

SAN FRANCISCO HEALTH SERVICE SYSTEM

Affordable, Quality Benefits & Well-Being

Memorandum

DATE: September 9, 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 June 30, 2021

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 12 months of Fiscal Year (FY) 2020-21 ending June 30, 2021. This report also includes the projected fiscal year-end (FYE) changes for both sources of funds. The Health Sustainability Fund, which is a part of the Trust Fund is reported out in additional detail. The discussion below is based the most complete information available for the reporting period and are subject to adjustments following the close of the fiscal year-end.

Please also note that annual financial audit for the Trust Fund is underway and the final, audited financial statements for the FY 2020-21 may include additional details and final transactions not recognized in this report.

Executive Summary

Employee Benefit Trust Fund

- The Trust Fund balance is projected to have a net increase of \$10.6 M at fiscal year-end (FYE). The prior FYE June 30, 2020 balance was \$116.1 M and FYE June 30, 2021 balance is \$126.8 M.
- Flex funded and self-insured plans cumulative year-to-date (YTD) expenses compared to revenues reported through 12 months result in the following cumulative net changes:
 - UHC PPO: cumulative expenses were \$1.1 M less than revenues
 - Blue Shield Access +: cumulative expenses were \$7.3 M less than revenues
 - Blue Shield Trio: cumulative expenses were \$3.7 M less than revenues
 - Delta Dental PPO plan (Actives only): cumulative expenses were \$3.2M greater than revenues (as was expected due to the use of stabilization balance spend-down)
- Insured plan revenues and expenses are expected to net each other out over time. Due to timing of payroll deductions through six months of CY 2021, the revenues are \$920 K greater than expenses.
- Healthcare and Dependent Care Flexible Spending Accounts resulted in a \$539 K decrease in fund balance.
- Healthcare Sustainability Fund FYE contributed \$253 K increase in the fund balance
- Performance Guarantees of \$319 K were received through the fiscal year-end
- Pharmacy Rebates: received \$8.6 M in pharmacy rebates through 12 months.
- Interest: Projecting a FYE increase of \$1.1 M

General Fund Administrative Budget

- Resulting in a positive year-end balance of \$500 K. Additional notes on the sources and uses funds in General Fund Administrative Budget can be found on page 8.

Employee Benefit Trust Fund (Trust Fund)

The Trust Fund started fiscal year with a beginning balance was \$116.1 M. Based on activity through 12 months ending June 30, 2021, the FYE Trust Fund balance ended the fiscal year at \$126.8 M.

The projected \$10.6 M increase includes reserves for unpaid claims in the flex funded and self-funded health plans. The flex funded and self-funded plans are generating the majority (\$8.9 M) of the increase to the fund balance. Discussion of the flex and self-funded plans performance follows below.

Other sources of funds and expenses contribute \$1.7M to the projected FYE fund balance.

The following table summarizes the projected changes in fund balance.

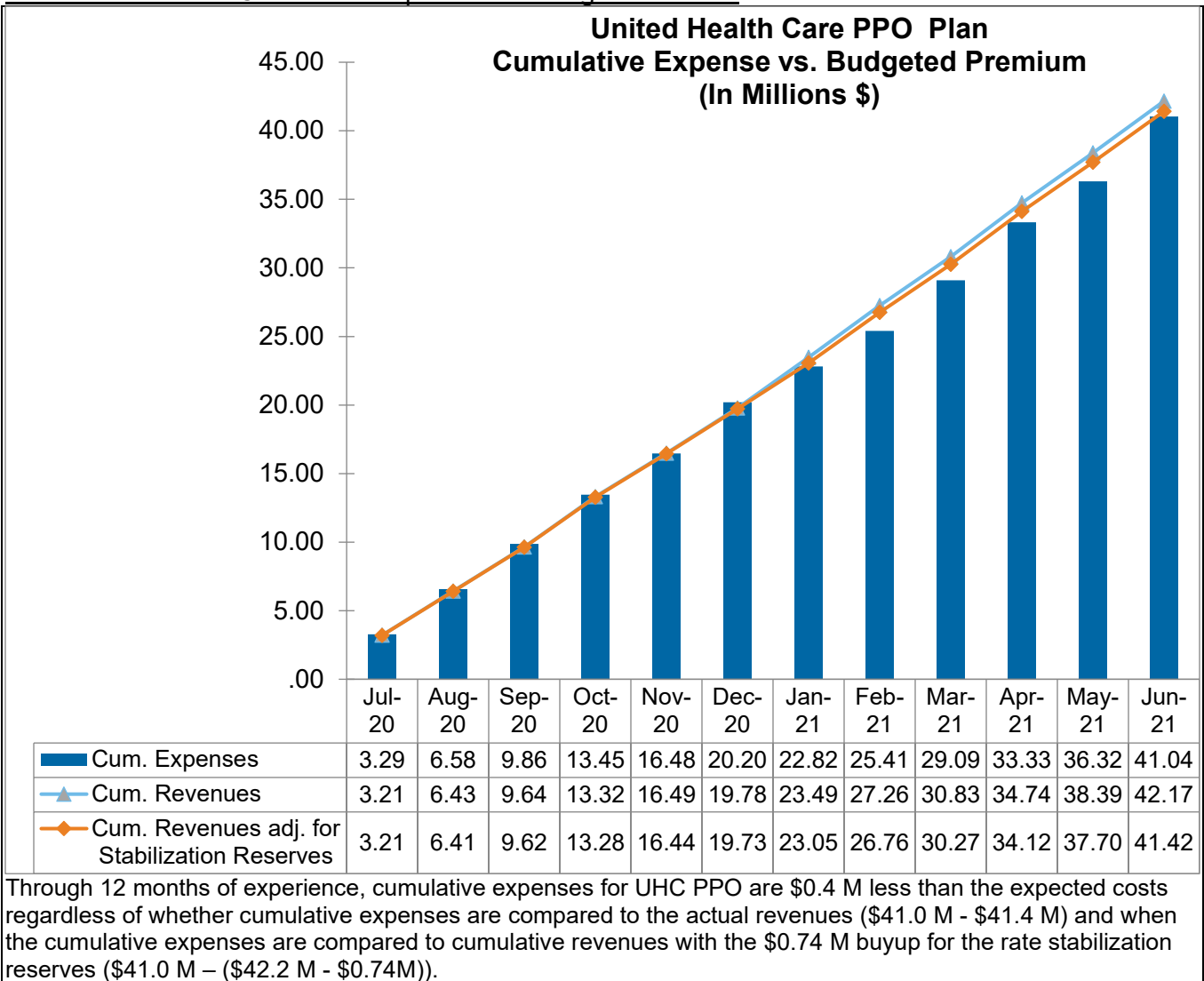
	Fiscal Year-End Change in Fund Balance (in Millions)	Page
United Health Care PPO Self-Funded Plan • Includes \$1.7 in pharmacy rebates	\$1.1	3
Blue Shield Access+ Flex-Funded Plan • Includes \$4.7 in pharmacy rebates	7.3	4
Blue Shield Trio Flex-Funded Plan • Includes \$2.1 in pharmacy rebates	3.7	5
Delta Dental Self-Funded Plan (Actives only)	(3.2)	6
Health Care Sustainability Fund	0.25	7
Interest	1.1	7
Performance Guarantees	0.3	7
Performance Guarantees – Surrogacy and Adoption Assistance Plan	(0.07)	7
Forfeitures	0.11	7
Transfers Out	(0.36)	7
TOTAL	\$10.6	
Pharmacy Rebates Summary	\$8.6	8

United Health Care PPO

Fiscal year-end increase of \$1.1 M in fund balance 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):
 - \$1.7 M increase due to pharmacy rebates received by FYE 2020-21
- Claims:
 - \$1.1 M decrease due to claim expenses trending unfavorably

Fiscal Year-to-Date Cumulative Experience Through 12 Months

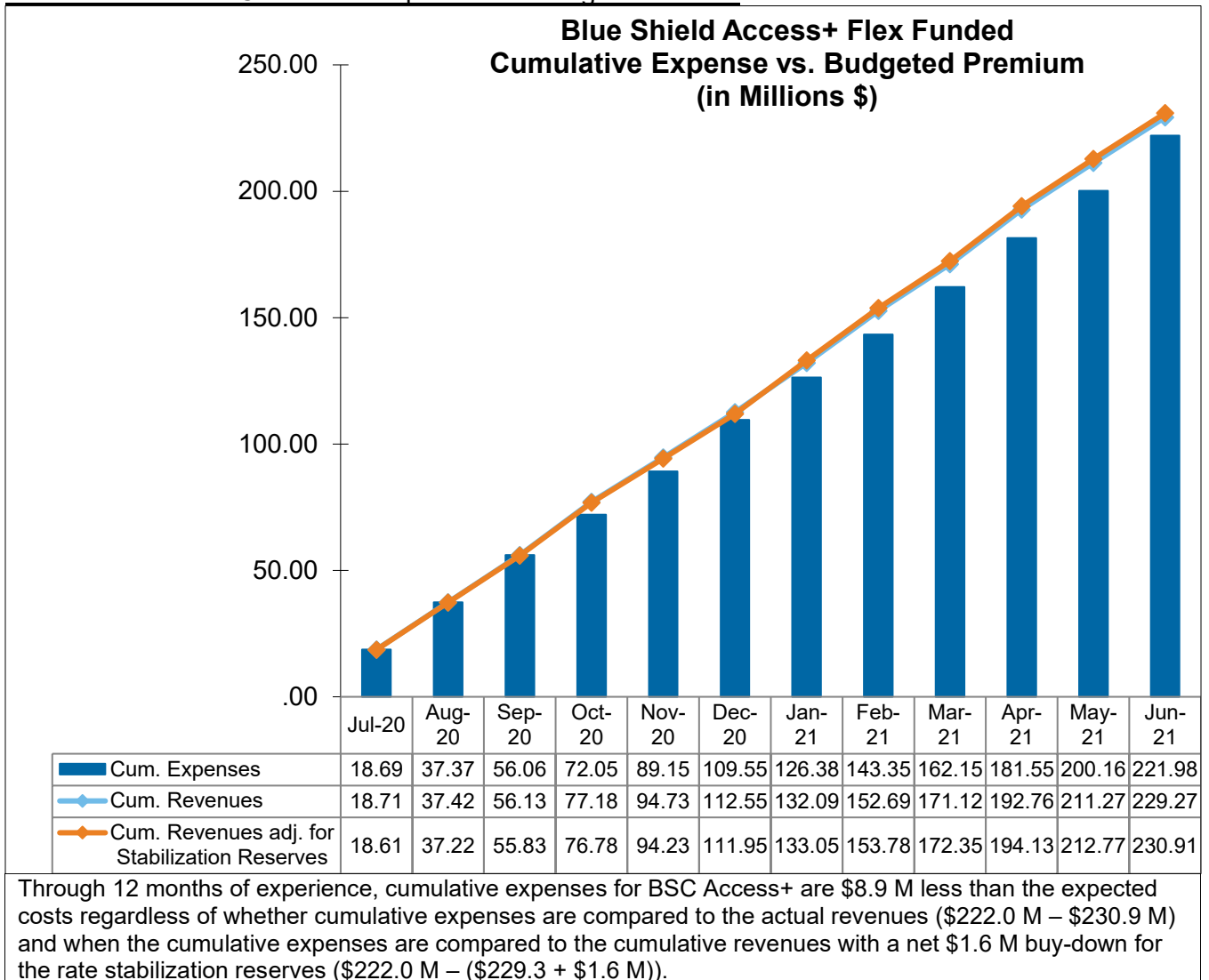


Blue Shield Access+ Flex Funded Plan

Fiscal year-end increase of \$7.3 M in fund balance due to the following:

- Rate Stabilization Effect:
 - \$597 K 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
 - \$820 K 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):
 - \$4.7 M of pharmacy rebates
- Claims:
 - \$2.8 M increase due to claim expenses trending favorably

Fiscal Year-to-Date Cumulative Experience Through 12 Months

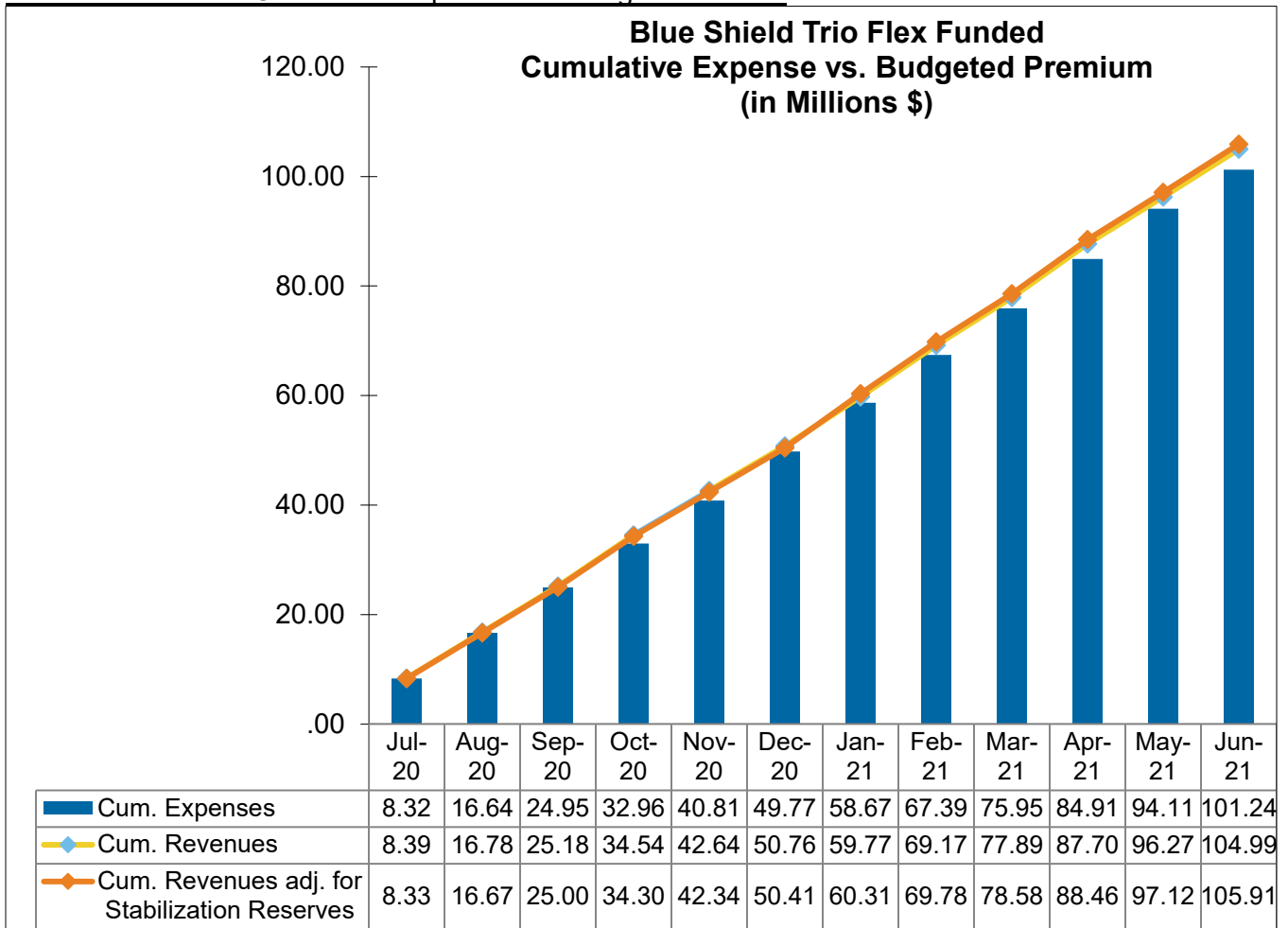


Blue Shield Trio Flex-Funded Plan

Fiscal year-end increase of \$3.7 M in fund balance due to the following:

- Rate Stabilization Effect:
 - \$0.35 M 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
 - \$0.46 M 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):
 - \$2.1 M of pharmacy rebates
- Claims:
 - \$1.7 M increase due to claim expenses trending favorably

Fiscal Year-to-Date Cumulative Experience Through 12 Months



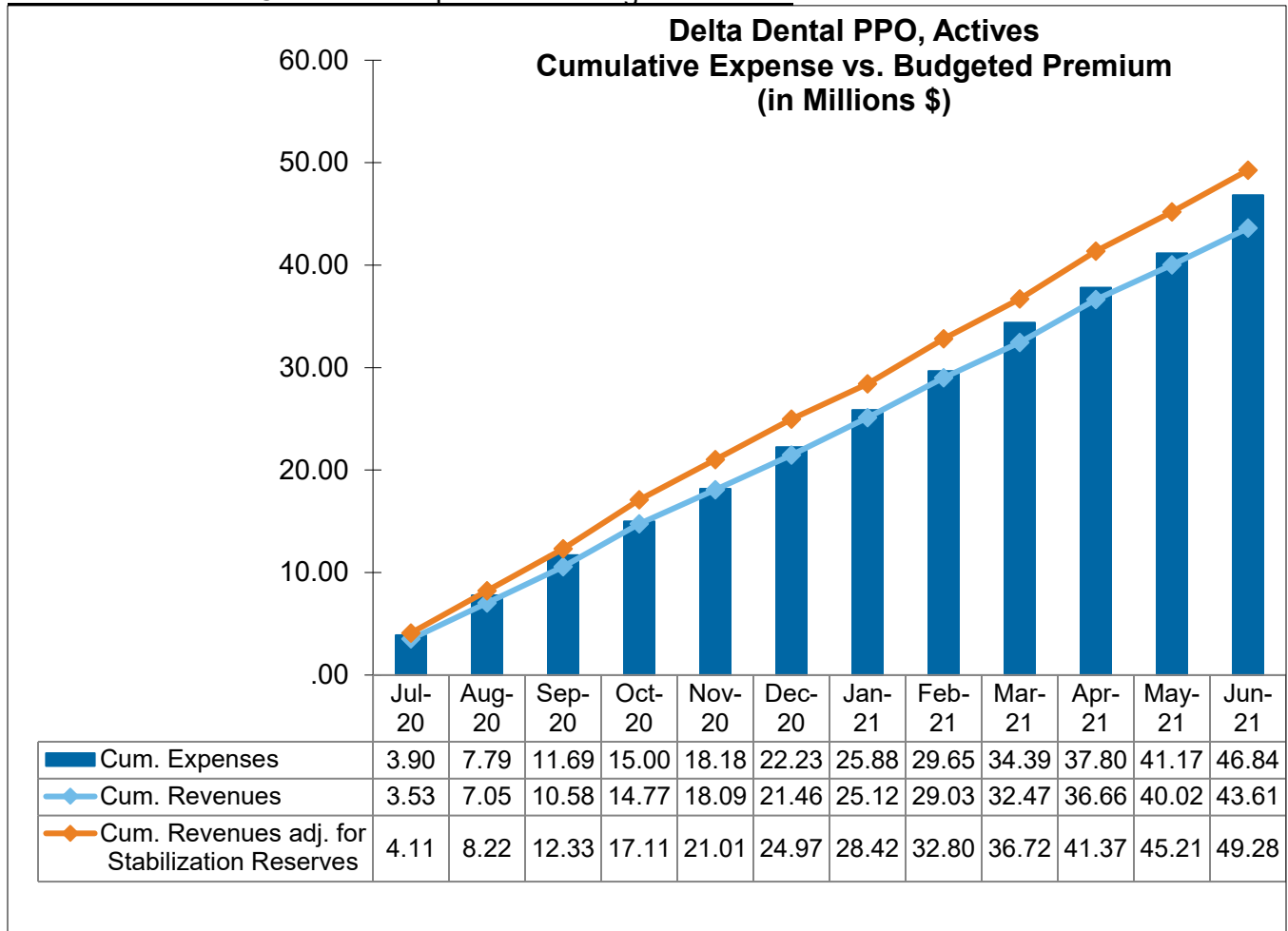
Through 12 months of experience, cumulative expenses for BSC Trio are \$4.7 M less than the expected costs regardless of whether cumulative expenses are compared to the actual revenues (\$101.2 M – \$105.9 M) and when cumulative expenses are compared to cumulative revenues with the net \$0.9 M buy down for the rate stabilization reserves (\$101.2 M – (\$105.0+\$0.9 M)).

Delta Dental PPO (Actives Only) Self-Funded Plan

Fiscal year-end decrease of \$1.2 M in the fund balance due to the following:

- Rate Stabilization Effect:
 - \$3.5 M 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 M 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:
 - \$3.1 M increase due to claim expenses trending favorably

Fiscal Year-to-Date Cumulative Experience Through 12 Months



Through 12 months of experience, cumulative expenses for Delta Dental PPO for Actives are \$2.4 M less than the expected costs compared to actual revenues (\$46.8 M – \$49.3 M). The cumulative expenses, however, are \$3.2 M greater than cumulative revenues with the \$5.7 M buy down from the rate stabilization reserve (\$46.8 M – (\$43.6 M + \$5.7 M)).

Other Trust Fund Notes

Healthcare Sustainability Fund

The Healthcare Sustainability Fund resided in the Trust Fund and is designated for member communications, programs to reduce healthcare costs and member well-being programs. The sources of funds received were slightly (+\$28 K) greater actual fiscal year-end expenditures. This result is a net positive balance of \$4.5 M or roughly the balance carried forward from the last fiscal year.

SAN FRANCISCO HEALTH SERVICE SYSTEM <small>Affordable, Quality Benefits & Well-Being</small>			
Healthcare Sustainability Fund FY 2020-21			
	FY 2020-21 Revised Budget	Total Actual YTD	Fav/(Unfav) Variance
REVENUES/PREMIUMS			
Annual Revenues	\$ 2,560,688	\$ 2,568,786	\$ (8,098)
Carryforward from Fund Balance	4,401,072	4,401,072	-
TOTAL	\$ 6,961,760	\$ 6,969,858	\$ (8,098)
EXPENDITURES			
Annual Expenditures	\$ 3,060,356	\$ 2,094,552	\$ 965,804
One-Time Expenditures	1,074,537	220,279	854,258
TOTAL	\$ 4,134,893	\$ 2,314,831	\$ 1,820,062
BALANCE	\$ 4,134,893	\$ 4,655,027	\$ 520,134

Interest

Year-to-date, \$858 K interest has been posted in the Trust Fund. Reporting of the final year-end interest occurs after the fiscal year-end close. The projected fiscal year-end increase to the fund balance of \$1.1 M.

Performance Guarantees

\$319 K 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 12 months, a total of \$70 K has been reimbursed to members under this program.

Forfeitures and Transfers Out

Forfeitures from unused Flexible Spending Accounts (FSA) fund the administration of the accounts, as is allowed by the IRS. YTD \$109 K of forfeitures have been recorded. Since the administrative funding is in the General Fund and the forfeitures are in the Trust, a transfer is made annually at the end of the fiscal year. For FY 2020-21, \$358 K was transferred to the General Fund for FSA administrative costs.

Pharmacy Rebates

Certain drug manufactures give rebates on the cost of prescription drugs to through their contracts with Pharmacy Benefits Management (PBM) companies. These pharmacy rebates are passed through the Trust from the administrators of our self-insured and flex funded health plans. These rebates offset the claims expense of the self-funded plans above. The following table summarizes the FY 2020-21 pharmacy rebates received through June 30, 2021.

Self-Insured / Flex Funded Plan	Amount Received FYE 2020-21
UHC	\$1,743,649
Blue Shield Access +	4,701,089
Blue Shield Trio	2,161,081
Total	\$8,605,819

GENERAL FUND ADMINISTRATION BUDGET

Revenue received after 12 months was below the revised budget by \$323 K. Expenses were also below the revised budget by \$826K. The source of the positive variance is primarily due to non-personnel and interdepartmental services. The continuation of the pandemic reduced or delayed the ability to carry out the funded activities such as departmental well-being programs and grants. The result is a net balance of \$504 K. The \$225K of these unused funds are being requested to be carried forward into the next fiscal year.

<div style="display: flex; justify-content: space-between; align-items: center;"> <div style="font-size: small;"> SAN FRANCISCO HEALTH SERVICE SYSTEM Affordable, Quality Benefits & Well-Being </div> <div style="text-align: center;"> General Fund Administration Budget FY 2020-21 ANNUALIZED AS OF 06/30/21 </div> </div>						
	FY 2020-21 Approved Budget	FY 2020-21 Revised Budget	Non-COVID-19 Actuals	COVID-19 Actuals	Total Actual YTD	Fav/(Unfav) Variance
REVENUES						
Non-Operating Revenue	\$ 9,131	\$ 9,131	\$ 40	\$ -	\$ 40	\$ (9,091)
Work Order Recovery	11,467,900	11,467,900	11,421,674	-	11,421,674	(46,226)
Other Revenue	625,297	625,297	358,000	-	358,000	(267,297)
General Fund Carryforward	-	344,070	344,070	-	344,070	-
Interfund Transfer	-	101,477	101,477	-	101,477	-
TOTAL REVENUES	\$ 12,102,328	\$ 12,547,875	\$ 12,225,261	\$ -	\$ 12,225,261	\$ (322,614)
EXPENDITURES						
Personnel Services	\$ 5,203,105	\$ 5,280,982	\$ 5,098,784	\$ 94,560	\$ 5,193,344	\$ 87,638
Mandatory Fringe Benefits	2,680,495	2,704,095	2,619,700	42,466	2,662,165	41,930
Non-personnel Services	2,299,146	2,475,244	2,023,679	1,352	2,025,032	450,213
Materials & Supplies	49,085	65,660	31,009	-	31,009	34,650
Services of Other Departments	1,870,497	2,021,894	1,810,151	-	1,810,151	211,743
TOTAL EXPENDITURES	\$ 12,102,328	\$ 12,547,875	\$ 11,583,323	\$ 138,378	\$ 11,721,701	\$ 826,173
BALANCE	\$ -	\$ 0	\$ 641,938	\$ (138,378)	\$ 503,560	\$ 503,560

**STATEMENT OF REVENUES AND EXPENSES
FY 2020-2021
FOR 12 MONTHS ENDED JUNE 30, 2021**

<i>ACTIVE & RETIRED COMBINED</i>	Year-To-Date Revenues	Year-To-Date Expenses	Year-To-Date Net Excess (Shortage)
SELF-INSURANCE			
UHC PPO, including ASO *	42,166,536	41,042,928	1,123,608
Blue Shield Access+ *	229,268,675	221,976,675	7,291,999
Blue Shield Trio *	104,986,948	101,239,554	3,747,394
Delta Dental - Active only, including ASO	43,613,888	46,837,973	(3,224,086)
TOTAL SELF-INSURANCE	420,036,047	411,097,130	8,938,916
INSURANCE PRODUCTS			
UHC MAPD	85,471,272	85,471,272	-
Kaiser-HMO	464,137,234	463,226,706	910,528
Vision Service Plan, All (City Plan & HMO)	8,934,145	8,934,779	(633)
Sub-total HMO	558,542,651	557,632,757	909,895
Delta Dental - Retired	16,642,417	16,642,417	-
Delta Care	807,856	792,742	15,114
UHC Dental	444,141	448,539	(4,398)
Sub-total Dental	17,894,414	17,883,698	10,716
Long Term/Short Term Disability	7,559,967	7,566,240	(6,273)
Flexible Benefits	3,381,921	3,378,783	3,138
Flexible Spending-Dependent Care	4,046,999	4,106,998	(59,998)
Flexible Spending -Medical Reimbursement	9,140,955	9,620,769	(479,815)
Best Doctors (discontinued on 1/1/20)	-	-	-
Healthcare Sustainability Fund (\$3.00)	2,568,786	2,314,831	253,955
Adoption & Surrogacy		70,374	(70,374)
TOTAL INSURANCE PRODUCTS	603,135,694	602,574,450	561,243
SAVINGS AND INVESTMENTS			
Interest	979,087		979,087
Performance guarantees	319,270		319,270
Forfeitures	108,942		108,942
TOTAL SAVINGS & INVESTMENTS	1,407,299		1,407,299
TRANSFERS OUT OF FORFEITURES		358,000	(358,000)
TOTAL FUNDS	1,024,579,039	1,014,029,581	10,549,458

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

	FY20-21 Year-to-Date Actual Net as of 06/30/21	FY20-21 Projected Year-End Annual Net	
SUMMARY			
Self Insurance			
UHC PPO	1,123,608	1,123,608	(a)
Blue Shield-Access+	7,291,999	7,291,999	(b)
Blue Shield-Trio	3,747,394	3,747,394	(b)
Delta Dental PPO, Actives	(3,224,086)	(3,224,086)	(c)
Insurance Products			
Medical HMOs	909,895	909,895	
Dental	10,716	10,716	
LTD/Flexible Benefits/FSA/Best Doctors	(542,948)	(542,948)	
Healthcare Sustainability Fund (\$3.00)	253,955	253,955	(d)
Savings & Investments			
Interest	979,087	1,068,094	
Performance guarantees	319,270	319,270	(e)
Performance guarantees - Surrogacy and adoption	(70,374)	(70,374)	(f)
Forfeitures	108,942	108,942	
Transfers Out	(358,000)	(358,000)	(g)
TOTAL	10,549,458	10,638,466	
Net assets			
Beginning of the year		116,114,257	
End of the year		126,752,723	

- (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 \$1.7 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 \$6.9 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

**STATEMENTS OF REVENUES AND EXPENSES
FY20-21 VS FY19-20
YEAR-TO-DATE: JUNE 30, 2021**

<i>ACTIVE & RETIRED COMBINED</i>	For 12 Months Ended June 30, 2021	For 12 Months Ended June 30, 2020	\$ Change	% Change
SELF-INSURANCE				
UHC PPO, including ASO				
Revenues	42,166,536	38,178,157	3,988,379	10.4% l
Expenses	(41,042,928)	(37,689,237)	(3,353,691)	8.9% f
Net UHC PPO Excess(Shortage)	1,123,608	488,920	634,688	129.8%
Blue Shield-Access+				
Revenues	229,268,675	227,645,392	1,623,283	0.7%
Expenses	(221,976,675)	(214,901,399)	(7,075,277)	3.3% f
Net Blue Shield-Access Excess(Shortage)	7,291,999	12,743,993	(5,451,994)	-42.8%
Blue Shield-Trio				
Revenues	104,986,948	103,501,830	1,485,118	1.4%
Expenses	(101,239,554)	(105,511,720)	4,272,166	-4.0% j
Net Blue Shield-Trio Excess(Shortage)	3,747,394	(2,009,890)	5,757,284	-286.4%
Delta Dental - Active only, including ASO				
Revenues	43,613,888	44,903,871	(1,289,984)	-2.9% h
Expenses	(46,837,973)	(37,826,627)	(9,011,346)	23.8% f
Net Delta Dental - Active Excess(Shortage)	(3,224,086)	7,077,244	(10,301,329)	-145.6%
NET SELF-INSURANCE	8,938,916	18,300,267	(9,361,351)	-51.2%
INSURANCE PRODUCTS				
Kaiser-HMO				
Revenues	464,137,234	438,972,972	25,164,262	5.7% d, l
Expenses	(463,226,706)	(438,678,651)	(24,548,055)	5.6% d, l
Net Kaiser- HMO Excess(Shortage)	910,528	294,321	616,207	209.4%
UHC MAPD				
Revenues	85,471,272	79,343,961	6,127,311	7.7% d, l
Expenses	(85,471,272)	(79,343,961)	(6,127,311)	7.7% d, l
Net UHC MAPD Excess(Shortage)	0	0	0	
Vision Service Plan, All (City Plan & HMO)				
Revenues	8,934,145	8,331,768	602,377	7.2% d, l
Expenses	(8,934,779)	(8,334,377)	(600,402)	7.2% d, l
Net Vision Service Plan Excess(Shortage)	(633)	(2,608)	1,975	-75.7%
Delta Dental - Retired				
Revenues	16,642,417	16,320,460	321,957	2.0%
Expenses	(16,642,417)	(16,320,460)	(321,957)	2.0%
Net Delta Dental - Retired Excess(Shortage)	0	0	0	
Delta Care				
Revenues	807,856	858,118	(50,263)	-5.9% a
Expenses	(792,742)	(860,111)	67,369	-7.8% a
Net Delta Care Excess(Shortage)	15,114	(1,993)	17,107	-858.3%
UHC Dental				
Revenues	444,141	453,645	(9,504)	-2.1%
Expenses	(448,539)	(436,082)	(12,457)	2.9%
Net UHC Dental Excess(Shortage)	(4,398)	17,563	(21,961)	-125.0%
Net Dental	10,716	15,570	(4,854)	-31.2%
Long Term/Short Term Disability				
Revenues	7,559,967	7,170,227	389,740	5.4%
Expenses	(7,566,240)	(7,043,964)	(522,276)	7.4%
Net Long Term/Short Term Disability Excess(Shortage)	(6,273)	126,263	(132,536)	-105.0%
Flexible Benefits				
Revenues	3,381,921	2,965,713	416,209	14.0% g
Expenses	(3,378,783)	(2,965,530)	(413,253)	13.9% g
Net Flexible Benefits Excess(Shortage)	3,138	183	2,955	1616.8%
Flexible Spending-Dependent Care				
Revenues	4,046,999	5,514,942	(1,467,943)	-26.6% c
Expenses	(4,106,998)	(5,319,999)	1,213,002	-22.8% j
Net Flexible Spending-Dependent Care Excess(Shortage)	(59,998)	194,943	(254,941)	-130.8%
Flexible Spending -Medical Reimbursement				
Revenues	9,140,955	8,724,936	416,019	4.8% d
Expenses	(9,620,769)	(7,492,617)	(2,128,153)	28.4% f
Net Flexible Spending-Medical Reimbursement Excess(Shortage)	(479,815)	1,232,319	(1,712,134)	-138.9%
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)	-100.0%
Adoption & Surrogacy				
Expenses	(70,374)	(94,500)	24,126	-25.5%
Healthcare Sustainability Fund (\$3.00)				
Revenues	2,568,786	2,563,606	5,180	0.2%
Expenses	(2,314,831)	(2,200,001)	(114,830)	5.2% e
Net Healthcare Sustainability Fund (\$3.00) Excess(Shortage)	253,955	363,605	(109,650)	-30.2%
NET INSURANCE PRODUCTS	561,243	2,131,594	(1,570,351)	-73.7%
SAVINGS AND INVESTMENTS				
Interest	979,087	2,109,075	(1,129,988)	
Performance guarantees	319,270	317,814	1,456	
Forfeitures	0	0	0	
TOTAL SAVINGS & INVESTMENTS	1,298,357	2,426,889	(1,128,532)	1616.8%
TOTAL NET EXCESS (SHORTAGE)	10,798,517	22,858,750	(12,060,234)	-52.8%

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