

SAN FRANCISCO HEALTH SERVICE SYSTEM

Affordable, Quality Benefits & Well-Being

Memorandum

DATE: February 9, 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 December 31, 2016

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 December 31, 2016, 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 December 2016, the fund balance is projected to be \$64.3 million as of June 30, 2017. The projected \$4.3 million decrease includes reserves for unpaid claims and is a result of the following changes:

1. City Plan - \$10.6 million decrease in fund balance resulting from:
 - a. \$0.8 million increase in fund balance from pharmacy rebates (additional information on page 3)
 - 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 Plan - \$1.0 million increase in fund balance resulting from:
 - a. \$13.7 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 3)

- \$5.5 million reduction in legislative fees due to elimination of the HIT tax in 2017
 - b. \$12.7 million decrease in fund balance due to unfavorable claim experience, which increased by 7.0% over the same period of last year
3. Self-insured dental plan - \$5.3 million increase in fund balance associated with:
- a. \$7.1 million increase in fund balance due to favorable claim experience
 - b. \$1.8 million decrease in fund balance resulting from:
 - \$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 December 31, 2016. 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.

In preparation of the Healthcare Sustainability Fund budget for FY 2017-18 and FY 2018-19, a comprehensive review of all expenditures was performed. On-going expenditures that will not be completed by the end of FY 2016-17, due to procurement delays and staffing resources, have been identified. The funds will be carry forwarded into FY 2017-18 and are included in the budget presented at this meeting.

	FY 2016-17				
Ongoing	Original Budget	Revised Budget	December YTD Actuals	Projection	Balance
Revenues/Premiums	\$ 1,619,295	\$ 1,644,295	\$ 824,444	\$ 1,644,295	\$ -
Carryforward for encumbrances		204,967	204,967	204,967	-
\$0.95 Increase		125,000		125,000	-
Total	\$ 1,619,295	\$ 1,974,262	\$ 1,029,411	\$ 1,974,262	\$ -
Expenditures					
Personnel Services and Mandatory Fringes	\$ 487,734	\$ 512,734	\$ 170,704	\$ 473,940	\$ 38,794
Communications					
Open Enrollment Communications	280,168	353,212	247,373	250,051	103,161
Operations Communications	97,923	97,923	8,910	84,657	13,266
Wellness Communications	200,165	264,918	40,753	131,000	133,918
Other Communications	29,025	29,025	7,566	8,687	20,338
Total Communications	\$ 607,281	\$ 745,078	\$ 304,602	\$ 474,395	\$ 270,683
Wellness	30,000	130,000	49,841	79,732	50,268
Initiatives to Reduce Health Care Costs	380,500	472,670	110,645	457,670	15,000
SFGTV/Board Meetings	11,056	11,056	4,263	23,000	(11,944)
Contingency for Unforeseen Issues	102,724	102,724		150,000	(47,276)
Total Expenditures	\$ 1,619,295	\$ 1,974,262	\$ 640,055	\$ 1,658,737	\$ 315,525
Balance *	\$ -	\$ -	\$ 389,356	\$ 315,525	\$ 315,525

* Ongoing balance to be carryforwarded into FY 2017-18

5. Interest - \$0.4 million increase in fund balance from HSS Trust cash balances
6. Surrogacy and adoption - \$0.2 million (\$150,000) decrease in fund balance from performance guarantees for January – June 2017. The program is effective January 1, 2017 and no applications have been received.
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

Pharmacy Rebates

The following table summarizes the FY 2016-17 pharmacy rebates as of December 31, 2016 and year-end projection. The rebates offset the amount of claims SFHSS pays to the vendors.

Vendor	Amount (year to date)	Time Period Covered	Year-End Projection
Blue Shield	\$1,029,804	October 2015 – March 2016	\$3,400,000
UHC	226,076	October 2015 – June 2016	800,000
Total	\$1,255,880		\$4,200,000

General Fund Administration Budget (including Enterprise Content Management System)

Based on the financial results for the first five months of FY 2016-17, the budget is projected to be fully expended.



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

ACTIVE & RETIRED COMBINED

	Year-To-Date Revenues	Year-To-Date Expenses	Year-To-Date Net Excess(Shortage)
SELF-INSURANCE			
City Plan, including ASO *	23,055,057	30,106,107	(7,051,050)
Blue Shield Flex *	151,002,324	153,830,083	(2,827,759)
Delta Dental - Active only, including ASO	23,344,943	20,416,110	2,928,833
TOTAL SELF-INSURANCE	197,402,324	204,352,300	(6,949,976)
INSURANCE PRODUCTS			
Blue Shield-HMO	15,781,520	15,781,520	-
Kaiser-HMO	176,850,167	177,912,848	(1,062,681)
Vision Service Plan, All (City Plan & HMO)	2,548,847	2,548,847	-
Sub-total HMO	195,180,534	196,243,215	(1,062,681)
Delta Dental - Retired	6,760,098	6,681,497	78,601
Delta Care	500,368	500,570	(202)
Pacific Union	165,402	165,449	(47)
Sub-total Dental	7,425,868	7,347,516	78,352
Long Term/Short Term Disability	3,694,466	3,694,521	(55)
Flexible Benefits	444,782	444,782	-
Flexible Spending-Dependent Care	2,234,498	2,081,603	152,895
Flexible Spending -Medical Reimbursement	2,511,181	2,015,422	495,759
Healthcare Sustainability Fund (\$2.05)	824,444	715,230	109,214
TOTAL INSURANCE PRODUCTS	212,315,773	212,542,289	(226,516)
SAVINGS AND INVESTMENTS			
Interest	195,394	-	195,394
Performance guarantees	-	-	-
Forfeitures	-	-	-
TOTAL SAVINGS & INVESTMENTS	195,394	-	195,394
TRANSFERS OUT OF FORFEITURES			
			-
TOTAL FUNDS	409,913,491	416,894,589	(6,981,098)

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

SUMMARY- In millions	FY16-17	FY16-17
	Year-To Date Actual As of Dec. 2016 - Net	Projected Annual-Net
Self Insurance		
City Plan	(7.1)	(10.6) (a)
Blue Shield-Flex	(2.8)	1.0 (b)
Dental, Actives	2.9	5.3 (c)
Insurance Products		
Medical HMOs	(1.1)	0.0
Dental	0.1	0.0
LTD/Flexible Benefits/Flexible Spending	0.6	0.0
Healthcare Sustainability Fund (\$2.05)	0.1	0.3 (d)
Savings & Investments		
Interest	0.2	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)
TOTAL	(7.0)	(4.3)
Net assets		
Beginning of the year		68.6
End of the year		64.3

(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, and reduction in Legislative Fees of \$5.5 million

(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) \$2.05 per member per month for communications, wellness, actuarial work; effective 2017 the rate increases to \$3.00; 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 six months ended December 31, 2016	For six months ended December 31, 2015	\$ Change	% Change	Notes	
1 SELF-INSURANCE						1
2 City Plan, including ASO						2
3 Revenues	23,055,057	21,020,547	2,034,510	9.7%	d, l	3
4 Expenses	(30,106,107)	(25,066,180)	(5,039,927)	20.1%	d, f	4
5 Net City Plan Excess(Shortage)	(7,051,050)	(4,045,633)	(3,005,417)	74.3%		5
6 Blue Shield-Flex						6
7 Revenues	151,002,324	138,892,303	12,110,021	8.7%	l	7
8 Expenses	(153,830,083)	(143,746,376)	(10,083,707)	7.0%	f	8
9 Net Blue Shield-Flex Excess(Shortage)	(2,827,759)	(4,854,073)	2,026,314	-41.7%		9
10 Delta Dental - Active only, including ASO						10
11 Revenues	23,344,943	23,321,395	23,548	0.1%		11
12 Expenses	(20,416,110)	(20,005,192)	(410,918)	2.1%		12
13 Net Delta Dental - Active Excess(Shortage)	2,928,833	3,316,203	(387,370)	-11.7%		13
14 NET SELF-INSURANCE	(6,949,976)	(5,583,503)	(1,366,473)	24.5%		14
15 INSURANCE PRODUCTS						15
16 Blue Shield-HMO						16
17 Revenues	15,781,520	16,602,397	(820,877)	-4.9%	a, h	17
18 Expenses	(15,781,520)	(16,602,397)	820,877	-4.9%	a, h	18
19 Net Blue Shield HMO Excess(Shortage)	-	-	-	0.0%		19
20 Kaiser-HMO						20
21 Revenues	176,850,167	168,947,337	7,902,830	4.7%	d, l	21
22 Expenses	(177,912,848)	(170,255,130)	(7,657,718)	4.5%	d, l	22
23 Net Kaiser- HMO Excess(Shortage)	(1,062,681)	(1,307,793)	245,112	-18.7%		23
24 Vision Service Plan, All (City Plan & HMO)						24
25 Revenues	2,548,847	2,456,956	91,891	3.7%	d, l	25
26 Expenses	(2,548,847)	(2,456,956)	(91,891)	3.7%	d, l	26
27 Net Vision Service Plan Excess(Shortage)	-	-	-	-		27
28						28
29 Delta Dental - Retired						29
30 Revenues	6,760,098	6,916,060	(155,962)	-2.3%		30
31 Expenses	(6,681,497)	(6,848,298)	166,801	-2.4%		31
32 Net Delta Dental - Retired Excess(Shortage)	78,601	67,762	10,839	16.0%		32
33 Delta Care						33
34 Revenues	500,368	511,947	(11,579)	-2.3%		34
35 Expenses	(500,570)	(510,413)	9,843	-1.9%		35
36 Net Delta Care Excess(Shortage)	(202)	1,534	(1,736)	-113.2%		36
37 Pacific Union						37
38 Revenues	165,402	154,540	10,862	7.0%	d	38
39 Expenses	(165,449)	(160,644)	(4,805)	3.0%	d	39
40 Net Pacific Union Excess(Shortage)	(47)	(6,104)	6,057	-99.2%		40
41 Net Dental	78,352	63,192	15,160	24.0%		41
42						42
43 Long Term/Short Term Disability						43
44 Revenues	3,694,466	3,405,589	288,877	8.5%	d	44
45 Expenses	(3,694,521)	(3,405,746)	(288,775)	8.5%	d	45
46 Net Long Term/Short Term Disability Excess(Shortage)	(55)	(157)	102	-65.0%		46
47 Flexible Benefits						47
48 Revenues	444,782	446,159	(1,377)	-0.3%		48
49 Expenses	(444,782)	(446,159)	1,377	-0.3%		49
50 Net Flexible Benefits Excess(Shortage)	-	-	-	0.0%		50
51 Flexible Spending-Dependent Care						51
52 Revenues	2,234,498	1,988,573	245,925	12.4%	d	52
53 Expenses	(2,081,603)	(2,096,827)	15,224	-0.7%		53
54 Net Flexible Spending-Dependent Care Excess(Shortage)	152,895	(108,254)	261,149	-241.2%		54
55 Flexible Spending -Medical Reimbursement						55
56 Revenues	2,511,181	2,188,530	322,651	14.7%	d	56
57 Expenses	(2,015,422)	(1,943,507)	(71,915)	3.7%	f	57
58 Net Flexible Spending-Medical Reimbursement Excess(Shortage)	495,759	245,023	250,736	102.3%		58
59 Healthcare Sustainability Fund (\$2.05)						59
60 Revenues	824,444	801,839	22,605	2.8%	e	60
61 Expenses	(715,230)	(668,948)	(46,282)	6.9%	e	61
62 Net Healthcare Sustainability Fund (\$2.05) Excess(Shortage)	109,214	132,891	(23,677)	-17.8%		62
63 NET INSURANCE PRODUCTS	(226,516)	(975,098)	748,582	-76.8%		63
64 SAVINGS AND INVESTMENTS						64
65 Interest	195,394	182,550	12,844	7.0%	b	65
66 Performance guarantees	-	355	(355)	-100.0%		66
67 Forfeitures	-	-	-			67
68 TOTAL SAVINGS & INVESTMENTS	195,394	182,905	12,489	6.8%		68
69 TOTAL NET EXCESS (SHORTAGE)	(6,981,098)	(6,375,696)	(605,401)	9.5%		69

Notes: a decrease in membership
b increase in interest rates
c decrease in deductions
d increase in membership
e \$.05 per member per month for communications, wellness, actuarial work

f increase in claims
g increase in deductions
h decrease in rates
i increase in rates



Health Service System
CITY & COUNTY OF SAN FRANCISCO

HEALTH SERVICE SYSTEM - ADMINISTRATION
STATEMENT OF REVENUES AND EXPENDITURES
As of December 31, 2016

YEAR-TO DATE				ANNUAL					
Fav/(Unfav)				Fav/(Unfav)					
Budget	Actual	Variance	% Var	Original Budget	Carryforward/ Changes	Revised Budget	Projection	Variance	% Var
REVENUES									
231,265	30	(231,235)	-100.0%	462,530	0	462,530	462,530	0	0.0%
5,245,734	5,245,734	0	0.0%	10,456,135		10,456,135	10,456,135	0	0.0%
374,740	374,740	0	0.0%	0	374,740	374,740	374,740	0	0.0%
5,851,739	5,620,504	(231,235)	-4.0%	10,918,665	374,740	11,293,405	11,293,405	0	0.0%
EXPENDITURES									
2,555,657	2,483,483	72,174	2.8%	5,111,314	0	5,111,314	5,111,314	0	0.0%
1,175,900	1,105,454	70,446	6.0%	2,351,799	0	2,351,799	2,351,799	0	0.0%
988,969	307,819	681,150	68.9%	1,737,982	239,956	1,977,938	1,977,938	0	0.0%
27,707	22,674	5,032	18.2%	51,797	3,616	55,413	55,413	0	0.0%
898,471	781,967	116,503	13.0%	1,665,773	131,168	1,796,941	1,796,941	0	0.0%
5,646,703	4,701,398	945,305	16.7%	10,918,665	374,740	11,293,405	11,293,405	0	0.0%
205,037	919,106	714,070	348%	0	0	0	0	0	0.0%