claim stabilization of \$4.9 million used to reduce 2015 rates, \$2.2 million to increase 2016 rates, and Pharmacy rebate of \$2.8M

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

(d) \$2.05 per member per month for communications, wellness, actuarial work; \$2.05 is part of a total rate, paid 90% to 100% by employer. Annual Projection is \$85,000

(e) Transfer of forfeitures to General Fund per FY 2015-2016 budget



ACTIVE & RETIRED COMBINED

	For eight months ended February 29, 2016	For eight months ended February 28, 2015	\$ Change	% Change	Notes	
1 SELF-INSURANCE						1
2 City Plan, including ASO						2
3 Revenues	28,377,185	34,787,246	(6,410,061)	-18.4%	a, h	3
4 Expenses	(33,918,902)	(33,141,052)	(777,850)	2.3%		4
5 Net City Plan Excess(Shortage)	(5,541,717)	1,646,194	(7,187,911)	-436.6%		5
6 Blue Shield-Flex						6
7 Revenues	190,621,191	183,052,243	7,568,948	4.1%	l	7
8 Expenses	(193,034,505)	(188,308,732)	(4,725,773)	2.5%		8
9 Net Blue Shield-Flex Excess(Shortage)	(2,413,314)	(5,256,489)	2,843,175	-54.1%		9
10 Delta Dental - Active only, including ASO						10
11 Revenues	31,034,669	30,206,392	828,277	2.7%		11
12 Expenses	(27,425,683)	(27,126,576)	(299,107)	1.1%		12
13 Net Delta Dental - Active Excess(Shortage)	3,608,986	3,079,816	529,170	17.2%		13
14 NET SELF-INSURANCE	(4,346,045)	(530,479)	(3,815,566)	719.3%		14
15 INSURANCE PRODUCTS						15
16 Blue Shield-HMO						16
17 Revenues	21,587,098	20,503,248	1,083,850	5.3%	d, l	17
18 Expenses	(21,587,098)	(20,543,913)	(1,043,185)	5.1%	d, l	18
19 Net Blue Shield HMO Excess(Shortage)	-	(40,665)	40,665	-100.0%		19
20 Kaiser-HMO						20
21 Revenues	228,448,498	225,852,041	2,596,457	1.1%		21
22 Expenses	(228,622,487)	(224,931,740)	(3,690,747)	1.6%		22
23 Net Kaiser- HMO Excess(Shortage)	(173,989)	920,301	(1,094,290)	-118.9%		23
24 Vision Service Plan, All (City Plan & HMO)						24
25 Revenues	3,297,599	3,185,101	112,498	3.5%	d, l	25
26 Expenses	(3,297,599)	(3,185,101)	(112,498)	3.5%	d, l	26
27 Net Vision Service Plan Excess(Shortage)	-	-	-	-		27
28						28
29 Delta Dental - Retired						29
30 Revenues	9,102,493	8,409,288	693,205	8.2%	d, l	30
31 Expenses	(9,032,525)	(8,380,772)	(651,753)	7.8%	d, l	31
32 Net Delta Dental - Retired Excess(Shortage)	69,968	28,516	41,452	145.4%		32
33 Delta Care						33
34 Revenues	677,868	669,958	7,910	1.2%		34
35 Expenses	(676,258)	(662,270)	(13,988)	2.1%		35
36 Net Delta Care Excess(Shortage)	1,610	7,688	(6,078)	-79.1%		36
37 Pacific Union						37
38 Revenues	208,135	217,124	(8,989)	-4.1%	a	38
39 Expenses	(214,171)	(214,386)	215	-0.1%		39
40 Net Pacific Union Excess(Shortage)	(6,036)	2,738	(8,774)	-320.5%		40
41 Net Dental	65,542	38,942	26,600	68.3%		41
42						42
43 Long Term/Short Term Disability						43
44 Revenues	4,582,624	4,200,297	382,327	9.1%	d	44
45 Expenses	(4,582,624)	(4,200,398)	(382,226)	9.1%	d	45
46 Net Long Term/Short Term Disability Excess(Shortage)	-	(101)	101	-100.0%		46
47 Flexible Benefits						47
48 Revenues	594,401	645,509	(51,108)	-7.9%	c	48
49 Expenses	(594,401)	(612,213)	17,812	-2.9%		49
50 Net Flexible Benefits Excess(Shortage)	-	33,296	(33,296)	-100.0%		50
51 Flexible Spending-Dependent Care						51
52 Revenues	2,673,643	2,639,167	34,476	1.3%		52
53 Expenses	(2,974,479)	(2,678,902)	(295,578)	11.0%	f	53
54 Net Flexible Spending-Dependent Care Excess(Shortage)	(300,836)	(39,735)	(261,102)	657.1%		54
55 Flexible Spending -Medical Reimbursement						55
56 Revenues	2,974,524	2,890,314	84,210	2.9%		56
57 Expenses	(3,134,723)	(2,469,136)	(665,587)	27.0%	f	57
58 Net Flexible Spending-Medical Reimbursement Excess(Shortage)	(160,199)	421,178	(581,377)	-138.0%		58
59 Healthcare Sustainability Fund (\$2.05)						59
60 Revenues	1,073,090	1,037,927	35,163	3.4%	e	60
61 Expenses	(923,333)	(711,288)	(212,045)	29.8%	e	61
62 Net Healthcare Sustainability Fund (\$2.05) Excess(Shortage)	149,757	326,639	(176,882)	-54.2%		62
63 NET INSURANCE PRODUCTS	(419,725)	1,659,855	(2,079,580)	-125.3%		63
64 SAVINGS AND INVESTMENTS						64
65 Interest	254,015	504,918	(250,903)	-49.7%	b	65
66 Performance guarantees	223,443	144,985	78,458	54.1%		66
67 Forfeitures	-	-	-	-		67
68 TOTAL SAVINGS & INVESTMENTS	477,458	649,903	(172,445)	-26.5%		68
69 TOTAL NET EXCESS (SHORTAGE)	(4,288,312)	1,779,279	(6,067,591)	-341.0%		69

Notes: a decrease in membership
b decrease in cash balance
c decrease in deductions
d increase in membership
e \$2.05 per member per month for communications, wellness, actuarial work
f increase in claims
h decrease in rates
l increase in rates



Health Service System
CITY & COUNTY OF SAN FRANCISCO

HEALTH SERVICE SYSTEM - ADMINISTRATION
STATEMENT OF REVENUES AND EXPENDITURES
As of February 29, 2016

YEAR-TO DATE				ANNUAL						
Fav/(Unfav)				Fav/(Unfav)						
Budget	Actual	Variance	% Var	Original Budget	Carryforward/ Changes	Revised Budget	Projection	Variance	% Var	
REVENUES										
308,353	75	(308,278)	-100.0%	462,530	0	462,530	462,530	0	0.0%	Non-Operating Revenue
6,857,728	6,857,728	0	0.0%	10,264,090	15,000	10,279,090	10,279,090	0	0.0%	Work Order Recovery
349,999	349,999	0	0.0%	0	349,999	349,999	349,999	0	0.0%	General Fund Carryforward
7,516,080	7,207,802	(308,278)	-4.1%	10,726,620	364,999	11,091,619	11,091,619	0	0.0%	TOTAL REVENUES
EXPENDITURES										
3,250,477	3,050,781	199,696	6.1%	4,875,716	0	4,875,716	4,875,716	0	0.0%	Personnel Services
1,494,322	1,389,054	105,268	7.0%	2,241,483	0	2,241,483	2,241,483	0	0.0%	Mandatory Fringe Benefits
1,440,113	1,010,689	429,424	29.8%	1,923,266	236,904	2,160,170	2,160,170	0	0.0%	Non-personnel Services
30,580	24,427	6,153	20.1%	41,700	4,170	45,870	45,870	0	0.0%	Materials & Supplies
50,000	0	50,000	100.0%	75,000	0	75,000	75,000	0	0.0%	Equipment
1,128,920	724,272	404,648	35.8%	1,569,455	123,925	1,693,380	1,693,380	0	0.0%	Services of Other Departments
7,394,413	6,199,223	1,195,190	16.2%	10,726,620	364,999	11,091,619	11,091,619	0	0.0%	TOTAL EXPENDITURES
121,668	1,008,579	886,911	729%	0	0	0	0	0		REVENUE LESS EXPENDITURES