

HEALTH SERVICE SYSTEM
CITY & COUNTY OF SAN FRANCISCO

Memorandum

DATE: February 11, 2016
TO: Randy Scott, President and Members of the Health Service Board
FROM: Pamela Levin, Chief Financial Officer *Pamela Levin*
RE: Update on Financial Report as of December 31, 2015

This report summarizes revenues and expenses of the Employee Benefit Trust Fund (Trust Fund) and the General Fund Administration Budget through December 31, 2015, 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 December 2015, the fund balance is projected to be \$75.2 million as of June 30, 2016. The projected \$6.3 million decrease includes reserves for unpaid claims and is a result of the following changes.

1. City Plan - \$11.1 million decrease in fund balance resulting from:
 - a. \$0.6 million increase from pharmacy rebates (additional information on page 3)
 - b. \$11.7 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
 - \$1.0 million due to unfavorable claim experience
2. Blue Shield Flex Plan - \$1.3 million decrease in fund balance resulting from:
 - a. \$5.0 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 3)

b. \$6.3 million decrease in fund balance:

- \$4.9 million associated with subsidizing rates in Plan Year 2015 (for the first six months of FY 2015-16) from the claim stabilization reserve
- \$1.4 million due to unfavorable claim experience

3. Self-insured dental plan - \$6.0 million increase in fund balance associated with:

a. \$6.6 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 that we have actual premiums and claims data. The Board report that was presented last month was based on only five 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 six months of experience, \$6.0 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 December 2014.

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

Healthcare Sustainability Fund (\$2.05)

The \$2.05 per member per month is one of the components of the premiums. Based on the current contribution models, the employer pays the majority of the premium not the employee. Based on six months of actuals, we are projecting a balance of \$30,000 at the end of fiscal year.

	Budget	Actuals	Projections	Variance
Revenues/Premiums	\$ 1,555,310	\$ 801,839	\$1,555,310	\$ -
Expenditures				
Personnel Services and Mandatory Fringes	\$ 481,308	\$ 166,486	\$ 393,745	\$ 87,563
Communications				
Open Enrollment Communications	288,867	250,962	282,642	6,225
Operations Communications	14,700	13,620	125,311	(110,611)
Wellness Communications	28,000	10,074	63,000	(35,000)
Other Communications	9,033	7,423	29,953	(20,920)
Total Communications	\$ 340,600	\$ 282,079	\$ 500,906	\$ (160,306)
Wellness	286,460	81,592	213,726	72,734
Initiatives to Reduce Health Care Costs	247,500	134,185	328,090	(80,590)
SFGTV (Televising Board meetings)	-	4,606	11,056	(11,056)
Contingency for Unforeseen Issues	199,442		77,787	121,655
Total Expenditures	\$ 1,555,310	\$ 668,948	\$1,525,310	\$ 30,000
Revenue Less Expenses	\$ -	\$ 132,891	\$ 30,000	\$ 30,000

Pharmacy Rebates

The following table summarizes the FY 2015-16 pharmacy rebates as of December 31, 2015 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	\$768,080	April 2015 – June 2015	\$2,800,000
UHC	152,808	October 2014 – June 2015	600,000
Total	\$920,888		\$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 2015.

General Fund Administration Budget (including Enterprise Content Management System)

Based on the financial results for the first six months of FY 2015-16, we do not projected a surplus or deficit by year-end.



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	21,020,547	25,066,180	(4,045,633)
3 Blue Shield Flex	138,892,303	143,746,376	(4,854,073)
4 Delta Dental - Active only, including ASO	23,321,395	20,005,192	3,316,203
5 TOTAL SELF-INSURANCE	183,234,245	188,817,748	(5,583,503)
7 INSURANCE PRODUCTS			
8 Blue Shield-HMO	16,602,397	16,602,397	-
9 Kaiser-HMO	168,947,337	170,255,130	(1,307,793)
10 Vision Service Plan, All (City Plan & HMO)	2,456,956	2,456,956	-
11 Sub-total HMO	188,006,690	189,314,483	(1,307,793)
12			
13 Delta Dental - Retired	6,916,060	6,848,298	67,762
14 Delta Care	511,947	510,413	1,534
15 Pacific Union	154,540	160,644	(6,104)
16 Sub-total Dental	7,582,547	7,519,355	63,192
17			
18 Long Term/Short Term Disability	3,405,589	3,405,746	(157)
19 Flexible Benefits	446,159	446,159	-
20 Flexible Spending-Dependent Care	1,988,573	2,096,827	(108,254)
21 Flexible Spending -Medical Reimbursement	2,188,530	1,943,507	245,023
22			
23 Healthcare Sustainability Fund (\$2.05)	801,839	668,948	132,891
24 TOTAL INSURANCE PRODUCTS	204,419,927	205,395,025	(975,098)
25			
26 SAVINGS AND INVESTMENTS			
27 Interest	182,550	-	182,550
28 Performance guarantees	355	-	355
29 Forfeitures	-	-	-
30 TOTAL SAVINGS & INVESTMENTS	182,905	-	182,905
31			
32 TRANSFERS OUT OF FORFEITURES			
33			
34 TOTAL FUNDS	387,837,076	394,212,773	(6,375,696)

SUMMARY- In millions

Year-To Date Actual
As of Dec. 2015 - Net

FY15-16

Projected Annual-Net

Self Insurance		
City Plan	(4.0)	(11.1) (a)
Blue Shield-Flex	(4.9)	(1.3) (b)
Dental, Actives	3.3	6.0 (c)
Insurance Products		
Medical HMOs	(1.3)	0.0
Dental	0.1	0.0
LTD/Flexible Benefits/Flexible Spending	0.1	0.0
Healthcare Sustainability Fund (\$2.05)	0.1	0.0 (d)
Savings & Investments		
Interest	0.2	0.4
Performance guarantees	0.0	0.2
Forfeitures	0.0	0.0
Transfers Out of Forfeitures	0.0	(0.5) (e)
TOTAL	(6.4)	(6.3)
Net assets		
Beginning of the year		81.5
End of the year		<u>75.2</u>

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

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

(c) Annual Projection is net of claim stabilization of \$0.6 million to stabilize 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 \$30,000

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



ACTIVE & RETIRED COMBINED

	For six months ended December 31, 2015	For six months ended December 31, 2014	\$ Change	% Change	Notes
1 SELF-INSURANCE					
2 City Plan, including ASO					
3 Revenues	21,020,547	27,642,601	(6,622,054)	-24.0%	a, h
4 Expenses	(25,066,180)	(24,665,449)	(400,731)	1.6%	
5 Net City Plan Excess(Shortage)	(4,045,633)	2,977,152	(7,022,785)	-235.9%	
6 Blue Shield-Flex					
7 Revenues	138,892,303	136,764,318	2,127,985	1.6%	
8 Expenses	(143,746,376)	(143,655,199)	(91,177)	0.1%	
9 Net Blue Shield-Flex Excess(Shortage)	(4,854,073)	(6,890,881)	2,036,808	-29.6%	
10 Delta Dental - Active only, including ASO					
11 Revenues	23,321,395	22,542,868	778,527	3.5%	d, l
12 Expenses	(20,005,192)	(19,871,337)	(133,855)	0.7%	
13 Net Delta Dental - Active Excess(Shortage)	3,316,203	2,671,531	644,672	24.1%	
14 NET SELF-INSURANCE	(5,583,503)	(1,242,198)	(4,341,305)	349.5%	
15 INSURANCE PRODUCTS					
16 Blue Shield-HMO					
17 Revenues	16,602,397	15,293,977	1,308,420	8.6%	d, l
18 Expenses	(16,602,397)	(15,334,266)	(1,268,131)	8.3%	d, l
19 Net Blue Shield HMO Excess(Shortage)	-	(40,289)	40,289	-100.0%	
20 Kaiser-HMO					
21 Revenues	168,947,337	169,882,529	(935,192)	-0.6%	
22 Expenses	(170,255,130)	(169,316,705)	(938,425)	0.6%	
23 Net Kaiser- HMO Excess(Shortage)	(1,307,793)	565,824	(1,873,617)	-331.1%	
24 Vision Service Plan, All (City Plan & HMO)					
25 Revenues	2,456,956	2,378,075	78,881	3.3%	d, l
26 Expenses	(2,456,956)	(2,378,075)	(78,881)	3.3%	d, l
27 Net Vision Service Plan Excess(Shortage)	-	-	-	-	
28					
29 Delta Dental - Retired					
30 Revenues	6,916,060	6,181,918	734,142	11.9%	d, l
31 Expenses	(6,848,298)	(6,152,885)	(695,413)	11.3%	d, l
32 Net Delta Dental - Retired Excess(Shortage)	67,762	29,033	38,729	133.4%	
33 Delta Care					
34 Revenues	511,947	505,927	6,020	1.2%	
35 Expenses	(510,413)	(497,945)	(12,468)	2.5%	
36 Net Delta Care Excess(Shortage)	1,534	7,982	(6,448)	-80.8%	
37 Pacific Union					
38 Revenues	154,540	165,594	(11,054)	-6.7%	a
39 Expenses	(160,644)	(163,168)	2,524	-1.5%	
40 Net Pacific Union Excess(Shortage)	(6,104)	2,426	(8,530)	-351.6%	
41 Net Dental	63,192	39,441	23,751	60.2%	
42					
43 Long Term/Short Term Disability					
44 Revenues	3,405,589	3,116,515	289,074	9.3%	d
45 Expenses	(3,405,746)	(3,116,587)	(289,159)	9.3%	d
46 Net Long Term/Short Term Disability Excess(Shortage)	(157)	(72)	(85)		
47 Flexible Benefits					
48 Revenues	446,159	494,775	(48,616)	-9.8%	c
49 Expenses	(446,159)	(499,236)	53,077	-10.6%	c
50 Net Flexible Benefits Excess(Shortage)	-	(4,461)	4,461	-100.0%	
51 Flexible Spending-Dependent Care					
52 Revenues	1,988,573	1,880,934	107,639	5.7%	m
53 Expenses	(2,096,827)	(1,865,006)	(231,821)	12.4%	f
54 Net Flexible Spending-Dependent Care Excess(Shortage)	(108,254)	15,928	(124,182)	-779.6%	
55 Flexible Spending -Medical Reimbursement					
56 Revenues	2,188,530	2,022,650	165,880	8.2%	m
57 Expenses	(1,943,507)	(1,634,027)	(309,480)	18.9%	f
58 Net Flexible Spending-Medical Reimbursement Excess(Shortage)	245,023	388,623	(143,600)	-37.0%	
59 Healthcare Sustainability Fund (\$2.05)					
60 Revenues	801,839	775,719	26,119	3.4%	e
61 Expenses	(668,948)	(558,312)	(110,636)	19.8%	e
62 Net Healthcare Sustainability Fund (\$2.05) Excess(Shortage)	132,891	217,407	(84,517)	-38.9%	
63 NET INSURANCE PRODUCTS	(975,098)	1,182,401	(2,157,500)	-182.5%	
64 SAVINGS AND INVESTMENTS					
65 Interest	182,550	399,485	(216,935)	-54.3%	b
66 Performance guarantees	355	-	355		
67 Forfeitures	-	-	-		
68 TOTAL SAVINGS & INVESTMENTS	182,905	399,485	(216,580)	-54.2%	
69 TOTAL NET EXCESS (SHORTAGE)	(6,375,696)	339,689	(6,715,385)	-1976.9%	

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
m increase in FSA participation

