

**SAN FRANCISCO HEALTH SERVICE SYSTEM
OTHER EMPLOYEE BENEFIT TRUST FUND**

Financial Statements and
Required Supplementary Information
(With Independent Auditor's Reports Thereon)

Years Ended June 30, 2021 and 2020



Certified
Public
Accountants

**SAN FRANCISCO HEALTH SERVICE SYSTEM
OTHER EMPLOYEE BENEFIT TRUST FUND**

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Independent Auditor's Report

Members of the Health Service Board,
Honorable Mayor and Members of the Board of Supervisors
City and County of San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of the San Francisco Health Service System Other Employee Benefit Trust Fund (the Trust), managed by Health Service System (the System), a department of the City and County of San Francisco, California (the City), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Francisco Health Service System Other Employee Benefit Trust Fund as of June 30, 2021 and 2020, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2021 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



San Francisco, California
October 13, 2021

SAN FRANCISCO HEALTH SERVICE SYSTEM OTHER EMPLOYEE BENEFIT TRUST FUND

Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2021 and 2020

The management of the San Francisco Health Service System (the System), a department of the City and County of San Francisco (the City), is pleased to provide this overview and analysis of the financial performance as of and for the fiscal years ended June 30, 2021 and 2020. We encourage readers to consider the information presented below in conjunction with the financial statements and notes, which follow.

The System is a department of the City that is reflected as an Other Employee Benefit Trust Fund (the Trust) and is also referred to as the San Francisco Health Service System Trust Fund in the City's Annual Comprehensive Financial Report (ACFR or Annual Report). The Trust is distinguished from the Retiree Health Care Trust Fund in that it pays for the employee and retiree current benefits.

The System is the primary purchaser and administrator of health, dental, and other non-retirement/pension benefits for employees and retirees (and their respective eligible dependents) of the City, the San Francisco Unified School District, the San Francisco Community College District, and the San Francisco Superior Court. The members covered by the System decreased by 0.5% from 71,359 as of June 30, 2020 to 71,004 as of June 30, 2021. The System is governed by the Health Service Board (HSB) as described in note 1 to the financial statements.

Medical benefits during the fiscal years are provided to members of the System through six plan choices:

- United Healthcare (UHC) administered self-insured Preferred Provider Organization (PPO) (UHC PPO)
- United Healthcare (UHC) fully insured Medicare Advantage Prescription Drug PPO (UHC MAPD)
- Kaiser Permanente fully insured Health Maintenance Organization (HMO)
- Kaiser Permanente fully insured Senior Advantage, a Medicare Advantage Health Maintenance Organization Plan (HMO)
- Blue Shield of California Access+ HMO Plan (flex-funded plan with fully insured, capitated component for professional services provider services, and self-insured components including claims)
- Blue Shield of California Trio HMO Plan (flex-funded plan with fully insured capitated component for professional services provider services, and self-insured components including claims).

Each of the above plan choices includes a basic vision benefit provided through Vision Service Plan (VSP). There is also a fully employee paid Premium Vision Plan option available.

The UHC PPO (previously called the City Health Plan), which includes medical and prescription drug benefits, is a self-insured indemnity plan for active and early retired members and their dependents where the risk of loss due to claims in excess of revenues is borne by the Trust. The UHC MAPD also includes medical and prescription drug benefits and is a fully insured PPO plan for Medicare eligible members and their dependents.

The Kaiser Permanente HMO plan, for active and early retired members and their dependents, is a traditional, fully insured, HMO, where the risk of loss due to excess claims for a given fiscal year is borne by the HMO. The Kaiser Permanente Senior Advantage HMO plan is a fully insured plan for Medicare eligible members and their dependents.

**SAN FRANCISCO HEALTH SERVICE SYSTEM
OTHER EMPLOYEE BENEFIT TRUST FUND**

Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2021 and 2020

The Blue Shield of California Access+ HMO and Trio HMO Plans are flex-funded plans. The flex-funded plans have a fully insured, capitated component for professional provider services. Hospital and pharmacy services are self-insured, where the risk of loss due to claims in excess of revenues is borne by the Trust. Effective January 1, 2018, Blue Shield of California began offering two plan choices. In addition to the broad Blue Shield network of doctors (Access+), members of the System can select a narrower network of doctors (Trio) and hospitals at a lower premium.

Dental benefits during the fiscal years are provided through three plan choices:

- Delta Dental PPO a dental Preferred Provider Organization
- Delta Care (PMI, DHMO) a Dental Health Maintenance Organization
- United Healthcare Dental (formerly known as Pacific Union) (DHMO).

The Delta Dental (PPO) plan provided to active employees is a self-insured indemnity plan, administered by Delta Dental. Similar to the City Health Plan, however, the risk of loss due to claims in excess of revenues is borne by the Trust. The Delta Dental (PPO) plan offered to retired employees is a fully insured plan, where the risk of loss for a given fiscal year is borne by Delta Dental. The Delta Care (PMI, DHMO) dental plan and United Healthcare Dental (DHMO) plan are managed care dental plans and are fully insured with respect to both active and retired employees.

Overview of Financial Statements

The following discussion is intended to serve as an introduction to the Trust's financial statements, which consist of the statements of net position available for health benefits, the statements of changes in net position available for health benefits, and notes to financial statements:

- The statements of net position available for health benefits are a snapshot of account balances as of June 30, 2021 and 2020. These statements show assets, liabilities, and net position available for health benefits as of those dates.
- The statements of changes in net position available for health benefits show additions and deductions to the Trust's net position during the fiscal years ended June 30, 2021 and 2020.
- Notes to the basic financial statements provide additional information that is essential to a full understanding of the numbers in the financial statements.

The financial statements and accompanying notes are presented in all material respects in accordance with the basis of accounting and accounting principles, as explained in note 2 to the basic financial statements. The Trust presents basic financial statements reflecting full accrual basis accounting.

Financial Analysis – Condensed Schedule of Net Position Available for Health Benefits

As of June 30, 2021, there was \$125.9 million in net position available to meet future health care obligations. This compares to \$116.1 million as of June 30, 2020 and \$92.2 million as of June 30, 2019.

	2021	2020	2019	2021 - 2020		2020 - 2019	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Total assets	\$ 166,218,929	\$ 155,029,422	\$ 130,430,734	\$ 11,189,507	7.2%	\$ 24,598,688	18.9%
Total liabilities	40,317,422	38,915,165	38,272,203	1,402,257	3.6%	642,962	1.7%
Net position	<u>\$ 125,901,507</u>	<u>\$ 116,114,257</u>	<u>\$ 92,158,531</u>	<u>\$ 9,787,250</u>	8.4%	<u>\$ 23,955,726</u>	26.0%

SAN FRANCISCO HEALTH SERVICE SYSTEM OTHER EMPLOYEE BENEFIT TRUST FUND

Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2021 and 2020

Fiscal Year 2021

The net position available for health benefits increased by \$9.8 million in 2021. The components of the increases are:

- \$1.1 million increase in the UHC PPO net position primarily due to pharmacy rebates.
- \$11.0 million increase in the Blue Shield flex-funded plan net position was due to excess premium equivalents over claim costs of \$4.5 million, pharmacy rebates of \$6.9 million, and offset by use of claim stabilization funding, per HSB approved policy, of \$0.4 million.
- \$3.2 million decrease in the dental plans net position was due to excess premium equivalents over claim costs of \$3.1 million offset by claim stabilization, per HSB approved policy, of \$6.3 million.
- \$0.9 million increase in Kaiser plan net position was based on pay calendars for the San Francisco Unified School District, and the San Francisco Community College District; contractual provisions governing the timing of premium payments; and members moving from active to retiree and from non-Medicare to Medicare status.
- \$0.2 million increase in administrative savings.
- \$0.7 million decrease in flexible spending account employee contributions over claim reimbursements to participants.
- \$0.5 million increase in Trust Fund interest income, other investment earnings, performance guarantee penalties, and forfeitures.

Fiscal Year 2020

The net position available for health benefits increased by \$24.0 million in 2020. The components of the increases are:

- \$0.3 million increase in the City Health Plan net position primarily due to pharmacy rebates.
- \$10.6 million increase in the Blue Shield flex-funded plan net position was due to excess premium equivalents over claim costs of \$1.4 million, pharmacy rebates of \$6.7 million, and use of claim stabilization funding, per HSB approved policy, of \$2.5 million.
- \$8.2 million increase in the dental plans net position was due to excess premium equivalents over claim costs of \$13.8 million offset by claim stabilization, per HSB approved policy, of \$5.6 million.
- \$0.2 million increase in Kaiser plan net position was based on pay calendars for the San Francisco Unified School District, and the San Francisco Community College District; contractual provisions governing the timing of premium payments; and members moving from active to retiree and from non-Medicare to Medicare status.
- \$0.2 million increase in administrative savings.
- \$1.4 million increase in flexible spending account employee contributions over claim reimbursements to participants.
- \$3.1 million increase in Trust Fund interest income, other investment earnings, performance guarantee penalties, and forfeitures.

SAN FRANCISCO HEALTH SERVICE SYSTEM OTHER EMPLOYEE BENEFIT TRUST FUND

Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2021 and 2020

Fiscal Year 2021

- Cash and investments held with the City Treasurer as of June 30, 2021 totaled \$137.0 million compared to \$126.8 million as of June 30, 2020, an increase of 8.1 percent. The cash and investment balance fluctuates throughout the year depending on collections, claims, and timing of vendor payments. In addition, pursuant to the HSB Self-Insured Stabilization policy, \$7.6 million was used to reduce 2020 and 2021 rates as described in note 6(b).
- Contributions receivable from employer increased from \$20.8 million as of June 30, 2020 to \$21.7 million as of June 30, 2021, a 4.0 percent increase. Contributions receivable from employees increased from \$4.4 million, as of June 30, 2020 to \$4.6 million as of June 30, 2021, a 2.6 percent increase. These changes are due to the timing of health premium collections from both employers and the employees.
- Other receivables and assets increased from \$2.6 million as of June 30, 2020 to \$2.9 million as of June 30, 2021, a 10.2 percent increase. In 2021, other receivables and assets included \$0.5 million in prepayments to the health care providers and \$2.4 million in pharmacy rebates as described in note 1 and 3 to the financial statements.
- Reserves for claims under UHC, Blue Shield flex-funded plan, and Delta Dental were \$28.1 million as of June 30, 2021 and \$27.0 million as of June 30, 2020. The reserve is actuarially determined.
- Premiums payable to HMO, dental, and disability plans increased by 3.4 percent, from \$8.7 million as of June 30, 2020 to \$9.0 million as of June 30, 2021. The increase was due to the timing of payments to health care providers for payments after the end of the fiscal year for the prior fiscal year.
- Unearned contributions represent health contributions received in advance of the period of benefit coverage. Unearned contributions totaled \$3.2 million as of June 30, 2021.

Fiscal Year 2020

- Cash and investments held with the City Treasurer as of June 30, 2020 totaled \$126.8 million compared to \$102.3 million as of June 30, 2019, an increase of 23.9 percent. The cash and investment balance fluctuates throughout the year depending on collections, claims, and timing of vendor payments. In addition, pursuant to the HSB Self-Insured Stabilization policy, \$6.4 million was used to reduce 2019 and 2020 rates as described in note 6(b).
- Contributions receivable from employer increased from \$20.3 million as of June 30, 2019 to \$20.8 million as of June 30, 2020, a 2.8 percent increase. Contributions receivable from employees increased from \$4.2 million, as of June 30, 2019 to \$4.4 million as of June 30, 2020, a 7.1 percent increase. These changes are due to the timing of health premium collections from both employers and the employees.
- Other receivables and assets decreased from \$3.1 million as of June 30, 2019 to \$2.6 million as of June 30, 2020, a 15.1 percent decrease. In 2020, other receivables and assets included \$0.5 million in prepayments to the health care providers, \$1.9 million in pharmacy rebates, and \$0.2 million receivable for COVID 19 test reimbursement as described in note 1 and 3 to the financial statements.
- Reserves for claims under UHC, Blue Shield flex-funded plan, and Delta Dental were \$27.0 million as of June 30, 2020 and \$27.9 million as of June 30, 2019. The reserve is actuarially determined.

**SAN FRANCISCO HEALTH SERVICE SYSTEM
OTHER EMPLOYEE BENEFIT TRUST FUND**

Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2021 and 2020

- Premiums payable to HMO, dental, and disability plans increased by 19.6 percent, from \$7.3 million as of June 30, 2019 to \$8.7 million as of June 30, 2020. The increase was due to the timing of payments to health care providers for payments after the end of the fiscal year for the prior fiscal year.
- Unearned contributions represent health contributions received in advance of the period of benefit coverage. Unearned contributions increased from \$3.1 million as of June 30, 2019 to \$3.2 million as of June 30, 2020, or a 2.8 percent increase. The increase was due to the timing and processing of deductions for a pay period pertaining to July 2020 benefit coverage.

Financial Analysis – Condensed Financial Information

For the year ended June 30, 2021, there was a \$9.8 million increase in net position. This compares to a \$24.0 million and \$14.7 million increase in net position for the years ended June 30, 2020 and 2019, respectively. The highlights regarding the changes in net position are as follows:

	2021	2020	2019	2021 - 2020		2020 - 2019	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Additions:							
Employee and retiree contributions	\$ 169,194,818	\$ 163,084,586	\$ 153,689,075	\$ 6,110,232	3.7%	\$ 9,395,511	6.1%
Employer contributions	853,764,935	822,533,935	789,836,207	31,231,000	3.8%	32,697,728	4.1%
Total contributions	1,022,959,753	985,618,521	943,525,282	37,341,232	3.8%	42,093,239	4.5%
Plan provider penalties and forfeitures	319,270	318,747	510,701	523	0.2%	(191,954)	-37.6%
Total additions	1,023,279,023	985,937,268	944,035,983	37,341,755	3.8%	41,901,285	4.4%
Deductions:							
Preferred provider organization health benefits	126,475,828	117,234,187	108,978,325	9,241,641	7.9%	8,255,862	7.6%
Health maintenance organization health benefits	788,827,757	762,137,480	729,838,369	26,690,277	3.5%	32,299,111	4.4%
Vision plan health benefits	8,934,779	8,334,377	7,563,412	600,402	7.2%	770,965	10.2%
Dental benefits	64,728,348	54,324,380	62,568,494	10,403,968	19.2%	(8,244,114)	-13.2%
Disability and flexible benefits	24,673,175	22,822,110	23,296,035	1,851,065	8.1%	(473,925)	-2.0%
Total deductions	1,013,639,887	964,852,534	932,244,635	48,787,353	5.1%	32,607,899	3.5%
Change in net position before investment earnings	9,639,136	21,084,734	11,791,348	(11,445,598)	-54.3%	9,293,386	78.8%
Investment earnings	148,114	2,870,992	2,918,360	(2,722,878)	-94.8%	(47,368)	-1.6%
Change in net position	\$ 9,787,250	\$ 23,955,726	\$ 14,709,708	\$ (14,168,476)	-59.1%	\$ 9,246,018	62.9%

SAN FRANCISCO HEALTH SERVICE SYSTEM OTHER EMPLOYEE BENEFIT TRUST FUND

Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2021 and 2020

Fiscal Year 2021

- Employees and retiree contributions totaled \$169.2 million during the year ended June 30, 2021, compared to \$163.1 million for the prior year, an increase of 3.7 percent primarily due to increases in premiums. Active employees contributed \$112.9 million and retirees contributed \$56.3 million of the \$169.2 million collected in fiscal year 2021. The number of covered lives decreased 0.4 percent from the 2020 levels. Of the total contributions, \$129.3 million are for medical and vision coverage, \$21.2 million for dental coverage, and \$18.7 million for flexible spending accounts.
- Employer contributions on behalf of active employees increased from \$584.2 million during the year ended June 30, 2020 to \$604.2 million during the year ended June 30, 2021, an increase of 3.4 percent over the prior year. The primary factors causing the \$20.0 million increase was an increase in rates.
- Employer contributions on behalf of retirees increased from \$238.4 million for the year ended June 30, 2020 to \$249.5 million for the year ended June 30, 2021, or 4.7 percent due to increases in premiums. The cost of the plan benefits, retiree's number of dependents, and Medicare status of the retiree and dependents determines the premium for retirees. The 10-County Average Survey is used to calculate the retiree rates.
- Health benefits for UHC PPO, which cover medical and prescription drug expenses, increased from \$117.2 million for the year ended June 30, 2020, to \$126.5 million for the year ended June 30, 2021, or 7.9 percent. The increase was due to an increase in claims, premiums, and membership in the City Health Plan.
- HMO expenditures increased from \$762.1 million for the year ended June 30, 2020, to \$788.8 million for the year ended June 30, 2021, or 3.5 percent, due primarily to increases in contract rates, medical and pharmacy claims, and increases in membership.
- Vision plan health benefits totaled \$8.9 million for the year ended June 30, 2021 compared to \$8.3 million for the year ended June 30, 2020, for an increase of \$0.6 million or 7.2 percent. The increase is due to an increase in membership with an introduction of Vision Premier Plan effective January 2018.
- Dental benefits totaled \$64.7 million for the year ended June 30, 2021 compared to \$54.3 million for the year ended June 30, 2020, for an increase of \$10.4 million or 19.2 percent, due to a pent-up demand of dental services following the claims suppression in the second quarter of 2020 during beginning of the COVID-19 pandemic.
- Disability and flexible benefits totaled \$24.7 million for the year ended June 30, 2021 compared to \$22.8 million for the year ended June 30, 2020, for an increase of 8.1 percent, due to an increased participation.
- Investment earnings totaled \$0.1 million for the year ended June 30, 2021 and \$2.9 million for the year ended June 30, 2020. Per Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, financial statements must contain the fair value of the investments as if they were liquidated on June 30.

SAN FRANCISCO HEALTH SERVICE SYSTEM OTHER EMPLOYEE BENEFIT TRUST FUND

Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2021 and 2020

Fiscal Year 2020

- Employees and retiree contributions totaled \$163.1 million during the year ended June 30, 2020, compared to \$153.7 million for the prior year, an increase of 6.1 percent primarily due to increases in premiums. Active employees contributed \$109.3 million and retirees contributed \$53.8 million of the \$163.1 million collected in fiscal year 2020. The number of covered lives increased 2.1 percent from the 2019 levels. Of the total contributions, \$124.9 million are for medical and vision coverage, \$21.0 million for dental coverage, and \$17.2 million for flexible spending accounts.
- Employer contributions on behalf of active employees increased from \$563.6 million during the year ended June 30, 2019 to \$584.2 million during the year ended June 30, 2020, an increase of 3.7 percent over the prior year. The primary factors causing the \$20.6 million increase was an increase in rates and membership.
- Employer contributions on behalf of retirees increased from \$226.3 million for the year ended June 30, 2019 to \$238.4 million for the year ended June 30, 2020, or 5.3 percent due to increases in premiums. The cost of the plan benefits, retiree's number of dependents, and Medicare status of the retiree and dependents determines the premium for retirees. The 10-County Average Survey is used to calculate the retiree rates.
- Health benefits for UHC PPO, which cover medical and prescription drug expenses, increased from \$109.0 million for the year ended June 30, 2019, to \$117.2 million for the year ended June 30, 2020, or 7.6 percent. The increase was due to an increase in rates and membership in the City Health Plan.
- HMO expenditures increased from \$729.8 million for the year ended June 30, 2019, to \$762.1 million for the year ended June 30, 2020, or 4.4 percent, due primarily to increases in contract rates, medical and pharmacy claims, and increases in membership.
- Vision plan health benefits totaled \$8.3 million for the year ended June 30, 2020 compared to \$7.6 million for the year ended June 30, 2019, for an increase of \$0.8 million or 10.2 percent. The increase is due to an increase in membership with an introduction of Vision Premier Plan effective January 2018.
- Dental benefits totaled \$54.3 million for the year ended June 30, 2020 compared to \$62.6 million for the year ended June 30, 2019, for a decrease of \$8.2 million or 13.2 percent, due to a decrease in claims.
- Disability and flexible benefits totaled \$22.8 million for the year ended June 30, 2020 compared to \$23.3 million for the year ended June 30, 2019, for a decrease of 2.0 percent, due to a decrease in premiums.
- Investment earnings totaled \$2.9 million for the year ended June 30, 2020 and June 30, 2019. Per Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, financial statements must contain the fair value of the investments as if they were liquidated on June 30.

**SAN FRANCISCO HEALTH SERVICE SYSTEM
OTHER EMPLOYEE BENEFIT TRUST FUND**

Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2021 and 2020

Request for Information

This report is designed to provide a general overview of the System's finances for the years ended June 30, 2021 and 2020. Questions regarding any of the information provided in this report or requests for additional information should be addressed to:

San Francisco Health Service System
City and County of San Francisco
Lawrence Loo, Chief Financial Officer
1145 Market Street, Suite 300
San Francisco, CA 94103-1523

**SAN FRANCISCO HEALTH SERVICE SYSTEM
OTHER EMPLOYEE BENEFIT TRUST FUND**

Statements of Net Position Available for Health Benefits
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets:		
Cash and investments held with City Treasurer	\$ 137,038,017	\$ 126,771,648
Contributions receivable from:		
Employer	21,657,271	20,825,970
Employees	4,564,445	4,447,225
Interest receivable	90,312	382,273
Other receivables and assets	2,868,884	2,602,306
Total assets	<u>166,218,929</u>	<u>155,029,422</u>
Liabilities:		
Reserves for claims – medical, prescription drugs and dental Health Maintenance Organization, dental, and disability premiums payable	28,108,140	27,025,266
Unearned contributions	9,010,428	8,711,084
Total liabilities	<u>3,198,854</u>	<u>3,178,815</u>
Total liabilities	<u>40,317,422</u>	<u>38,915,165</u>
Total net position	<u>\$ 125,901,507</u>	<u>\$ 116,114,257</u>

See accompanying notes to the basic financial statements.

**SAN FRANCISCO HEALTH SERVICE SYSTEM
OTHER EMPLOYEE BENEFIT TRUST FUND**

Statements of Changes in Net Position Available for Health Benefits
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Additions:		
Employee and retiree contributions	\$ 169,194,818	\$ 163,084,586
Employer contributions for:		
Active employees	604,229,864	584,176,969
Retired employees	<u>249,535,071</u>	<u>238,356,966</u>
Total contributions	<u>1,022,959,753</u>	<u>985,618,521</u>
Plan providers penalties and forfeitures	<u>319,270</u>	<u>318,747</u>
Investment earnings:		
Net change in fair value of investments	(891,065)	604,625
Interest income	<u>1,039,179</u>	<u>2,266,367</u>
Total investment earnings	<u>148,114</u>	<u>2,870,992</u>
Total additions	<u>1,023,427,137</u>	<u>988,808,260</u>
Deductions:		
City Health Plan health benefits	126,475,828	117,234,187
Health Maintenance Organization health benefits	788,827,757	762,137,480
Vision benefits	8,934,779	8,334,377
Dental benefits	64,728,348	54,324,380
Disability and flexible benefits	<u>24,673,175</u>	<u>22,822,110</u>
Total deductions	<u>1,013,639,887</u>	<u>964,852,534</u>
Change in net position available for health benefits	9,787,250	23,955,726
Net position:		
Beginning of year	<u>116,114,257</u>	<u>92,158,531</u>
End of year	<u>\$ 125,901,507</u>	<u>\$ 116,114,257</u>

See accompanying notes to financial statements.

SAN FRANCISCO HEALTH SERVICE SYSTEM OTHER EMPLOYEE BENEFIT TRUST FUND

Notes to the Basic Financial Statements
For the Years Ended June 30, 2021 and 2020

(1) Description of San Francisco Health Service System

(a) General

The City and County of San Francisco (the City) established the San Francisco Health Service System (the System) in March 1937, by amendment of the City Charter. A new City Charter was adopted on November 7, 1995 and became effective July 1, 1996. The City provides health care benefits to eligible active and retired employees and their dependents through the System. The System also provides health care benefits to active and retired employees and their dependents of the San Francisco Unified School District, the San Francisco Community College District, and the San Francisco Superior Court. Under Charter Section A8.422, the Health Service Board is responsible for adopting a plan or plans for providing medical care to members of the System.

The System is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as an Other Employee Benefit Trust Fund (the Trust) (also referred to as the Health Service System Trust Fund). The financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2021 and 2020, and the changes in its financial position for the years then ended, in accordance with U.S. generally accepted accounting principles. The System, a City department, is overseen by the Health Service Board (HSB). The HSB voted, on April 3, 2017, to continue to have the Trust's cash balances deposited with, and managed by, the Office of the Treasurer and Tax Collector.

The overarching principles in setting the rates and benefits are to provide quality health care, contain costs, and stabilize insurance premiums for the members and the employer. The HSB must consider the impact resulting from the Patient Protection and Affordable Care Act (ACA) and other federal legislation in determining the plan designs and premiums.

The composition of the seven-member HSB includes a seated member of the San Francisco Board of Supervisors (the Board), appointed by the Board President; an individual who regularly consults in the health care field, appointed by the Mayor; a doctor of medicine, appointed by the Mayor; a member nominated by the Controller and approved by the HSB; and three members of the System, active or retired, elected from among their members. The HSB is responsible for appointing a full-time administrator, who serves at the pleasure of the HSB and sets the policy for and oversees the administration of the System.

Under Charter Section A8.423, the City's contribution towards the System's medical plans is determined by the results of an annual survey of the amount of premium contributions provided by the 10 most populous counties in California (other than the City). The survey is commonly called the 10-County Average Survey and is used to determine "the average contribution made by each such county toward the providing of health care plans, exclusive of dental care, for each employee of such county." Under Charter Section A8.423, the City is required to contribute to the Health Service System Trust Fund an amount equal to the "average contribution" for each City Beneficiary.

In the June 2014 collective bargaining for the 2015 Plan Year, the impact of the "average contribution" on rates was eliminated in the calculation of premiums for almost all active employees represented by most unions, in exchange for a percentage-based employee premium contribution model. It is anticipated that the long-term impact of the premium contribution model will be the reduction in the relative proportion of the projected increases in the City's contributions for healthcare, stabilization of the medical plan membership and maintenance of competition among plans. The contribution amounts are paid by the City into the Trust. The 10-County Average Survey is used as a basis for calculating all City retiree premiums and premiums for the San Francisco Superior Court, the San Francisco Unified School District, and the San Francisco Community College District.

SAN FRANCISCO HEALTH SERVICE SYSTEM OTHER EMPLOYEE BENEFIT TRUST FUND

Notes to the Basic Financial Statements
For the Years Ended June 30, 2021 and 2020

Membership in the System is available to (i) all active permanent employees, as well as eligible retired employees, of the City, and of the San Francisco Unified School District, San Francisco Community College District, and the San Francisco Superior Court; (ii) temporary employees who meet eligibility requirements; (iii) eligible dependents of members; and (iv) certain dependents of deceased and retired employees. Eligibility terminates when a member leaves employment for reasons other than retirement. The System is responsible for designing health care benefits, selecting and managing plan providers, and determining some aspects of benefit eligibility to supplement the eligibility rules contained in the Charter and applicable ordinances. In addition, the System is responsible for administration of health care benefits, including maintaining employee membership and financial accounting records.

Pursuant to provisions of the ACA, the System implemented, effective January 2015, the employer mandate that requires that "large employers" (i.e., employers with 50 or more full-time employees or full-time equivalents) offer affordable coverage that provides minimum value to all full-time employees and their dependents. ACA defined a full-time employee as one who works on average 30 hours a week. However, a threshold of 20 hours or more over a 12-month period was implemented.

Pursuant to the Charter, most administrative costs of the System are paid for by the City, the Unified School District, and the Community College District and are reflected in the respective financial statements of those entities. Certain expenses related to the typical annual open enrollment and member marketing and communications are, however, paid from the Trust pursuant to Section A8.423 of the Charter. In addition, third-party claims administration costs for the self-funded plans (UHC PPO and Delta Dental for active employees) and flex-funded plans (Blue Shield of California for active employees and early retirees) are included in the respective premium rates for those plans.

Pursuant to provisions of the ACA, two direct fees (Patient Centered Research Institute Fee and the Transitional Reinsurance Fee) and one Health Insurance Tax (HIT) were put in place beginning in fiscal year 2014.

The Patient Centered Research Institute Fee (PCORI) was set to expire in 2019. Congress revived and extended the PCORI fee and it now applies to policy or plan years ending on or after October 1, 2012, and before October 1, 2029. The PCORI fee, adopted in the ACA, is paid by issuers of health insurance policies and plan sponsors of self-insured health plans to help fund the Patient-Centered Outcomes Research Institute. The fee is based on the average number of lives covered under the policy or plan.

Section 1341 of the Affordable Care Act established a Transitional Reinsurance Program to help stabilize premiums for coverage in the individual market during the years 2014 through 2016. The statute required all group health insurance issuers and third-party administrators on behalf of self-insured group health plans to make contributions under this program to support payments to individual market issuers that cover high-cost individuals (payment-eligible issuers). The fee is no longer in effect.

The Health Insurance Tax (HIT) impacts the fully insured medical, vision, and dental plans offered by the System and is reflected in the premiums. Congress approved a one-year moratorium on collecting the HIT for the 2019 calendar year. The HIT was reinstated in the 2020 calendar year. The tax was repealed effective January 1, 2021.

The Excise Tax on High-cost Employer-sponsored Health Plans (Cadillac Tax) is a 40% excise tax on high-cost coverage health plans which was set to take effect in 2022. The National Defense Authorization Act for Fiscal Year 2020, repealed the Cadillac tax, effective January 1, 2020.

SAN FRANCISCO HEALTH SERVICE SYSTEM OTHER EMPLOYEE BENEFIT TRUST FUND

Notes to the Basic Financial Statements
For the Years Ended June 30, 2021 and 2020

(b) Types of Benefits and Premium Rates

Medical benefits during the fiscal years are provided to members of the System through six plan choices:

- United Healthcare administered self-insured Preferred Provider Organization (PPO) (UHC PPO)
- United Healthcare fully insured Medicare Advantage Prescription Drug (PPO) (UHC MAPD)
- Kaiser Permanente fully insured Health Maintenance Organization (HMO)
- Kaiser Permanente fully insured Senior Advantage, a Medicare Advantage Health Maintenance Organization Plan (HMO)
- Blue Shield of California Access+ HMO Plan (flex-funded plan with fully insured, capitated, and self-insured components)
- Blue Shield of California Trio HMO Plan (flex-funded plan with fully insured, capitated, and self-insured components).

Each of the above plan choices includes a basic vision benefit provided through Vision Service Plan (VSP). In 2018, a vision buy-up plan, under VSP, was added that is entirely employee paid.

The UHC PPO Plan, which includes medical and prescription drug benefits, is a self-insured indemnity plan, where the risk of loss due to claims in excess of revenues is borne by the Trust. UHC also offers a fully insured Medicare Advantage PPO for retirees with Medicare.

The Kaiser HMO is a fully insured HMO, where the risk of loss due to excess claims for a given fiscal year is borne by the HMO.

On January 1, 2013, the Blue Shield of California Plan was converted from a fully insured external HMO plan to a flex-funded plan. The flex-funded plan has a fully insured, capitated component for professional services provided in physician offices. Hospital and pharmacy services are self-insured, where the risk of loss due to claims in excess of revenues is borne by the Trust. In 2017, Medicare coverage offered through Blue Shield of California was eliminated as an option to System members.

Effective January 1, 2018, Blue Shield of California began offering two plan choices. In addition to the broad Blue Shield network of doctors, members of the System can select a narrower network of doctors and hospitals at a lower premium.

Dental benefits during the fiscal years are provided through three plan choices:

- Delta Dental (PPO) a dental Preferred Provider Organization
- Delta Care (PMI) (DHMO) a Dental Health Maintenance Organization
- United Healthcare Dental (formerly known as Pacific Union) (DHMO).

The Delta Dental plan provided to active employees is a self-insured indemnity plan, administered by Delta Dental and the risk of loss due to claims in excess of revenues is borne by the City and any other participating employers. The Delta Dental plan offered to retired employees is a fully insured plan, where the risk of loss for a given fiscal year is borne by Delta Dental. The Delta Care (PMI, DHMO) and United Healthcare Dental (DHMO) dental plans are managed care dental plans and are fully insured with respect to both active and retired employees.

SAN FRANCISCO HEALTH SERVICE SYSTEM OTHER EMPLOYEE BENEFIT TRUST FUND

Notes to the Basic Financial Statements
For the Years Ended June 30, 2021 and 2020

Premium rates for the fully insured plans are set through periodic competitive solicitation of carriers and an annual negotiation process that includes participation of the System's independent actuary and consultants. Premium rates for the self-insured plans are set based on recommendations and certification of such actuaries and consultants.

The System offers two types of flexible spending accounts for all City employees: a health care reimbursement account and a dependent care reimbursement account. Most of the administration for these accounts is provided through a third-party administrator, whose fees are provided by the City through the System. The administrator was P & A Group in fiscal years 2021 and 2020.

The System utilizes a third-party administrator to provide most of the administration for a cafeteria plan offered to employees represented by the Municipal Executives Association, elected officials, and certain unrepresented employees. The fees of this administrator are provided by the City through the System. The administrator was WORKTERRA in fiscal years 2021 and 2020.

In addition, the City provides a long-term disability plan to most of its employees. All costs of the long-term disability plan are paid by contributions from the City. The plan provider was the Hartford Life and Accident Insurance Company in fiscal years 2021 and 2020.

The City also provides employer-paid group term life insurance to most employee groups. Voluntary accidental death and personal loss insurance is offered to most employee groups paid by the members. In fiscal years 2021 and 2020, the plan provider was the Hartford Life and Accident Insurance Company.

In 2017, the City offered a new adoption and surrogacy assistance plan paid for by the Trust. In addition, in fiscal year 2019 and the first six months of fiscal year 2020, expert medical case review services, provided by Best Doctors, was paid by members and the City through the Trust. The services were eliminated in the 2020 calendar year.

(c) Determination of Employer and Member Contributions

The overall cost of benefits is determined using ongoing periodic member eligibility data and the premium rates referred to above. The costs are allocated among members, the City, the San Francisco Unified School District, the San Francisco Community College District, and the San Francisco Superior Court as set forth below. Member premiums are received at the time of the benefit period. The medical and dental plans and costs are determined annually by the HSB and approved by the San Francisco Board of Supervisors. Member contribution rates vary depending on the number of dependents, the cost of the plans selected by the member, and differing employer contribution levels depending on the employee's status as an active employee or a retiree and the application of employer subsidies tied to collective bargaining agreements for active employees or Medicare eligibility for retirees. Member contributions do not accumulate or vest.

Employer contributions for health benefits are determined annually in accordance with Charter requirements and the applicable collective bargaining agreements with various employee organizations. The Charter-based contributions are determined using a formula based on surveying similar contributions made by the 10 most populous counties in California, not including San Francisco. In addition, most active employee groups have collectively bargained for enhanced contributions for single coverage as well as employer subsidized dependent health coverage, some in exchange for the 10-County Average. The 10-County Average is used as a basis for calculating all retiree premiums and premiums for the San Francisco Superior Court, San Francisco Unified School District, and San Francisco Community College District.

SAN FRANCISCO HEALTH SERVICE SYSTEM OTHER EMPLOYEE BENEFIT TRUST FUND

Notes to the Basic Financial Statements
For the Years Ended June 30, 2021 and 2020

Pursuant to Charter section A8.428b(3), for retired employees hired on or before January 9, 2009, employers shall contribute to the health service fund, amounts subject to the following limitations: Monthly contributions required from retired persons and the surviving spouses and surviving domestic partners of active employees and retired persons participating in the system shall be equal to the monthly contributions required from members in the system for health coverage excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining, with the following modifications:

- (i) the total contributions required from retired persons who are also covered under Medicare shall be reduced by an amount equal to the amount contributed monthly by such persons to Medicare;
- (ii) because the monthly cost of health coverage for retired persons may be higher than the monthly cost of health coverage for active employees, the City, the School District, and the Community College District shall contribute funds sufficient to defray the difference in cost to the system in providing the same health coverage to retired persons and the surviving spouses and surviving domestic partners of active employees and retired persons as is provided for active employee members excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining;
- (iii) after application subsection (i) and (ii), the City, the School District, and the Community College District shall contribute 50% of retired persons' remaining monthly contribution. Pursuant to Charter section AB.428b(4), for retired employees who were hired on or after January 10, 2009, employers shall contribute 100% of the employer contribution for:
 - (i) A retired employee who was hired on or after January 10, 2009, with 20 or more years of credited service with the employers; and their surviving spouses or surviving domestic partners;
 - (ii) The surviving spouses or surviving domestic partners of active employees hired on or after January 10, 2009, with 20 or more years of credited service with the employers;
 - (iii) retired persons who retired for disability; and their surviving spouses or surviving domestic partners; and
 - (iv) The surviving spouses or surviving domestic partners of active employees who died in the line of duty where the surviving spouse or surviving domestic partner is entitled to a death allowance as a result of the death in the line of duty.

Pursuant to A8.428b(5), for retired employees who were hired on or after January 10, 2009, for retired persons identified in Subsections (a)(4), (a)(5), and (a)(6), the employers shall contribute:

- (i) 50% percent of the employer contribution established in Subsection (b)(3) for a retired employee who was hired on or after January 10, 2009, with, at least 10 but less than 15 years of credited service with the employers; their surviving spouses or surviving domestic partners; and the surviving spouses or surviving domestic partners of active employees hired on or after January 10, 2009, with at least 10 but less than 15 years of credited service with the employers; and
- (ii) 75% percent of the employer contribution established in subsection (b)(3) for a retired employee who was hired on or after January 10, 2009, with at least 15 but less than 20 years of credited service with the employers; their surviving spouses or surviving domestic partners; and the surviving spouses or surviving domestic partners of active employees hired, on or after January 10, 2009, with at least 15 but less than 20 years of credited service with the employers.

SAN FRANCISCO HEALTH SERVICE SYSTEM OTHER EMPLOYEE BENEFIT TRUST FUND

Notes to the Basic Financial Statements
For the Years Ended June 30, 2021 and 2020

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The System follows U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

(b) Cash and Investments Held by the City

The Trust maintains its cash and investments as part of the City's pool of cash and investments (Pool). The Trust's portion of this Pool is displayed on the balance sheet as "Cash and investments held with City Treasurer." Cash and investments are recorded at their fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Changes in fair value of investments are recorded in the statement of changes in net position available for health benefits in the year in which the changes occurred. Interest income arising from pooled investments is allocated monthly to the System based on the Trust's average daily cash balance in relation to the total pooled investments.

The City Treasurer manages the Pool in accordance with the City's investment policy and the California State Government Code. The objectives of the City's investment policy are, in order of priority, safety, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity.

As of June 30, 2021 and 2020, the total amount invested by all public agencies in the Pool is approximately \$12.7 billion and \$12.2 billion, respectively. The Pool is not rated. The City's Treasury Oversight Committee has oversight responsibility for the Pool. The value of the System's shares in the Pool, which may be withdrawn, is based on the book value of the System's percentage participation, which is different from the fair value of the System's percentage participation in the Pool. At June 30, 2021 and 2020, the Pool has weighted average maturities of 407 days and 249 days, respectively. Additional information regarding investment risks of the Pool is presented in the notes to the City's basic financial statements, which may be obtained by contacting the City's Controller's Office, Room 316, City Hall, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

(c) Unearned Contributions

Unearned contributions represent monies received from members and from the City, San Francisco Unified School District, San Francisco Superior Court, and San Francisco Community College District prior to year-end for benefits in future periods.

(d) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**SAN FRANCISCO HEALTH SERVICE SYSTEM
OTHER EMPLOYEE BENEFIT TRUST FUND**

Notes to the Basic Financial Statements
For the Years Ended June 30, 2021 and 2020

(3) Other Receivables and Assets

As of June 30, 2021, other receivables and assets included \$0.5 million in prepayments to the health care providers and \$2.4 million in pharmacy rebates. As of June 30, 2020, other receivables and assets included \$0.5 million in prepayments to the health care providers, \$1.9 million in pharmacy rebates and \$0.2 million in COVID 19 testing reimbursements.

(4) Reserves for Claims for Self-Insured Plans – Medical, Prescription Drugs, and Dental

Reserves for claims for Self-Insured Plans, including medical, prescription drugs, and dental, which have been actuarially determined, represent estimates of claims reported and in process of payment and estimates of claims incurred but not yet reported. Reserves for medical claims are based on actual claim lag reports and historical payment patterns. The net position of the Trust is available to be used as directed by the HSB and may be used to minimize the impact of possible future adverse experience. Management believes that the actuarially determined reserves are adequate to cover the ultimate cost of all claims incurred but unpaid at year end.

The UHC PPO, excluding the Medicare Advantage Plan PPO (MAPD PPO), and the hospital and pharmacy services for employees and early retirees under the Blue Shield of California Access+ and Trio Plans are self-funded plans. Should deductions from the net position of the self-funded plans exceed related additions to net position and reserves, System members and participating employers would be required to provide such additional funds. The City's contributions to the Trust for employees in the Delta Dental plan are made on an estimated basis during the year and any over or under payment will be reflected in the subsequent year's rate using claims stabilization reserves. The reserves for dental benefits are actuarially determined based on actual claim payment patterns.

Reserves for prescription drug benefits are also actuarially determined based on claim payment patterns.

The following summarizes the changes in the reserves for claims of the System's Self-Insured Plans which consist of the UHC PPO excluding the MAPD PPO, Blue Shield Flex-Funded Access+ and Trio Plans (medical benefits and prescription drug benefits), and dental plans during the years ended June 30, 2021 and 2020:

	Medical Benefits	Prescription Drugs	Dental Benefits	Total Reserves
Reserves as of June 30, 2019	\$ 24,719,506	\$ 354,932	\$ 2,824,625	\$ 27,899,063
Claim Payments	(198,488,588)	(66,553,222)	(36,065,072)	(301,106,882)
Current Year Claims and Changes in Estimates	198,739,464	66,556,030	34,937,591	300,233,085
Reserves as of June 30, 2020	24,970,382	357,740	1,697,144	27,025,266
Claim Payments	(201,066,080)	(69,656,401)	(43,839,479)	(314,561,960)
Current Year Claims and Changes in Estimates	200,859,688	69,615,463	45,169,683	315,644,834
Reserves as of June 30, 2021	<u>\$ 24,763,990</u>	<u>\$ 316,802</u>	<u>\$ 3,027,348</u>	<u>\$ 28,108,140</u>

SAN FRANCISCO HEALTH SERVICE SYSTEM OTHER EMPLOYEE BENEFIT TRUST FUND

Notes to the Basic Financial Statements
For the Years Ended June 30, 2021 and 2020

(5) Postretirement Health Benefits

Medical benefits for eligible retired employees feature the same basic plan design as those for active employees and such benefits are paid for by both the former employer and the retiree (note 1).

The total employer cost of providing benefits for 29,966 and 29,543 retirees as of June 30, 2021 and 2020, respectively, is shown as employer contributions to the Trust totaling \$249.5 million (\$206.4 million for the City and \$43.1 million for the San Francisco Unified School District and the San Francisco Community College District) and \$238.4 million (\$196.5 million for the City and \$41.9 million for the San Francisco Unified School District and the San Francisco Community College District) for the years ending June 30, 2021 and 2020, respectively, in the accompanying financial statements.

(6) Commitments and Contingencies

(a) Contingency Reserve Policy

The HSB adopted a contingency reserve policy for the self-funded health plans including the UHC PPO (City Health) Plan, the Delta Dental self-funded plan, and the Blue Shield Flex-funded Plan. The contingency reserve is an actuarially determined amount, based on historical claims experience required to cover the exposure of excess losses above anticipated claims expenses. The amount is established for the self-funded plans and is calculated on a fiscal year basis. It is presently set at a 99 percent confidence interval of the statistical variance of the historical claims experience. The contingency reserve amounts as of June 30, 2021 and 2020, were \$7.6 million and \$6.3 million, respectively, for UnitedHealth Care PPO self-insured plan; \$13.8 million and \$14.2 million, respectively, for the Blue Shield flex-funded plan; and \$2.1 million and \$2.9 million, respectively, for the Delta Dental self-funded plan. The Contingency Reserve is part of the Trust's net position.

(b) Stabilization Reserve

The HSB adopted a self-funded plans' stabilization policy for the self-funded health plans, including the UHC PPO plan, Blue Shield Access+ and Trio plans, and the Delta Dental PPO plan for active employees. The objective of a stabilization reserve is to spread any underwriting gains and losses into the following year's premium calculation in an even-handed manner such that the employers and membership are not subject to volatile year-over-year changes in premium. Pursuant to this policy, the stabilization reserve balances as of June 30, 2021 and 2020 were \$0.2 million and \$(2.4) million, respectively, for UHC; \$17.1 million and \$7.7 million for the Blue Shield Flex plan (including Access+ and Trio); and \$24.0 million and \$11.3 million for Delta Dental plan. In fiscal year 2020, the HSB approved the use of the stabilization reserve for Blue Shield and Delta Dental \$(4.1) million to stabilize premium increases in fiscal year 2021. The Stabilization Reserve is part of the Trust's net position.

(c) Contingent Incentive Obligations

Based on calendar plan year results, the System calculated incentive obligation payments to medical groups under the Blue Shield Accountable Care Organization (ACO) network. The System's actuarial consultant negotiates an annual plan year cost target with the HMO and each participating ACO provider partnership group. Incentive payments are only distributed if underwriting gains are achieved at or above the negotiated target. An incentive payment of \$0.8 million was made in June 2021 for plan year 2020.



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Members of the Health Service Board,
Honorable Mayor and Members of the Board of Supervisors
City and County of San Francisco, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the San Francisco Health Service System Other Employee Benefit Trust Fund (the Trust), managed by the Health Service System (the System), a department of the City and County of San Francisco, California (the City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated October 13, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

San Francisco, California
October 13, 2021