

SAN FRANCISCO
HEALTH SERVICE SYSTEM

Affordable, Quality Benefits & Well-Being

Memorandum

DATE: August 10, 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 May 31, 2017

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 May 31, 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 May 2017, the fund balance is projected to be \$71.4 million as of June 30, 2017. The projected \$2.8 million increase includes reserves for unpaid claims and is a result of the following changes:

1. City Plan Self-Funded Plan - \$10.6 million decrease in fund balance resulting from:
 - a. \$0.8 million increase in fund balance from pharmacy rebates (additional information on pages 3-4)
 - b. \$11.4 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
 - \$0.6 million due to unfavorable claim experience
2. Blue Shield Flex-Funded Plan - \$7.8 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 pages 3-4)

- \$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. \$15.8 million decrease in fund balance due to unfavorable claim experience, which increased by 5.7% over the same period of last year
3. Delta Dental Self-Funded Plan - \$3.7 million increase in fund balance resulting from:
- a. \$5.5 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 May 31 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.

Healthcare Sustainability Fund FY 2016-17					
Ongoing	Original Budget	Revised Budget	May YTD Actuals	Projection	Balance
Revenues/Premiums	\$ 1,619,295	\$ 1,644,295	\$ 1,521,923	\$ 1,692,678	\$ 48,383
Carryforward for encumbrances		204,967	204,967	204,967	-
\$0.95 Increase		125,000	115,000	125,000	-
Total	\$ 1,619,295	\$ 1,974,262	\$ 1,841,890	\$ 2,022,645	\$ 48,383
Expenditures					
Personnel Services and Mandatory Fringes	\$ 487,734	\$ 512,734	\$ 316,864	\$ 329,276	\$ 183,458
Communications					
Open Enrollment Communications	280,168	353,212	266,948	266,947	86,265
Operations Communications	97,923	97,923	22,980	25,599	72,324
Well-Being Communications	200,165	264,918	61,503	65,753	199,165
Other Communications	29,025	29,025	8,215	8,215	20,810
Total Communications	\$ 607,281	\$ 745,078	\$ 359,646	\$ 366,514	\$ 378,564
Well-Being	30,000	130,000	49,732	100,205	29,795
Initiatives to Reduce Health Care Costs	380,500	472,670	279,254	304,288	168,382
SFGTV/Board Meetings	11,056	11,056	16,054	16,634	(5,578)
Contingency for Unforeseen Issues	102,724	102,724			102,724
Total Expenditures	\$ 1,619,295	\$ 1,974,262	\$ 1,021,550	\$ 1,116,917	\$ 857,345
Balance *	\$ -	\$ -	\$ 820,340	\$ 905,728	\$ 905,728

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

5. Interest - \$0.5 million increase in fund balance from HSS Trust cash balances
6. Performance Guarantees – A total of \$133,007 has been received in FY 2016-17. The \$68.6 million fund balance includes the \$7.6 million in PGs received since FY 2005-06.
7. Performance Guarantees for 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.
8. Forfeitures - \$0.6 million increase in fund balance. The reconciliation of unused flexible spending account balances occurs annually in June for the prior Plan Year.
9. Pharmacy Rebates - The following table summarizes the FY 2016-17 pharmacy rebates as of May 31, 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	568,651	October 2015 – December 2016	800,000
Total	\$2,688,077		\$4,200,000

General Fund Administration Budget (including Enterprise Content Management System)

Based on the financial results for the first eleven months of FY 2016-17, a year-end balance of \$0.1 million is projected which is a result of the following:

1. Expenditures – The year-end projection reflects a savings of \$0.6 million. This is due to:
 - a. \$0.3 million savings in salaries and fringes due to delays in hiring
 - b. \$0.1 million in professional services which will be requested to carryforward into FY 2017-18
 - c. \$0.2 million savings in services to other departments

2. Revenues - The FY 2016-17 General Fund Administration budget includes a transfer of forfeitures, collected in the Trust, to the General Fund to pay for the administration of flexible spending accounts pursuant to IRS codes. The transfer to the General Fund will not be required since there is a projected expenditure savings of \$0.6 million.



HEALTH SERVICE SYSTEM
STATEMENT OF REVENUES AND EXPENSES
FY 2016-2017
FOR THE ELEVEN MONTHS ENDED May 31, 2017

ACTIVE & RETIRED COMBINED

	Year-To-Date Revenues	Year-To-Date Expenses	Year-To-Date Net Excess(Shortage)
1 SELF-INSURANCE			
2 City Plan, including ASO *	58,806,684	68,918,531	(10,111,847)
3 Blue Shield Flex *	280,321,269	275,046,832	5,274,437
4 Delta Dental - Active only, including ASO	43,413,979	39,999,951	3,414,028
5 TOTAL SELF-INSURANCE	382,541,932	383,965,314	(1,423,382)
7 INSURANCE PRODUCTS			
8 Blue Shield-HMO	15,806,352	15,806,352	-
9 Kaiser-HMO	339,982,937	338,642,162	1,340,775
10 Vision Service Plan, All (City Plan & HMO)	4,649,554	4,649,554	-
11 Sub-total HMO	360,438,843	359,098,068	1,340,775
13 Delta Dental - Retired	12,442,520	12,349,074	93,446
14 Delta Care	895,861	896,021	(160)
15 Pacific Union	314,351	314,540	(189)
16 Sub-total Dental	13,652,732	13,559,635	93,097
18 Long Term/Short Term Disability	6,649,389	6,649,403	(14)
19 Flexible Benefits	1,215,918	1,215,918	-
20 Flexible Spending-Dependent Care	4,200,978	4,117,586	83,392
21 Flexible Spending -Medical Reimbursement	4,952,150	4,546,089	406,061
22 Best Doctors (\$1.40)	474,732	474,732	-
23 Healthcare Sustainability Fund (\$3.00)	1,841,923	1,132,416	709,507
24 TOTAL INSURANCE PRODUCTS	393,426,665	390,793,847	2,632,818
26 SAVINGS AND INVESTMENTS			
27 Interest	414,849	-	414,849
28 Performance guarantees	47,269	-	47,269
29 Forfeitures	-	-	-
30 TOTAL SAVINGS & INVESTMENTS	462,118	-	462,118
32 TRANSFERS OUT OF FORFEITURES		-	-
34 TOTAL FUNDS	776,430,715	774,759,161	1,671,554

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

SUMMARY- In millions	FY16-17	FY16-17
	Year-To Date Actual As of May 2017 - Net	Projected Annual-Net
Self Insurance		
City Plan	(10.1)	(10.6) (a)
Blue Shield-Flex	5.3	7.8 (b)
Dental, Actives	3.4	3.7 (c)
Insurance Products		
Medical HMOs	1.3	0.0
Dental	0.1	0.0
LTD/Flexible Benefits/FSA/Best Doctors	0.5	0.0
Healthcare Sustainability Fund (\$3.00)	0.7	0.9 (d)
Savings & Investments		
Interest	0.4	0.5
Performance guarantees	0.0	0.1 (e)
Performance guarantees - Surrogacy and adoption	0.0	(0.2) (f)
Forfeitures	0.0	0.6
Transfers Out of Forfeitures	0.0	0.0
TOTAL	1.7	2.8
Net assets		
Beginning of the year		68.6
End of the year		71.4

(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



ACTIVE & RETIRED COMBINED

	For eleven months ended May 31, 2017	For eleven months ended May 31, 2016	\$ Change	% Change	Notes	
1 SELF-INSURANCE						1
City Plan, including ASO						
Revenues	58,806,684	39,477,491	19,329,193	49.0%	m	3
Expenses	(68,918,531)	(48,790,437)	(20,128,093)	41.3%	m	4
Net City Plan Excess(Shortage)	(10,111,847)	(9,312,946)	(798,900)	8.6%		5
Blue Shield-Flex						
Revenues	280,321,269	267,665,143	12,656,126	4.7%	l	7
Expenses	(275,046,832)	(272,533,047)	(2,513,785)	0.9%		8
Net Blue Shield-Flex Excess(Shortage)	5,274,437	(4,867,904)	10,142,341	-208.4%		9
Delta Dental - Active only, including ASO						
Revenues	43,413,979	42,678,679	735,300	1.7%		11
Expenses	(39,999,951)	(38,828,265)	(1,171,686)	3.0%	f	12
Net Delta Dental - Active Excess(Shortage)	3,414,028	3,850,414	(436,386)	-11.3%		13
NET SELF-INSURANCE	(1,423,382)	(10,330,436)	8,907,055	-86.2%		14
15 INSURANCE PRODUCTS						15
Blue Shield-HMO						
Revenues	15,806,352	29,162,610	(13,356,258)	-45.8%	m	17
Expenses	(15,806,352)	(29,162,610)	13,356,258	-45.8%	m	18
Net Blue Shield HMO Excess(Shortage)	-	-	-	0.0%		19
Kaiser-HMO						
Revenues	339,982,937	317,916,763	22,066,174	6.9%	d, l	21
Expenses	(338,642,162)	(316,981,989)	(21,660,173)	6.8%	d, l	22
Net Kaiser- HMO Excess(Shortage)	1,340,775	934,774	406,001	43.4%		23
Vision Service Plan, All (City Plan & HMO)						
Revenues	4,649,554	4,565,235	84,319	1.8%		25
Expenses	(4,649,554)	(4,565,235)	(84,319)	1.8%		26
Net Vision Service Plan Excess(Shortage)	-	-	-	-		27
Delta Dental - Retired						
Revenues	12,442,520	12,399,891	42,629	0.3%		30
Expenses	(12,349,074)	(12,325,656)	(23,418)	0.2%		31
Net Delta Dental - Retired Excess(Shortage)	93,446	74,235	19,211	25.9%		32
Delta Care						
Revenues	895,861	925,105	(29,244)	-3.2%	a	34
Expenses	(896,021)	(924,225)	28,204	-3.1%	a	35
Net Delta Care Excess(Shortage)	(160)	880	(1,040)	-118.2%		36
Pacific Union						
Revenues	314,351	288,364	25,987	9.0%	d	38
Expenses	(314,540)	(294,111)	(20,429)	6.9%	d	39
Net Pacific Union Excess(Shortage)	(189)	(5,747)	5,558	-96.7%		40
Net Dental	93,097	69,368	23,729	34.2%		41
Long Term/Short Term Disability						
Revenues	6,649,389	6,365,390	283,999	4.5%	d	44
Expenses	(6,649,403)	(6,365,390)	(284,013)	4.5%	d	45
Net Long Term/Short Term Disability Excess(Shortage)	(14)	-	(14)	0.0%		46
Flexible Benefits						
Revenues	1,215,918	852,028	363,890	42.7%	k	48
Expenses	(1,215,918)	(852,028)	(363,890)	42.7%	k	49
Net Flexible Benefits Excess(Shortage)	-	-	-	0.0%		50
Flexible Spending-Dependent Care						
Revenues	4,200,978	3,902,514	298,464	7.6%	d	52
Expenses	(4,117,586)	(3,735,737)	(381,849)	10.2%	f	53
Net Flexible Spending-Dependent Care Excess(Shortage)	83,392	166,777	(83,385)	-50.0%		54
Flexible Spending -Medical Reimbursement						
Revenues	4,952,150	4,380,577	571,573	13.0%	d	56
Expenses	(4,546,089)	(4,627,269)	81,180	-1.8%		57
Net Flexible Spending-Medical Reimbursement Excess(Shortage)	406,061	(246,692)	652,753	-264.6%		58
Best Doctors (\$1.40)						
Revenues	474,732		474,732		n	60
Expenses	(474,732)		(474,732)		n	61
Net Best Doctors Excess(Shortage)	-		-			62
Healthcare Sustainability Fund (\$3.00)						
Revenues	1,841,923	1,482,594	359,329	24.2%	e	64
Expenses	(1,132,416)	(1,209,267)	76,851	-6.4%	e	65
Net Healthcare Sustainability Fund (\$3.00) Excess(Shortage)	709,507	273,327	436,180	159.6%		66
NET INSURANCE PRODUCTS	2,632,818	1,197,553	1,435,265	119.8%		67
68 SAVINGS AND INVESTMENTS						68
Interest	414,849	349,697	65,152	18.6%	b	69
Performance guarantees	47,269	224,710	(177,442)	-79.0%		70
Forfeitures	-	-	-			71
TOTAL SAVINGS & INVESTMENTS	462,118	574,407	(112,290)	-19.5%		72
73 TOTAL NET EXCESS (SHORTAGE)	1,671,554	(8,558,476)	10,230,030	-119.5%		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 May 31, 2017

YEAR-TO DATE				ANNUAL						
Fav/(Unfav)				Fav/(Unfav)						
Budget	Actual	Variance	% Var	Original Budget	Carryforward/ Changes	Revised Budget	Projection	Variance	% Var	
REVENUES										
423,986	30	(423,956)	-100.0%	462,530	0	462,530	30	(462,500)	-100.0%	Non-Operating Revenue
9,617,179	9,617,179	0	0.0%	10,456,135		10,456,135	10,456,135	0	0.0%	Work Order Recovery
374,740	374,740	0	0.0%	0	374,740	374,740	374,740	0	0.0%	General Fund Carryforward
10,415,905	9,991,949	(423,956)	-4.1%	10,918,665	374,740	11,293,405	10,830,905	(462,500)	-4.1%	TOTAL REVENUES
EXPENDITURES										
4,621,205	4,556,731	64,473	1.4%	5,111,314	(70,000)	5,041,314	4,910,106	131,208	-2.6%	Personnel Services
2,155,816	2,065,635	90,181	4.2%	2,351,799	0	2,351,799	2,233,807	117,992	-5.0%	Mandatory Fringe Benefits
1,678,760	1,355,596	323,164	19.3%	1,737,982	93,393	1,831,375	1,726,673	104,702	-5.7%	Non-personnel Services
50,795	53,765	(2,970)	-5.8%	51,797	3,616	55,413	55,349	64	-0.1%	Materials & Supplies
1,677,920	1,392,109	285,811	17.0%	1,665,773	347,731	2,013,504	1,803,573	209,931	-10.4%	Services of Other Departments
10,184,496	9,423,837	760,659	7.5%	10,918,665	374,740	11,293,405	10,729,508	563,897	-5.0%	TOTAL EXPENDITURES
231,409	568,112	336,703	146%	0	0	0	101,397	101,397		REVENUE LESS EXPENDITURES