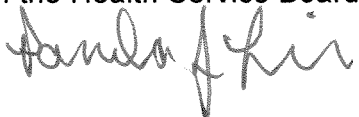


HEALTH SERVICE SYSTEM  
CITY & COUNTY OF SAN FRANCISCO

Memorandum

DATE: January 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 November 30, 2015

---

This report summarizes revenues and expenses of the Employee Benefit Trust Fund (Trust Fund) and the General Fund Administration Budget through November 30, 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 November 2015, the fund balance is projected to be \$77.0 million as of June 30, 2016. The projected \$4.5 million decrease includes reserves for unpaid claims and is a result of the following changes.

1. City Plan - \$11.4 million decrease in fund balance resulting from:
  - a. \$0.6 million increase from pharmacy rebates (additional information on page 3)
  - b. \$12.0 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
    - \$1.3 million due to unfavorable claim experience
2. Blue Shield Flex Plan - \$1.3 million increase in fund balance resulting from:
  - a. \$6.2 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)
  - \$1.2 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 - \$5.5 million increase in fund balance associated with:
- a. \$6.1 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 four 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 five months of experience, \$5.5 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 November 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 five months of actuals, we are projecting a balance of \$42,237 at the end of fiscal year.

	Budget	Actuals	Projections	Variance
Revenues/Premiums	\$ 1,555,310	\$ 666,471	\$ 1,555,310	\$ -
Expenditures				
Personnel Services and Mandatory Fringes	\$ 481,308	\$ 139,902	\$ 393,745	\$ 87,563
Communications				
Open Enrollment Communications	288,867	250,962	282,642	6,225
Operations Communications	14,700	2,180	57,311	(42,611)
Wellness Communications	28,000	10,074	56,500	(28,500)
Other Communications	9,033	7,423	70,503	(61,470)
Total Communications	\$ 340,600	\$ 270,639	\$ 466,956	\$ (126,356)
Wellness	286,460	71,370	308,226	(21,766)
Initiatives to Reduce Health Care Costs	257,500	118,977	333,090	(75,590)
SFGTV (Televising Board meetings)	-	4,606	11,056	(11,056)
Contingency for Unforeseen Issues	189,442			189,442
Total Expenditures	\$ 1,555,310	\$ 605,494	\$ 1,513,073	\$ 42,237
Revenue Less Expenses	\$ -	\$ 60,977	\$ 42,237	\$ 42,237

Pharmacy Rebates

The following table summarizes the FY 2015-16 pharmacy rebates as of November 30, 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	150,633	October 2014 – June 2015	600,000
Total	\$918,713		\$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.

For Plan Year 2013 the forfeitures received for both Health Care and Dependent Care were insufficient to cover the cost to administer the benefits. Similar to the Plan Year 2013, for the Plan Year 2014 the forfeitures were insufficient to cover the cost to administer the benefits.

	Plan Year 2014 (carryforward of \$500 implemented)
Health Care Forfeitures	\$71,235
Dependent Care Forfeitures	93,509
Total	\$164,744
Administration of Health Care FSA	\$181,162
Administration of Dependent Care FSA	34,507
Total	\$215,669
Revenues minus Expenditures	(\$50,925)

General Fund Administration Budget (including Enterprise Content Management System)

Based on the financial results for the first five months of FY 2015-16, a balance of \$150,000 is projected by year-end due to savings in salaries and non-personnel services.



**ACTIVE & RETIRED COMBINED**

	Year-To-Date Revenues	Year-To-Date Expenses	Year-To-Date Net Excess(Shortage)
<b>1 SELF-INSURANCE</b>			
2 City Plan, including ASO	17,507,906	21,008,933	(3,501,027)
3 Blue Shield Flex	115,603,148	118,437,998	(2,834,850)
4 Delta Dental - Active only, including ASO	19,406,306	16,865,007	2,541,299
<b>5 TOTAL SELF-INSURANCE</b>	<b>152,517,360</b>	<b>156,311,938</b>	<b>(3,794,578)</b>
<b>7 INSURANCE PRODUCTS</b>			
8 Blue Shield-HMO	13,800,801	13,800,801	-
9 Kaiser-HMO	140,268,279	141,636,311	(1,368,032)
10 Vision Service Plan, All (City Plan & HMO)	2,045,075	2,045,075	-
11 Sub-total HMO	156,114,155	157,482,187	(1,368,032)
12			
13 Delta Dental - Retired	5,762,599	5,705,456	57,143
14 Delta Care	427,040	425,325	1,715
15 Pacific Union	127,238	133,536	(6,298)
16 Sub-total Dental	6,316,877	6,264,317	52,560
17			
18 Long Term/Short Term Disability	2,820,799	2,820,799	(0)
19 Flexible Benefits	372,179	372,179	-
20 Flexible Spending-Dependent Care	1,665,945	1,543,632	122,313
21 Flexible Spending -Medical Reimbursement	1,821,003	1,463,110	357,893
22			
23 Healthcare Sustainability Fund (\$2.05)	666,471	605,494	60,977
<b>24 TOTAL INSURANCE PRODUCTS</b>	<b>169,777,429</b>	<b>170,551,718</b>	<b>(774,289)</b>
<b>26 SAVINGS AND INVESTMENTS</b>			
27 Interest	153,371	-	153,371
28 Performance guarantees	355	-	355
29 Forfeitures	-	-	-
<b>30 TOTAL SAVINGS &amp; INVESTMENTS</b>	<b>153,726</b>	<b>-</b>	<b>153,726</b>
<b>31 TRANSFERS OUT OF FORFEITURES</b>			
32			
33			
<b>34 TOTAL FUNDS</b>	<b>322,448,515</b>	<b>326,863,656</b>	<b>(4,415,141)</b>

**SUMMARY- In millions**

Year-To Date Actual      FY15-16  
As of Nov. 2015 - Net      Projected Annual-Net

Self Insurance		
City Plan	(3.5)	(11.4) (a)
Blue Shield-Flex	(2.8)	1.3 (b)
Dental, Actives	2.5	5.5 (c)
Insurance Products		
Medical HMOs	(1.4)	0.0
Dental	0.1	0.0
LTD/Flexible Benefits/Flexible Spending	0.5	0.0
Healthcare Sustainability Fund (\$2.05)	0.1	0.0 (d)
Savings & Investments		
Interest	0.1	0.4
Performance guarantees	0.0	0.2
Forfeitures	0.0	0.0
Transfers Out of Forfeitures	0.0	(0.5) (e)
<b>TOTAL</b>	<b>(4.4)</b>	<b>(4.5)</b>
Net assets		
Beginning of the year		81.5
End of the year		77.0

(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 \$42,237

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



**ACTIVE & RETIRED COMBINED**

	For five months ended November 30, 2015	For five months ended November 30, 2014	\$ Change	% Change	Notes	
<b>1 SELF-INSURANCE</b>						1
2 City Plan, including ASO						2
3 Revenues	17,507,906	23,027,887	(5,519,981)	-24.0%	a, h	3
4 Expenses	(21,008,933)	(20,588,789)	(420,144)	2.0%		4
5 Net City Plan Excess(Shortage)	(3,501,027)	2,439,098	(5,940,125)	-243.5%		5
6 Blue Shield-Flex						6
7 Revenues	115,603,148	113,551,841	2,051,307	1.8%		7
8 Expenses	(118,437,998)	(119,586,634)	1,148,636	-1.0%		8
9 Net Blue Shield-Flex Excess(Shortage)	(2,834,850)	(6,034,793)	3,199,943	-53.0%		9
10 Delta Dental - Active only, including ASO						10
11 Revenues	19,406,306	18,715,276	691,030	3.7%	d, l	11
12 Expenses	(16,865,007)	(16,411,155)	(453,852)	2.8%		12
13 Net Delta Dental - Active Excess(Shortage)	2,541,299	2,304,121	237,178	10.3%		13
14 <b>NET SELF-INSURANCE</b>	<b>(3,794,578)</b>	<b>(1,291,574)</b>	<b>(2,503,004)</b>	<b>193.8%</b>		14
15 <b>INSURANCE PRODUCTS</b>						15
16 Blue Shield-HMO						16
17 Revenues	13,800,801	12,700,131	1,100,670	8.7%	d, l	17
18 Expenses	(13,800,801)	(12,735,756)	(1,065,045)	8.4%	d, l	18
19 Net Blue Shield HMO Excess(Shortage)	-	(35,625)	35,625	-100.0%		19
20 Kaiser-HMO						20
21 Revenues	140,268,279	140,687,924	(419,645)	-0.3%		21
22 Expenses	(141,636,311)	(140,914,757)	(721,554)	0.5%		22
23 Net Kaiser- HMO Excess(Shortage)	(1,368,032)	(226,833)	(1,141,199)	503.1%		23
24 Vision Service Plan, All (City Plan & HMO)						24
25 Revenues	2,045,075	1,984,922	60,153	3.0%	d, l	25
26 Expenses	(2,045,075)	(1,984,922)	(60,153)	3.0%	d, l	26
27 Net Vision Service Plan Excess(Shortage)	-	-	-	-		27
28						28
29 Delta Dental - Retired						29
30 Revenues	5,762,599	5,147,076	615,523	12.0%	d, l	30
31 Expenses	(5,705,456)	(5,143,790)	(561,666)	10.9%	d, l	31
32 Net Delta Dental - Retired Excess(Shortage)	57,143	3,286	53,857	1639.0%		32
33 Delta Care						33
34 Revenues	427,040	422,102	4,938	1.2%		34
35 Expenses	(425,325)	(414,948)	(10,377)	2.5%		35
36 Net Delta Care Excess(Shortage)	1,715	7,154	(5,439)	-76.0%		36
37 Pacific Union						37
38 Revenues	127,238	137,988	(10,750)	-7.8%	a	38
39 Expenses	(133,536)	(136,000)	2,464	-1.8%		39
40 Net Pacific Union Excess(Shortage)	(6,298)	1,988	(8,286)	-416.8%		40
41 Net Dental	52,560	12,428	40,132	322.9%		41
42						42
43 Long Term/Short Term Disability						43
44 Revenues	2,820,799	2,585,327	235,472	9.1%	d	44
45 Expenses	(2,820,799)	(2,585,327)	(235,472)	9.1%	d	45
46 Net Long Term/Short Term Disability Excess(Shortage)	(0)	-	(0)			46
47 Flexible Benefits						47
48 Revenues	372,179	417,199	(45,020)	-10.8%	c	48
49 Expenses	(372,179)	(421,660)	49,481	-11.7%	c	49
50 Net Flexible Benefits Excess(Shortage)	-	(4,461)	4,461	-100.0%		50
51 Flexible Spending-Dependent Care						51
52 Revenues	1,665,945	1,591,318	74,627	4.7%	m	52
53 Expenses	(1,543,632)	(1,250,981)	(292,651)	23.4%	f	53
54 Net Flexible Spending-Dependent Care Excess(Shortage)	122,313	340,337	(218,024)	-64.1%		54
55 Flexible Spending -Medical Reimbursement						55
56 Revenues	1,821,003	1,708,508	112,495	6.6%	m	56
57 Expenses	(1,463,110)	(1,123,636)	(339,474)	30.2%	f	57
58 Net Flexible Spending-Medical Reimbursement Excess(Shortage)	357,893	584,872	(226,979)	-38.8%		58
59 Healthcare Sustainability Fund (\$2.05)						59
60 Revenues	666,471	645,215	21,256	3.3%	e	60
61 Expenses	(605,494)	(499,954)	(105,540)	21.1%	e	61
62 Net Healthcare Sustainability Fund (\$2.05) Excess(Shortage)	60,977	145,261	(84,284)	-58.0%		62
63 <b>NET INSURANCE PRODUCTS</b>	<b>(774,289)</b>	<b>815,979</b>	<b>(1,590,268)</b>	<b>-194.9%</b>		63
64 <b>SAVINGS AND INVESTMENTS</b>						64
65 Interest	153,371	344,974	(191,603)	-55.5%	b	65
66 Performance guarantees	355	-	355			66
67 Forfeitures	-	-	-			67
68 <b>TOTAL SAVINGS &amp; INVESTMENTS</b>	<b>153,726</b>	<b>344,974</b>	<b>(191,248)</b>	<b>-55.4%</b>		68
69 <b>TOTAL NET EXCESS (SHORTAGE)</b>	<b>(4,415,141)</b>	<b>(130,621)</b>	<b>(4,284,520)</b>	<b>3280.1%</b>		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  
i increase in rates  
m increase in FSA participation



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

HEALTH SERVICE SYSTEM - ADMINISTRATION  
STATEMENT OF REVENUES AND EXPENDITURES  
As of November 30, 2015

YEAR-TO DATE				ANNUAL					
Fav/(Unfav)				Fav/(Unfav)					
Budget	Actual	Variance	%Var	Original Budget	Carryforward/ Changes	Revised Budget	Projection	Variance	%Var
REVENUES									
192,721	45	(192,676)	-100.0%	462,530	0	462,530	462,530	0	0.0%
4,295,306	4,295,306	0	0.0%	10,264,090	15,000	10,279,090	10,279,090	0	0.0%
349,999	349,999	0	0.0%	0	349,999	349,999	349,999	0	0.0%
4,838,026	4,645,350	(192,676)	-4.0%	10,726,620	364,999	11,091,619	11,091,619	0	0.0%
EXPENDITURES									
2,031,548	1,881,415	150,133	7.4%	4,875,716	0	4,875,716	4,821,942	53,774	-1.1%
933,951	862,371	71,580	7.7%	2,241,483	0	2,241,483	2,216,747	24,736	-1.1%
901,808	639,647	262,161	29.1%	1,923,266	241,074	2,164,340	2,092,850	71,490	-3.3%
17,375	16,162	1,213	7.0%	41,700	0	41,700	41,700	0	0.0%
31,250	0	31,250	100.0%	75,000	0	75,000	75,000	0	0.0%
705,575	491,698	213,877	30.3%	1,569,455	123,925	1,693,380	1,693,380	0	0.0%
4,621,508	3,891,293	730,215	15.8%	10,726,620	364,999	11,091,619	10,941,619	150,000	-1.4%
216,518	754,057	537,539	248%	0	0	0	150,000	150,000	