

# SAN FRANCISCO HEALTH SERVICE SYSTEM

Affordable, Quality Benefits & Well-Being

## Memorandum

DATE: November 18, 2021

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

FROM: Larry Loo, Chief Financial Officer

RE: Audited Financial Statements – June 30, 2021, and 2020

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The annual financial audit of the San Francisco Health Service System Trust Fund (Trust) for the fiscal year (FY) ending June 30, 2021 was completed by the independent auditing firm of Macias Gini & O’Connell LLP (MGO). This is the second fiscal year audited by MGO. The audit consisted of an examination of the FY 2020-21 financial status, a comparison of the changes between FY 2020-21 and FY 2019-20, and an analysis of internal controls. The independent auditors report was issued October 13, 2021. No deficiencies in internal controls and no instances of noncompliance were identified by the auditor.

Hard copies of the annual financial statement and audit of the Trust are available at the SFHSS office (1145 Market, 3rd floor). Requests for hard copies can be made by emailing [health.service.board@sfgov.org](mailto:health.service.board@sfgov.org). The annual financial statement and audit reports are also posted on the public website at <https://sfhss.org> and may be download. The financial statements of the Trust are also reflected in the City and County of San Francisco’s Annual Comprehensive Financial Report (ACFR) as Other Employee Benefit Trust Fund.

### Summary

The balance at the beginning of FY 2020-21 was \$116.1 M. There was a net increase of \$9.8 million during the fiscal year. The Trust ended the FY 2020-21 with a balance of \$125.9 million (also known as net position).

<b><u>Table I. Change in Trust Net Position</u></b>	<b>Net Assets (in Millions)</b>
Balance 6/30/2020	\$116.1
Change in Net Assets	<u>9.8</u>
Balance 6/30/2021	\$125.9

## Changes in Net Assets

The \$9.8 million increase in net assets is primarily due to the following:

- \$1.1 million increase in the UHC administered PPO net position primarily due to pharmacy rebates.
- \$11.0 million increase in the Blue Shield administered flex-funded HMO plans 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 Delta Dental administered PPO (for Actives only) dental plan 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.

### Investment Earnings

There are two categories of Investment Earnings on the Statement of Changes in Net Position - Net Change in Fair Value of Investments and Interest Income. During FY 2020-21, the trust received \$1.0M in interest income, however, there was a reported decrease in fair value of investments pooled with the City.

<b>Table II. Investment Earnings</b>	
<b>Category</b>	<b>FY 2021-21</b>
Net Change in Fair Value of Investments <sup>1</sup>	(\$891,065)
Interest Income	\$1,039,179
Total investment earnings as of 6/30/2021	\$148,114

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<sup>1</sup> In accordance with General Accounting Standards Board (GASB) Statement Number 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, at the end of each fiscal year the City must report certain investments at fair value in the Financial Statement. The City must also report the change in fair value of investments in the year in which the change occurred. In other words, the City is required to report the fair value of the Trust investments under the assumption that the City would stop doing business on June 30, 2021 and therefore would have to sell all the assets. As a practical matter, the City did not stop doing business on June 30, 2021. As such, the change in the fair value of investments should not be considered as a change in the investment earnings.

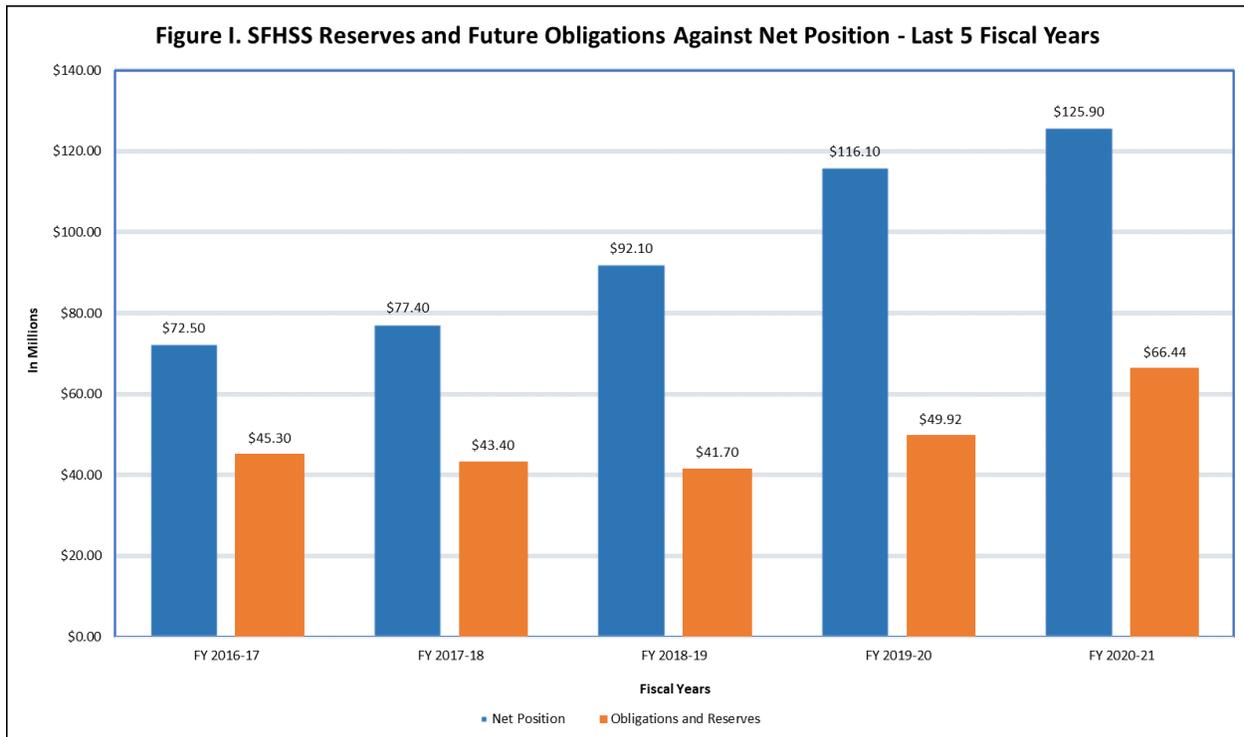
**Performance Guarantee Penalties**

SFHSS has Performance Guarantees in the agreements with the benefits plan partners. These Performance Guarantees are set to ensure that administrative, service, and clinical standards are achieved and maintained. Measurements and reporting of the measures occur on a calendar year basis and certain measures such as clinical measures require some time to elapse before they are reportable. The full reporting of measures may take up to two years from the benefit plan year to be completed. When the standards are not met, penalties are paid into the trust. The following table shows the performance guarantee penalties received in FY 2020-21 and FY 2019-20.

<b>Table III. Performance Guarantees</b>		
Plan Year	FY 2020-21	FY 2019-20
2020	\$319,270	
2019		\$464
2018		318,283
Total	\$319,270	\$318,747

**Historical Trend of Reserves and Future Obligations Against Year-end Net Position**

The graph on the following page compares the net position at the end of each fiscal year and the Reserves and Future Obligations against it. For example, the net position at the end of FY 2020-21 was \$125.9 M and the Reserves and Future Obligations against the \$125.9 M are \$66.4 M or 53% of the fund balance.



**Future Obligations and Reserves**

SHFSS annually updates the schedule of Reserves and Future Obligations with the recommendations of Aon Consulting and the approval of the Health Service Board. The details can be found in Table IV below. The main drivers of the \$66.4 million in Reserves and Future Obligations are related to the supporting the health plan rating through Contingency and Stabilization Reserves for the Flex-Funded and Self-Funded plans. The policies for the application of these amounts to rating are document in the Health Service Board (“Board”) Terms of References and discussed below.

The Health Sustainability Fund accounts for \$3.7M of the Reserves and Future Obligations. This is based on the annual budget approved to fund member communications, well-being programs and initiatives that reduce the cost of healthcare (and associated personnel).

Lastly, sources of funds received from Performance Guarantees with plans are set aside for use by the Adoption and Surrogacy Benefit. Annually, SFHSS reserves \$1.2M to account for the current fiscal year plus three subsequent years for this program.

<b>Table IV. FY 2021-22 Reserves and Future Obligations<sup>2</sup></b>	Subtotal (Millions)	Total (Millions)
Net Assets as of 6/30/2021		\$125.9
Contingency Reserves		
Flex-Funded HMO (Blue Shield administrator)	\$13.8	
Self-Funded PPO for Actives only (administered by UHC, transitioning to Blue Shield in January 2022)	7.6	
Self-Funded Dental PPO (Delta Dental administrator)	2.1	\$23.5
Rate Stabilization Reserves		
Flex-Funded HMO (administered by Blue Shield)		
July - December 2021	\$1.3	
January 2022 and beyond <sup>3</sup>	14.6	\$15.8
Self-Funded PPO (administered by UHC, transferring to Blue Shield with Accolade in January 2022)		
January 2022 and beyond		\$1.0
Self-Funded Dental PPO for Actives only (administered by Delta Dental)		
July - December 2021	\$2.8	
January 2022 and beyond	18.3	\$21.2
Health Sustainability Fund June 2021 - July 2022		\$3.7
Performance Guarantees – Adoption and Surrogacy Benefit		
FY 2021 22	\$0.3	
FY 2022–23 through FY 2024–2025	\$0.9	\$1.2
<b>Total Reserves and Obligations</b>		<b>\$66.4</b>

<sup>2</sup> This does not include reserving for fully insured plans (e.g., Kaiser HMOs, Delta Dental Retiree PPO, DeltaCare USA HMO, UHC Dental HMO, and VSP Vision plans) as the plans bear all of the risk.

<sup>3</sup> Starting in January 2022, the Health Net Canopy Care HMO, a Flex-Funded plan begins coverage. Forecasts for reserves will be determined following the conclusion of open enrollment and accumulation of claims history.

## Year End Information for Stabilization Reserves, Investment Earnings, Performance Guarantees and Adoption and Surrogacy Assistance Plan

### Disposition of Stabilization Reserves

The Board approved policy on rate stabilization allows the flex-funded and self-funded plans underwriting gains and losses from prior years to be allocated over a three-year period to stabilize future rate changes.

As of December 31, 2020, all flex-funded and self-funded plans (i.e., Blue Shield HMO's, United Healthcare PPO, and Delta Dental PPO for actives) stabilization reserves were in a surplus position. Aon Consulting re-evaluates the stabilizations reserves at the beginning of each year during which the amounts to use for the following calendar year rates are determined.

- The Blue Shield Stabilization Reserves were at \$14.6 M at the end of 2020. The Board authorized the use of \$4.9 M or 1/3 of the reserve, to be applied to the 2022 Rates and Benefits.
- The UHC PPO Stabilization Reserves end with a year-end 2020 surplus of \$990 K. The Board authorized the use of \$330K or 1/3 of the reserve, to be applied to the 2022 Rates and Benefits.
- The Delta Dental PPO (for Actives) Stabilization Reserves were at \$18.3 M at the end of 2020. The Board authorized the use of 66.6% or \$12.2 M to be applied to the 2022 Rates and Benefits.

<b>Plan</b>	<b>Total Reserve</b>	<b>Amounts used for 2022 rates</b>	<b>Balance to be used for future years</b>
Blue Shield HMO	\$14.57	\$4.86	\$9.71
UHC PPO	\$0.99	\$0.33	\$0.66
Delta Dental PPO (Actives)	<u>\$18.34</u>	<u>\$12.23</u>	<u>\$6.11</u>
	\$33.90	\$17.42	\$16.49

### Adoption and Surrogacy Assistance Plan

Adoption and Surrogacy Assistance Plan was introduced in January 2017 funded through performance guarantee penalties. As of 6/30/2021 a total of \$314,179 has been used to fund thirteen (13) adoptions and five (5) surrogacies.