

SAN FRANCISCO HEALTH SERVICE SYSTEM

Affordable, Quality Benefits & Well-Being

Memorandum

DATE: March 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 January 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 January 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 January 2017, the fund balance is projected to be \$72.4 million as of June 30, 2017. The projected \$3.8 million increase includes reserves for unpaid claims and is a result of the following changes:

1. City Plan Self-Funded Plan - \$11.4 million decrease in fund balance resulting from:
 - a. \$0.8 million increase in fund balance from pharmacy rebates (additional information on page 3)
 - b. \$12.2 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
 - 1.4 million due to unfavorable claim experience
2. Blue Shield Flex-Funded Plan - \$11.7 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 page 3)

- \$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. \$11.9 million decrease in fund balance due to unfavorable claim experience, which increased by 8.7% over the same period of last year
3. Delta Dental Self-Funded Plan- \$3.5 million increase in fund balance associated with:
- a. \$5.3 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 January 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.

In preparation of the Healthcare Sustainability Fund budget for FY 2017-18 and FY 2018-19 which was approved at the January 9, 2017 Health Service Board meeting, a comprehensive review of all expenditures was performed. 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.

Ongoing	FY 2016-17				
	Original Budget	Revised Budget	January YTD Actuals	Projection	Balance
Revenues/Premiums	\$ 1,619,295	\$ 1,644,295	\$ 1,122,129	\$ 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	\$ 1,327,096	\$ 1,974,262	\$ -
Expenditures					
Personnel Services and Mandatory Fringes	\$ 487,734	\$ 512,734	\$ 192,402	\$ 473,940	\$ 38,794
Communications					
Open Enrollment Communications	280,168	353,212	247,480	250,051	103,161
Operations Communications	97,923	97,923	10,532	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	\$ 306,332	\$ 474,395	\$ 270,683
Wellness	30,000	130,000	49,732	79,732	50,268
Initiatives to Reduce Health Care Costs	380,500	472,670	156,145	457,670	15,000
SFGTV/Board Meetings	11,056	11,056	4,710	23,000	(11,944)
Contingency for Unforeseen Issues	102,724	102,724		150,000	(47,276)
Total Expenditures	\$ 1,619,295	\$ 1,974,262	\$ 709,321	\$ 1,658,737	\$ 315,525
Balance *	\$ -	\$ -	\$ 617,775	\$ 315,525	\$ 315,525
Carryforward for encumbrances					
Carryforward for Onetime					

* Ongoing balance to be carryforward 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 one application is under review.
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 January 31, 2017 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	\$1,028,458	October 2015 – March 2016	\$3,400,000
UHC	227,836	October 2015 – June 2016	800,000

Total	\$1,256,294		\$4,200,000
-------	-------------	--	-------------

General Fund Administration Budget (including Enterprise Content Management System)

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



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 *	30,137,965	38,367,378	(8,229,412)
3 Blue Shield Flex *	176,886,793	171,399,175	5,487,618
4 Delta Dental - Active only, including ASO	27,343,985	25,103,643	2,240,342
5 TOTAL SELF-INSURANCE	234,368,743	234,870,196	(501,452)
7 INSURANCE PRODUCTS			
8 Blue Shield-HMO	15,781,520	15,781,520	-
9 Kaiser-HMO	209,295,801	210,160,179	(864,378)
10 Vision Service Plan, All (City Plan & HMO)	2,968,296	2,968,296	-
11 Sub-total HMO	228,045,617	228,909,995	(864,378)
13 Delta Dental - Retired	7,894,496	7,810,748	83,748
14 Delta Care	579,375	579,607	(232)
15 Pacific Union	195,432	195,192	240
16 Sub-total Dental	8,669,303	8,585,547	83,756
18 Long Term/Short Term Disability	4,317,327	4,317,327	-
19 Flexible Benefits	550,775	550,775	-
20 Flexible Spending-Dependent Care	2,427,367	2,685,507	(258,140)
21 Flexible Spending -Medical Reimbursement	2,752,599	2,234,153	518,446
23 Healthcare Sustainability Fund (\$3.00)	1,122,129	796,746	325,383
24 TOTAL INSURANCE PRODUCTS	247,885,117	248,080,051	(194,934)
26 SAVINGS AND INVESTMENTS			
27 Interest	237,650	-	237,650
28 Performance guarantees	-	-	-
29 Forfeitures	-	-	-
30 TOTAL SAVINGS & INVESTMENTS	237,650	-	237,650
32 TRANSFERS OUT OF FORFEITURES			
33			
34 TOTAL FUNDS	482,491,510	482,950,246	(458,736)

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

SUMMARY - In millions	FY 16-17	FY 16-17
	Year-To Date Actual As of Jan. 2017 - Net	Projected Annual-Net
Self Insurance		
City Plan	(8.2)	(11.4) (a)
Blue Shield-Flex	5.5	11.7 (b)
Dental, Actives	2.2	3.5 (c)
Insurance Products		
Medical HMOs	(0.9)	0.0
Dental	0.1	0.0
LTD/Flexible Benefits/Flexible Spending	0.3	0.0
Healthcare Sustainability Fund (\$3.00)	0.3	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	(0.5)	3.8
Net assets		
Beginning of the year		68.6
End of the year		72.4

(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

(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 seven months ended January 31, 2017	For seven months ended January 31, 2016	\$ Change	% Change	Notes	
1 SELF-INSURANCE						1
2 City Plan, including ASO						2
3 Revenues	30,137,965	24,694,898	5,443,067	22.0%	m	3
4 Expenses	(38,367,378)	(29,414,944)	(8,952,433)	30.4%	m	4
5 Net City Plan Excess(Shortage)	(8,229,412)	(4,720,046)	(3,509,366)	74.4%		5
6 Blue Shield-Flex						6
7 Revenues	176,886,793	164,826,528	12,060,265	7.3%	l	7
8 Expenses	(171,399,175)	(167,950,658)	(3,448,517)	2.1%		8
9 Net Blue Shield-Flex Excess(Shortage)	5,487,618	(3,124,130)	8,611,748	-275.7%		9
10 Delta Dental - Active only, including ASO						10
11 Revenues	27,343,985	27,187,440	156,545	0.6%		11
12 Expenses	(25,103,643)	(23,770,878)	(1,332,765)	5.6%	f	12
13 Net Delta Dental - Active Excess(Shortage)	2,240,342	3,416,562	(1,176,220)	-34.4%		13
14 NET SELF-INSURANCE	(501,452)	(4,427,614)	3,926,162	-88.7%		14
15 INSURANCE PRODUCTS						15
16 Blue Shield-HMO						16
17 Revenues	15,781,520	19,088,664	(3,307,144)	-17.3%	m	17
18 Expenses	(15,781,520)	(19,088,664)	3,307,144	-17.3%	m	18
19 Net Blue Shield HMO Excess(Shortage)	-	-	-	0.0%		19
20 Kaiser-HMO						20
21 Revenues	209,295,801	198,717,710	10,578,091	5.3%	d, l	21
22 Expenses	(210,160,179)	(199,371,049)	(10,789,130)	5.4%	d, l	22
23 Net Kaiser- HMO Excess(Shortage)	(864,378)	(653,339)	(211,039)	32.3%		23
24 Vision Service Plan, All (City Plan & HMO)						24
25 Revenues	2,968,296	2,874,638	93,658	3.3%	d, l	25
26 Expenses	(2,968,296)	(2,874,638)	(93,658)	3.3%	d, l	26
27 Net Vision Service Plan Excess(Shortage)	-	-	-	-		27
28						28
29 Delta Dental - Retired						29
30 Revenues	7,894,496	8,009,283	(114,787)	-1.4%		30
31 Expenses	(7,810,748)	(7,993,580)	182,832	-2.3%		31
32 Net Delta Dental - Retired Excess(Shortage)	83,748	15,703	68,045	433.3%		32
33 Delta Care						33
34 Revenues	579,375	595,508	(16,133)	-2.7%		34
35 Expenses	(579,607)	(593,000)	13,393	-2.3%		35
36 Net Delta Care Excess(Shortage)	(232)	2,508	(2,740)	-109.3%		36
37 Pacific Union						37
38 Revenues	195,432	181,435	13,997	7.7%	d	38
39 Expenses	(195,192)	(187,455)	(7,737)	4.1%	d	39
40 Net Pacific Union Excess(Shortage)	240	(6,020)	6,260	-104.0%		40
41 Net Dental	83,756	12,191	71,565	587.0%		41
42						42
43 Long Term/Short Term Disability						43
44 Revenues	4,317,327	3,994,821	322,506	8.1%	d	44
45 Expenses	(4,317,327)	(3,994,821)	(322,506)	8.1%	d	45
46 Net Long Term/Short Term Disability Excess(Shortage)	-	-	-	0.0%		46
47 Flexible Benefits						47
48 Revenues	550,775	512,547	38,228	7.5%	k	48
49 Expenses	(550,775)	(512,547)	(38,228)	7.5%	k	49
50 Net Flexible Benefits Excess(Shortage)	-	-	-	0.0%		50
51 Flexible Spending-Dependent Care						51
52 Revenues	2,427,367	2,331,156	96,211	4.1%	d	52
53 Expenses	(2,685,507)	(2,706,154)	20,647	-0.8%		53
54 Net Flexible Spending-Dependent Care Excess(Shortage)	(258,140)	(374,998)	116,858	-31.2%		54
55 Flexible Spending -Medical Reimbursement						55
56 Revenues	2,752,599	2,579,587	173,012	6.7%	d	56
57 Expenses	(2,234,153)	(2,605,742)	371,589	-14.3%	j	57
58 Net Flexible Spending-Medical Reimbursement Excess(Shortage)	518,446	(26,155)	544,601	-2082.2%		58
59 Healthcare Sustainability Fund (\$3.00)						59
60 Revenues	1,122,129	937,456	184,673	19.7%	e	60
61 Expenses	(796,746)	(815,973)	19,227	-2.4%	e	61
62 Net Healthcare Sustainability Fund (\$3.00) Excess(Shortage)	325,383	121,483	203,900	167.8%		62
63 NET INSURANCE PRODUCTS	(194,934)	(920,819)	725,885	-78.8%		63
64 SAVINGS AND INVESTMENTS						64
65 Interest	237,650	217,862	19,788	9.1%	b	65
66 Performance guarantees	-	223,443	(223,443)	-100.0%		66
67 Forfeitures	-	-	-			67
68 TOTAL SAVINGS & INVESTMENTS	237,650	441,305	(203,655)	-46.1%		68
69 TOTAL NET EXCESS (SHORTAGE)	(458,736)	(4,907,127)	4,448,391	-90.7%		69

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



Health Service System
CITY & COUNTY OF SAN FRANCISCO

HEALTH SERVICE SYSTEM - ADMINISTRATION
STATEMENT OF REVENUES AND EXPENDITURES
As of January 31, 2017

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%
6,120,023	6,120,023	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%
6,726,028	6,494,793	(231,235)	-3.4%	10,918,665	374,740	11,293,405	11,293,405	0	0.0%
EXPENDITURES									
2,555,657	2,879,243	(323,586)	-12.7%	5,111,314	0	5,111,314	5,111,314	0	0.0%
1,175,900	1,286,522	(110,623)	-9.4%	2,351,799	0	2,351,799	2,351,799	0	0.0%
988,969	363,766	625,203	63.2%	1,737,982	239,956	1,977,938	1,977,938	0	0.0%
27,707	27,674	32	0.1%	51,797	3,616	55,413	55,413	0	0.0%
898,471	1,041,547	(143,077)	-15.9%	1,665,773	131,168	1,796,941	1,796,941	0	0.0%
5,646,703	5,598,753	47,949	0.8%	10,918,665	374,740	11,293,405	11,293,405	0	0.0%
1,079,326	896,040	(183,286)	-17%	0	0	0	0	0	0.0%