

# SAN FRANCISCO HEALTH SERVICE SYSTEM

Affordable, Quality Benefits & Well-Being

## Memorandum

DATE: May 13, 2021

TO: Dr. Stephen Follansbee, President and Members of the Health Service Board

FROM: Larry Loo, MPH Chief Financial Officer

RE: Health Service Board Financial Report as of March 31, 2021

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The following is a report on the sources of revenues and uses or expenses of the Employee Benefit Trust Fund (Trust Fund) and the General Fund Administration Budget through nine months of Fiscal Year (FY) 2020-21 ending March 31, 2021. This report also includes the projected fiscal year-end changes. The Health Sustainability Fund, which is a part of the Trust Fund is reported out in additional detail. The discussion below is based on the most complete information available for the reporting period and are subject to adjustments as additional transactions throughout the fiscal year are recognized.

### Executive Summary

#### **Employee Benefit Trust Fund**

- Projecting an \$16.5 M increase by fiscal year-end (FYE) in the fund balance, from \$116.1 M at prior fiscal year-end June 30, 2020 to \$132.6 M on June 30, 2021
- The self-insured plans project a FYE increase of \$16 M in the fund balance:
  - UHC PPO: \$2.7 M projected increase
  - Blue Shield Access +: \$12.8 M projected increase
  - Blue Shield Trio: \$2.8 M projected increase
  - Delta Dental PPO (Actives only): \$2.3 M projected decrease
- The self-insured plans cumulative year-to-date (YTD) expenses compared to revenues reported through nine months are as follows:
  - UHC PPO: cumulative expenses were \$1.7 M less than revenues
  - Blue Shield Access +: cumulative expenses were \$9.0 M less than revenues
  - Blue Shield Trio: cumulative expenses were \$1.9 M less than revenues
  - Delta Dental PPO plan (Actives only): cumulative expenses were \$1.9 M greater than revenues
- Insured plans and other non-chartered benefit revenues and expenses are projected to net each other out by fiscal year-end. Cumulative expenses YTD are \$407 K greater than revenues.
- Healthcare Sustainability Fund: projecting a FYE \$4.0 M increase in the fund balance
- Performance Guarantees: \$176 K received through nine months
- Pharmacy Rebates: received \$3.9 M in pharmacy rebates through nine months and project a FYE total of \$7.3 M.
- Interest: Projecting a FYE increase of \$1.2 M

#### **General Fund Administrative Budget**

- Projecting no net change in the year-end balance (no surplus or shortfall).

**Employee Benefit Trust Fund (Trust Fund)**

At the beginning of FY 2020-2021, the Trust Fund beginning balance was \$116.1 M. Based on activity through nine months ending March 31, 2021, the FYE Trust Fund balance is projected to be \$132.6 M at the end of the fiscal year. The projected \$16.5 M increase includes reserves for unpaid claims in the self-funded health plans.

Overall, the self-funded plans are projected to generate an increase to the fund balance. Discussion at the self-funded plan level follows below.

The cumulative year-to-date March revenues and expenses for the insured plans and other benefits includes an increase reconciliation of revenues and expenses from the end of the last calendar year and beginning of plan year 2021.

The following table summarizes the projected changes in fund balance.

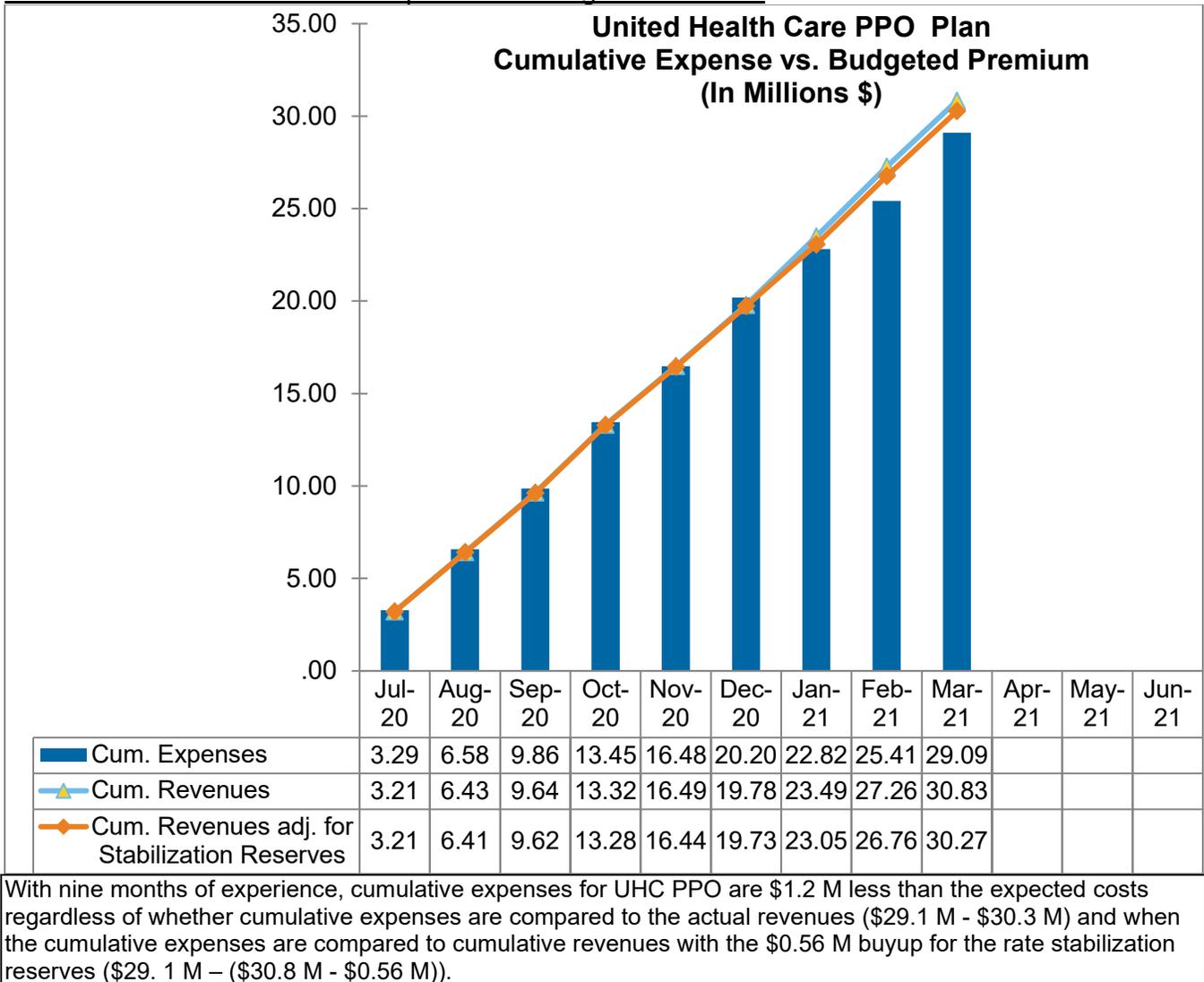
	Projected Fiscal Year-End Change in Fund Balance (in Millions)	Page
United Health Care PPO Self-Funded Plan*	\$2.7	3
Blue Shield Access+ Flex-Funded Plan*	12.8	4
Blue Shield Trio Flex-Funded Plan*	2.8	5
Delta Dental Self-Funded Plan (Actives only)	(2.3)	6
Health Care Sustainability Fund	(0.39)	7
Interest	- -	7
Performance Guarantees	0.18	7
Performance Guarantees – Surrogacy and Adoption Assistance Plan	(0.06)	7
Forfeitures	0.11	7
Transfers Out	(0.63)	7
TOTAL	\$16.5	
* Includes Pharmacy Rebates	\$7.3	8

**United Health Care PPO**

Fiscal year-end projection of a \$2.7 M increase in fund balance is due to the following:

- Rate Stabilization Effect:
  - \$58 K associated with the increase in 2020 rates (for the first six months of FY 2020-21) due to rating buy-up of the 2018 calendar year-end claims stabilization deficit
  - \$372 K associated with the increase in 2021 rates (for the second six months of FY 2020-21) due to rating buy-up of the 2019 calendar year-end claims stabilization deficit
- Pharmacy Rebate(s):
  - \$1.5 M increase due to pharmacy rebates expected by FYE 2020-21
- Claims:
  - \$765 K increase due to trended favorable claim expense

**Fiscal Year-to-Date Cumulative Experience Through Nine Months**

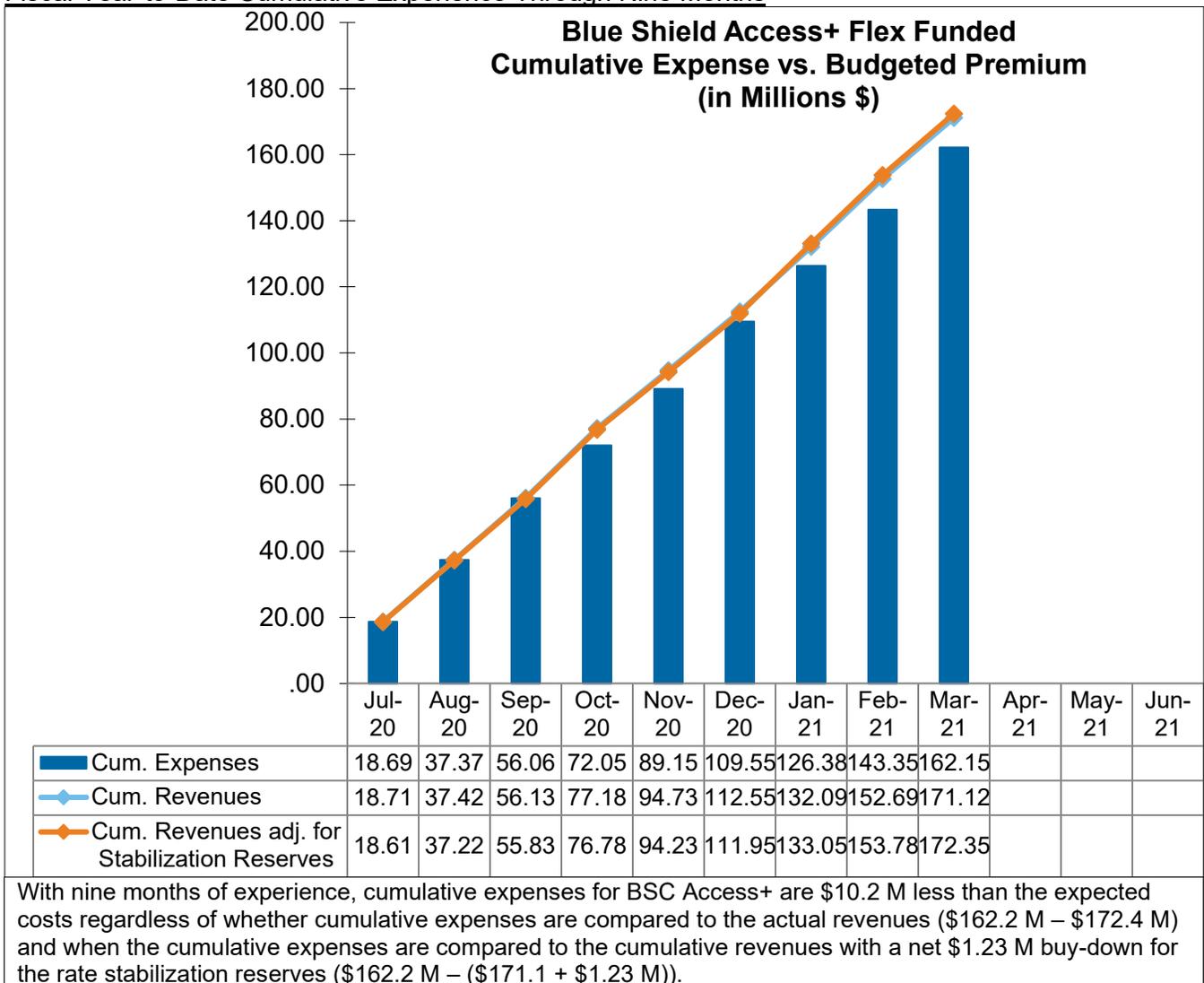


**Blue Shield Access+ Flex Funded Plan**

Fiscal year-end projection of a \$12.8 M increase in fund balance is projected due to the following:

- Rate Stabilization Effect:
  - \$597K associated with the increase in 2020 rates (for the first six months of FY 2020-21) due to the rating buy-up of the 2018 year-end claim stabilization deficit
  - \$807K associated with the decrease in 2021 rates (for the second six months of FY 2020-21) due to the rating buy-down from the 2019 year-end claim stabilization surplus
- Pharmacy Rebate(s):
  - \$4.0 M of pharmacy rebates
- Claims:
  - \$9.0 M increase due to trended favorable claims expense

**Fiscal Year-to-Date Cumulative Experience Through Nine Months**

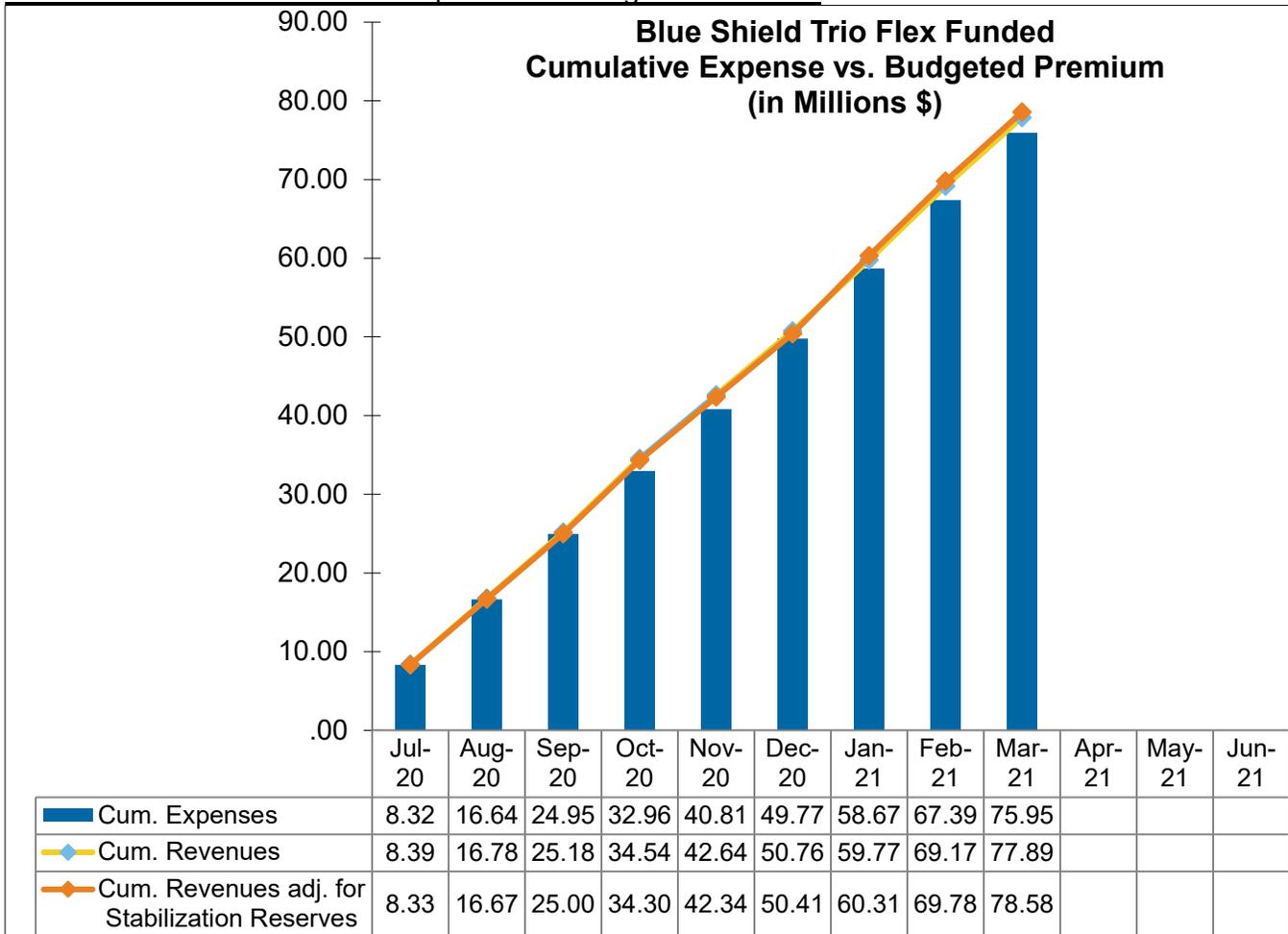


**Blue Shield Trio Flex-Funded Plan**

Fiscal year-end projection of a \$2.8 M increase in fund balance is projected due to the following:

- Rate Stabilization Effect:
  - \$0.35 million associated with the increase in 2020 rates (for the first six months of FY 2020-21) due to the rating buy-up of the 2018 year-end claim stabilization deficit
  - \$0.47 million associated with the decrease in 2021 rates (for the second six months of FY 2020-21) due to the rating buy-down from the 2019 year-end claim stabilization surplus
- Pharmacy Rebate(s):
  - \$1.8 M of pharmacy rebates
- Claims:
  - \$1.1 M increase due to trended favorable claims expense

**Fiscal Year-to-Date Cumulative Experience Through Nine Months**



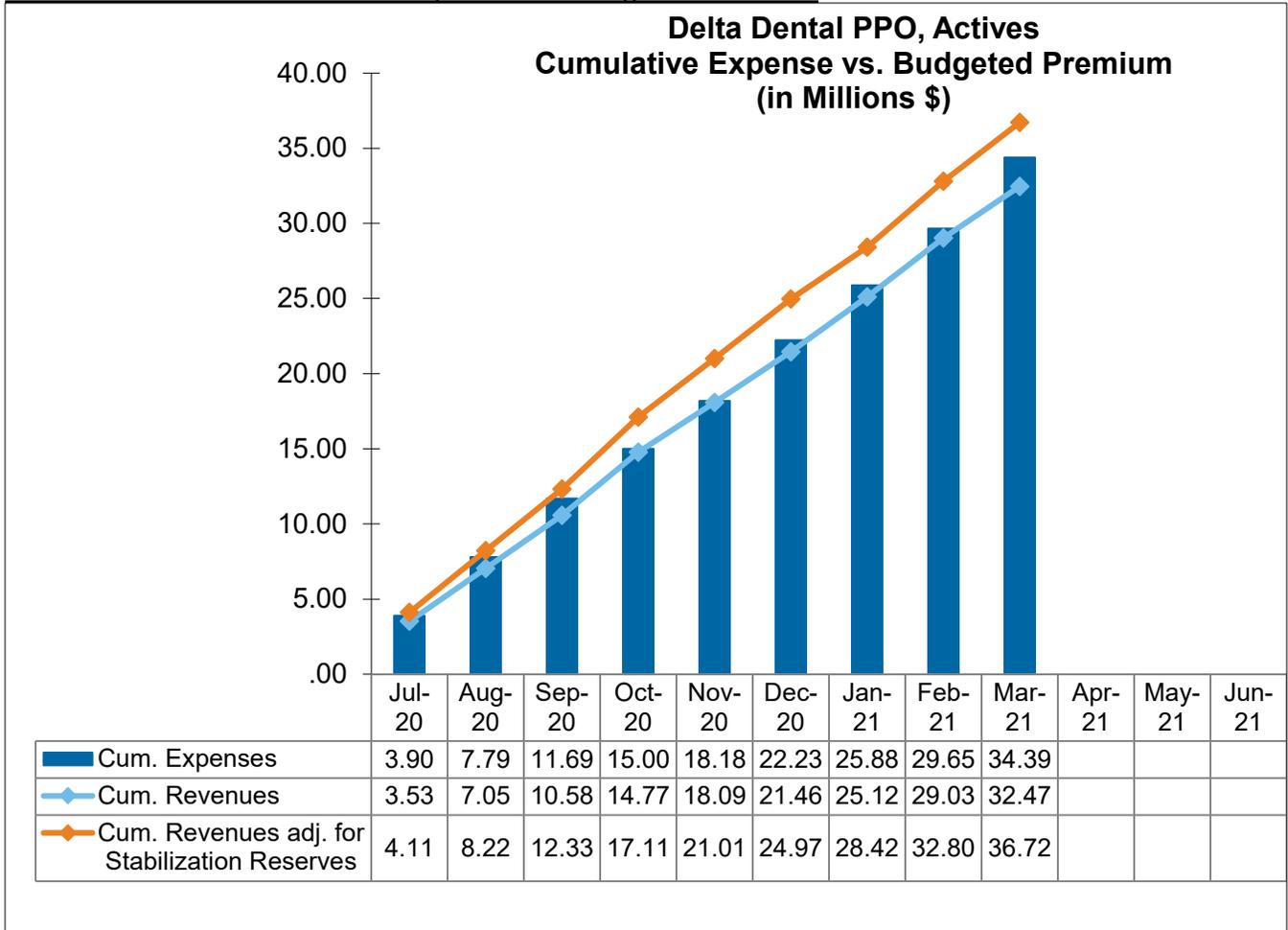
With nine months of experience, cumulative expenses for BSC Trio are \$2.6 M less than the expected costs regardless of whether cumulative expenses are compared to the actual revenues (\$76.0 M – \$78.6 M) and when cumulative expenses are compared to cumulative revenues with the net \$0.7 M buy down for the rate stabilization reserves (\$76.0 M – (\$77.9+\$0.7 M)).

**Delta Dental PPO (Actives Only) Self-Funded Plan**

Fiscal year-end projection of a \$2.3 M decrease in fund balance is projected due to the following:

- Rate Stabilization Effect:
  - \$3.5 million decrease in fund balance associated with subsidizing 2020 rates (for the first six months of FY 2020-21) from the 2018 year-end claim stabilization reserve
  - \$2.8 million decrease in fund balance associated with subsidizing 2020 rates (for the second six months of FY 2020-21) from the 2019 year-end claim stabilization reserve
- Claims:
  - \$4.0 M increase due to trended favorable claims expense

**Fiscal Year-to-Date Cumulative Experience Through Nine Months**



With nine months of experience, cumulative expenses for Delta Dental PPO for Actives are \$2.3 M less than the expected costs regardless of whether the cumulative expenses are compared to actual revenues (\$34.4 M – \$36.7 M) and when cumulative expenses are compared with cumulative revenues with the \$4.3 M buy down from the rate stabilization reserve (\$34.4 M – (\$32.5 M + \$4.3 M)).

**Other Trust Fund Notes**

**Healthcare Sustainability Fund**

With nine months of actual revenues and expenses in the Health Care Sustainability Fund, there is a projected fiscal year-end 2020-21 positive balance of \$4.0 million . When the carryforward amount from the previous fiscal year is netted out, however, there is a projected net reduction of \$386 K.

<b>SAN FRANCISCO HEALTH SERVICE SYSTEM</b> <small>Affordable, Quality Benefits &amp; Well-Being</small>	<b>Healthcare Sustainability Fund FY 2020-21</b>		
	<b>FY 2020-21 Revised Budget</b>	<b>FY 2020-21 Actuals Mar YTD</b>	<b>FY 2020-21 Projection</b>
<b>REVENUES/PREMIUMS</b>			
Annual Revenues	\$ 2,560,688	\$ 1,928,373	\$ 2,560,688
Carryforward from Fund Balance	4,401,072	4,401,072	4,401,072
<b>TOTAL</b>	<b>\$ 6,961,760</b>	<b>\$ 6,329,446</b>	<b>\$ 6,961,760</b>
<b>EXPENDITURES</b>			
Annual Expenditures	\$ 3,060,356	\$ 1,622,670	\$ 2,420,571
One-Time Expenditures	\$ 1,074,537	\$ 207,487	\$ 526,287
<b>TOTAL</b>	<b>\$ 4,134,893</b>	<b>\$ 1,830,156</b>	<b>\$ 2,946,858</b>
<b>BALANCE</b>	<b>\$ 2,826,867</b>	<b>\$ 4,499,290</b>	<b>\$ 4,014,902</b>
*Projection based on 9 months of actuals including the carryforward funding from FY 2019-20			

**Interest**

Year-to-date, \$638 K interest has been posted in the Trust Fund. There is a projected fiscal year-end increase to the fund balance of \$1.2 M.

**Performance Guarantees**

A total of \$176K of Performance Guarantees have been received year-to-date in this fiscal year.

**Performance Guarantees for Adoption and Surrogacy Assistance Plan**

Performance guarantees are used to fund the Adoption and Surrogacy Assistance Plan. Through nine months, a total of \$55,116 has been reimburse to members under this program.

**Forfeitures and Transfers Out**

The IRS allows forfeitures from Flexible Spending Accounts to be used to fund the administration of the accounts. Since the administrative funding is in the General Fund and the forfeitures reside in the Trust, a transfer is made at the close of the fiscal year. There was a posting of \$108 K in October from the prior fiscal year. Projected year-end transfers are impacted by the allowance for unused 2020 Dependent Care balance to rollover into 2021 (see General Fund notes below.)

Pharmacy Rebates

The pharmacy rebates from the self-insured health plans are normally reported at the end of each quarter. The following table summarizes the FY 2020-21 pharmacy rebates received as of this report and fiscal year-end projection. Through March 31, 2021, \$3.93 M of pharmacy rebates were received. These rebates offset the claims expense of the self-funded plans above.

Self-Insured Plan	Amount Received Year-to-Date	Projected Fiscal Year-End
UHC	\$912,856	\$1,500,000
Blue Shield (Access + and Trio)	3,016,618	5,800,000
<b>Total</b>	<b>\$3,929,474</b>	<b>\$7,300,000</b>

**GENERAL FUND ADMINISTRATION BUDGET**

Based on the first nine months year-to-date and an updated impact assessment of decreased revenues, SFHSS needed to reduce expenditures to balance the budget to end the fiscal year in a neutral position, no surpluses or shortfalls. In January, the Board adopted a revision to the Dependent Care Flexible Spending Accounts to allow for unused calendar year 2020 balances to rollover for use in calendar year 2021. This reduced the project Other Revenue by \$267K. Personnel savings (\$131K) due to attrition and Non-Personnel savings (\$134K) due to the deferment of in person, onsite programs were found to balance the decrease in projected revenues.

<div style="display: flex; justify-content: space-between; align-items: center;"> <div style="font-size: small;"> <b>SAN FRANCISCO</b>  <b>HEALTH SERVICE SYSTEM</b>                      Affordable, Quality Benefits &amp; Well-Being                 </div> <div style="text-align: center;"> <b>General Fund Administration Budget FY 2020-21</b>  <b>ANNUALIZED AS OF 03/31/21</b> </div> </div>						
	FY 2020-21 Approved Budget	FY 2020-21 Revised Budget	Non-COVID-19 Actuals	COVID-19 Actuals	Total Actual YTD	FYE 2020-21 Projection
<b>REVENUES</b>						
Non-Operating Revenue	\$ 9,131	\$ 9,131	\$ -	\$ -	\$ -	\$ -
Work Order Recovery	11,467,900	11,467,900	8,600,980	-	8,600,980	11,467,900
Other Revenue	625,297	625,297	-	-	-	358,000
General Fund Carryforward	-	344,070	344,070	-	344,070	344,070
Interfund Transfer	-	101,477	101,477	-	101,477	101,477
<b>TOTAL REVENUES</b>	<b>\$ 12,102,328</b>	<b>\$ 12,547,875</b>	<b>\$ 9,046,527</b>	<b>\$ -</b>	<b>\$ 9,046,527</b>	<b>\$ 12,271,447</b>
<b>EXPENDITURES</b>						
Personnel Services	\$ 5,203,105	\$ 5,280,982	\$ 3,844,670	\$ 92,463	\$ 3,937,133	\$ 5,214,247
Mandatory Fringe Benefits	2,680,495	2,704,095	1,968,907	41,627	2,010,533	2,639,907
Non-personnel Services	2,299,146	2,475,244	1,557,795	1,352	1,559,147	2,341,044
Materials & Supplies	49,085	65,660	21,903	-	21,903	52,660
Services of Other Departments	1,870,497	2,021,894	1,014,418	-	1,014,418	2,021,894
<b>TOTAL EXPENDITURES</b>	<b>\$ 12,102,328</b>	<b>\$ 12,547,875</b>	<b>\$ 8,407,693</b>	<b>\$ 135,442</b>	<b>\$ 8,543,135</b>	<b>\$ 12,269,752</b>
<b>BALANCE</b>	<b>\$ -</b>	<b>\$ 0</b>	<b>\$ 638,834</b>	<b>\$ (135,442)</b>	<b>\$ 503,392</b>	<b>\$ 1,695</b>

\*Projection based on 9 months of actuals including the carryforward funding from FY 2019-20

STATEMENTS OF REVENUES AND EXPENSES  
FY20-21 VS FY19-20  
YEAR-TO-DATE: MARCH 31, 2021

ACTIVE & RETIRED COMBINED	For 9 Months Ended March 31, 2021	For 9 Months Ended March 31, 2020	\$ Change	% Change
<b>SELF-INSURANCE</b>				
UHC PPO, including ASO				
Revenues	30,825,487	28,388,180	2,437,307	8.6% i
Expenses	(29,094,268)	(29,347,786)	253,518	-0.9%
Net UHC PPO Excess(Shortage)	1,731,219	(959,606)	2,690,825	-280.4%
Blue Shield-Access+				
Revenues	171,123,999	171,499,973	(375,974)	-0.2%
Expenses	(162,147,642)	(165,476,292)	3,328,650	-2.0%
Net Blue Shield-Access Excess(Shortage)	8,976,358	6,023,681	2,952,677	49.0%
Blue Shield-Trio				
Revenues	77,889,164	77,835,358	53,806	0.1%
Expenses	(75,946,159)	(81,576,264)	5,630,105	-6.9% j
Net Blue Shield-Trio Excess(Shortage)	1,943,005	(3,740,906)	5,683,911	-151.9%
Delta Dental - Active only, including ASO				
Revenues	32,468,406	34,124,757	(1,656,352)	-4.9% h
Expenses	(34,391,391)	(33,649,932)	(741,459)	2.2%
Net Delta Dental - Active Excess(Shortage)	(1,922,986)	474,825	(2,397,811)	-505.0%
<b>NET SELF-INSURANCE</b>	<b>10,727,596</b>	<b>1,797,994</b>	<b>8,929,602</b>	<b>496.6%</b>
<b>INSURANCE PRODUCTS</b>				
Kaiser-HMO				
Revenues	345,296,870	326,644,738	18,652,132	5.7% d, l
Expenses	(344,682,379)	(324,563,577)	(20,118,802)	6.2% d, l
Net Kaiser- HMO Excess(Shortage)	614,490	2,081,161	(1,466,670)	-70.5%
UHC MAPD				
Revenues	64,029,885	57,759,041	6,270,844	10.9% d, l
Expenses	(64,029,885)	(57,759,041)	(6,270,844)	10.9% d, l
Net UHC MAPD Excess(Shortage)	0	0	0	
Vision Service Plan, All (City Plan & HMO)				
Revenues	6,639,661	6,172,396	467,264	7.6% d, l
Expenses	(6,644,212)	(6,149,981)	(494,232)	8.0% d, l
Net Vision Service Plan Excess(Shortage)	(4,552)	22,416	(26,968)	
Delta Dental - Retired				
Revenues	12,529,121	12,224,371	304,750	2.5%
Expenses	(12,529,121)	(12,184,827)	(344,294)	2.8%
Net Delta Dental - Retired Excess(Shortage)	0	39,545	(39,545)	-100.0%
Delta Care				
Revenues	609,219	656,152	(46,933)	-7.2% a
Expenses	(597,783)	(646,966)	49,183	-7.6% a
Net Delta Care Excess(Shortage)	11,436	9,185	2,250	24.5%
UHC Dental				
Revenues	331,932	341,060	(9,129)	-2.7%
Expenses	(337,111)	(339,474)	2,363	-0.7%
Net UHC Dental Excess(Shortage)	(5,179)	1,586	(6,765)	-426.6%
Net Dental	6,257	50,316	(44,059)	-87.6%
Long Term/Short Term Disability				
Revenues	5,538,493	5,586,859	(48,366)	-0.9%
Expenses	(5,538,302)	(5,460,597)	(77,706)	1.4%
Net Long Term/Short Term Disability Excess(Shortage)	191	126,263	(126,072)	
Flexible Benefits				
Revenues	2,368,558	2,156,188	212,370	9.8% g
Expenses	(2,365,420)	(2,156,005)	(209,416)	9.7% g
Net Flexible Benefits Excess(Shortage)	3,138	183	2,955	0.1%
Flexible Spending-Dependent Care				
Revenues	3,085,065	4,360,757	(1,275,692)	-29.3% c
Expenses	(3,459,546)	(4,700,773)	1,241,227	-26.4% j
Net Flexible Spending-Dependent Care Excess(Shortage)	(374,481)	(340,015)	(34,466)	10.1%
Flexible Spending -Medical Reimbursement				
Revenues	6,799,530	6,530,820	268,709	4.1% d
Expenses	(7,451,991)	(6,040,167)	(1,411,824)	23.4% f
Net Flexible Spending-Medical Reimbursement Excess(Shortage)	(652,461)	490,653	(1,143,114)	-233.0%
Best Doctors (discontinued on 1/1/20)				
Revenues	0	487,668	(487,668)	-100.0% b
Expenses	0	(486,169)	486,169	-100.0% b
Net Best Doctors Excess(Shortage)	-	1,499	(1,499)	
Adoption & Surrogacy				
Expenses	(55,116)	(63,312)	8,195	-12.9%
Healthcare Sustainability Fund (\$3.00)				
Revenues	1,928,373	1,916,073	12,301	0.6%
Expenses	(1,830,156)	(1,627,938)	(202,218)	12.4% e
Net Healthcare Sustainability Fund (\$3.00) Excess(Shortage)	98,217	288,135	(189,918)	-65.9%
<b>NET INSURANCE PRODUCTS</b>	<b>(364,317)</b>	<b>2,657,299</b>	<b>(3,021,616)</b>	<b>-113.7%</b>
<b>SAVINGS AND INVESTMENTS</b>				
Interest	638,095	1,373,147	(735,052)	
Performance guarantees	176,283	317,814	(141,531)	
Forfeitures	108,942	0	0	
<b>TOTAL SAVINGS &amp; INVESTMENTS</b>	<b>923,320</b>	<b>1,690,961</b>	<b>(876,583)</b>	
<b>TOTAL NET EXCESS (SHORTAGE)</b>	<b>11,286,599</b>	<b>6,146,254</b>	<b>5,031,403</b>	<b>81.9%</b>

Notes: a decrease in membership  
b discontinued on 1/1/20  
c decrease in deductions  
d increase in membership  
e \$3 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  
j decrease in claims

**STATEMENT OF REVENUES AND EXPENSES  
FY 2020-2021  
FOR 9 MONTHS ENDED MARCH 31, 2021**

<b>ACTIVE &amp; RETIRED COMBINED</b>	<b>Year-To-Date Revenues</b>	<b>Year-To-Date Expenses</b>	<b>Year-To-Date Net Excess (Shortage)</b>
<b>SELF-INSURANCE</b>			
UHC PPO, including ASO *	30,825,487	29,094,268	1,731,219
Blue Shield Access+ *	171,123,999	162,147,642	8,976,358
Blue Shield Trio *	77,889,164	75,946,159	1,943,005
Delta Dental - Active only, including ASO	32,468,406	34,391,391	(1,922,986)
<b>TOTAL SELF-INSURANCE</b>	<b>312,307,056</b>	<b>301,579,460</b>	<b>10,727,596</b>
<b>INSURANCE PRODUCTS</b>			
UHC MAPD	64,029,885	64,029,885	-
Kaiser-HMO	345,296,870	344,682,379	614,490
Vision Service Plan, All (City Plan & HMO)	6,639,661	6,644,212	(4,552)
Sub-total HMO	415,966,415	415,356,477	609,939
Delta Dental - Retired	12,529,121	12,529,121	-
Delta Care	609,219	597,783	11,436
UHC Dental	331,932	337,111	(5,179)
Sub-total Dental	13,470,271	13,464,015	6,257
Long Term/Short Term Disability	5,538,493	5,538,302	191
Flexible Benefits	2,368,558	2,365,420	3,138
Flexible Spending-Dependent Care	3,085,065	3,459,546	(374,481)
Flexible Spending -Medical Reimbursement	6,799,530	7,451,991	(652,461)
Best Doctors (discontinued on 1/1/20)	-	-	-
Healthcare Sustainability Fund (\$3.00)	1,928,373	1,830,156	98,217
Adoption & Surrogacy		55,116	(55,116)
<b>TOTAL INSURANCE PRODUCTS</b>	<b>449,156,706</b>	<b>449,521,023</b>	<b>(364,317)</b>
<b>SAVINGS AND INVESTMENTS</b>			
Interest	638,095		638,095
Performance guarantees	176,283		176,283
Forfeitures	108,942		108,942
<b>TOTAL SAVINGS &amp; INVESTMENTS</b>	<b>923,320</b>		<b>923,320</b>
<b>TRANSFERS OUT OF FORFEITURES</b>			<b>0</b>
<b>TOTAL FUNDS</b>	<b>762,387,082</b>	<b>751,100,483</b>	<b>11,286,599</b>

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

	<b>FY20-21</b>	<b>FY20-21</b>	
	Year-to-Date Actual	Projected Year-End	
	Net as of 03/31/21	Annual Net	
<b>SUMMARY</b>			
<b>Self Insurance</b>			
UHC PPO	1,731,219	2,695,650	(a)
Blue Shield-Access+	8,976,358	12,791,334	(b)
Blue Shield-Trio	1,943,005	2,806,125	(b)
Delta Dental PPO, Actives	(1,922,986)	(2,338,481)	(c)
<b>Insurance Products</b>			
Medical HMOs	609,939	-	
Dental	6,257	-	
LTD/Flexible Benefits/FSA/Best Doctors	(1,023,613)	-	
Healthcare Sustainability Fund (\$3.00)	98,217	(386,170)	(d)
<b>Savings &amp; Investments</b>			
Interest	638,095	1,276,191	
Performance guarantees	176,283	176,283	(e)
Performance guarantees - Surrogacy and adoption	(55,116)	(55,116)	(f)
Forfeitures	108,942	108,942	
Transfers Out	0	(625,297)	(g)
<b>TOTAL</b>	<b>11,286,599</b>	<b>16,449,460</b>	
<b>Net assets</b>			
Beginning of the year		116,114,257	
End of the year		132,563,717	

- (a) Annual Projection is net of claim stabilization of \$0.1 million to increase 2020 rates, \$0.4 million to increase 2021 rates, and Pharmacy rebate of \$1.5 million  
(b) Annual Projection is net of claim stabilization of \$0.9 million to increase 2020 rates, \$1.3 million to decrease 2021 rates, and Pharmacy rebate of \$5.8 million  
(c) Annual Projection is net of claim stabilization of \$3.5 million to reduce 2020 rates and \$2.8 million to reduce 2021 rates  
(d) \$3.00 per member per month for communications, wellness, actuarial work; is part of a total premium.  
(e) Only reflects performance guarantees received in FY 2020-2021  
(f) Reflects use of fund balance  
(g) Transfer of \$0.6M from forfeitures to General Fund per FY 2020-2021 budget