

**SAN FRANCISCO**  
**HEALTH SERVICE SYSTEM**

Affordable, Quality Benefits & Well-Being

**Memorandum**

DATE: April 13, 2017  
TO: Randy Scott, President and Members of the Health Service Board  
FROM: Pamela Levin, Chief Financial Officer  
RE: Update on Financial Report as of February 28, 2017

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This report summarizes revenues and expenses of the Employee Benefit Trust Fund (Trust Fund) and the General Fund Administration Budget for the time period of July 1, 2016 to February 28, 2017, as well as fiscal year-end projections through June 30, 2017.

Employee Benefit Trust Fund

On June 30, 2016, the Trust Fund balance was \$68.6 million. Based on activity through February 2017, the fund balance is projected to be \$73.5 million as of June 30, 2017. The projected \$4.9 million increase includes reserves for unpaid claims and is a result of the following changes:

1. City Plan Self-Funded Plan - \$10.4 million decrease in fund balance resulting from:
  - a. \$0.8 million increase in fund balance from pharmacy rebates (additional information on page 3)
  - b. \$11.2 million decrease in fund balance:
    - \$7.0 million associated with subsidizing 2016 rates (for the first six months of FY 2016-17) from the claim stabilization reserve
    - \$3.8 million associated with subsidizing 2017 rates (for the second six months of FY 2016-17) from the claim stabilization reserve
    - 0.4 million due to unfavorable claim experience
2. Blue Shield Flex-Funded Plan - \$11.6 million increase in fund balance resulting from:
  - a. \$23.6 million increase in fund balance:
    - \$2.2 million associated with the increase in 2016 rates (for the first six months of FY 2016-17) to recover the 2014 deficit
    - \$2.6 million associated with the increase in 2017 rates (for the second six months of FY 2016-17) to recover the 2015 deficit
    - \$3.4 million from pharmacy rebates (additional information on page 3)

- \$5.5 million reduction in legislative fees due to elimination of the federal Health Insurance Tax (HIT) in 2017
  - \$9.9 million in the HIT refund for 2016 plan year. When the 2016 rates were approved, it was assumed that the HIT would be applicable to the BSC Flex Funded Plan due to the California Department of Managed Health Care (DMHC) filing as a fully insured plan. Blue Shield of California and the DMHC revisited the definition and as a result flex-funded plans are being treated as not fully insured by Blue Shield and DMHC and therefore were not required to pay the HIT, for 2016.
- b. \$12.0 million decrease in fund balance due to unfavorable claim experience, which increased by 7.6% over the same period of last year
3. Delta Dental Self-Funded Plan- \$3.7 million increase in fund balance associated with:
- a. \$5.5 million increase in fund balance due to favorable claim experience
  - b. \$1.8 million decrease in fund balance resulting from:
    - \$0.6 million decrease in fund balance associated with subsidizing 2016 rates (for the first six months of FY 2016-17) from the claim stabilization reserve
    - \$1.2 million decrease in fund balance associated with subsidizing 2017 rates (for the second six months of FY 2016-17) from the claim stabilization reserve
4. Healthcare Sustainability Fund – For the first six months of FY 2016-17, the charge is \$2.05 per member per month charge and for the second six months the charge is \$3.00 per member per month. This is one of the components of the premiums and is allocated between the employer and employee based on the applicable contribution model.

The table on the following page reflects the year to date actuals through February 28, 2017. The Revised Budget reflects funding for services that were encumbered in FY 2015-16 but unexpended. The Balance is the difference between the Revised Budget and the Projection. Projected savings are represented by a positive number while expenditures that exceed the budget are represented by a (negative) number. On-going expenditures that will not be completed by the end of FY 2016-17, as a result of procurement delays and staffing resources, will be carry forwarded into FY 2017-18.

Ongoing	FY 2016-17				
	Original Budget	Revised Budget	February YTD Actuals	Projection	Balance
<b>Revenues/Premiums</b>	\$ 1,619,295	\$ 1,644,295	\$ 1,230,741	\$ 1,644,295	\$ -
Carryforward for encumbrances		204,967	204,967	204,967	-
\$0.95 Increase		125,000		125,000	-
<b>Total</b>	<b>\$ 1,619,295</b>	<b>\$ 1,974,262</b>	<b>\$ 1,435,708</b>	<b>\$ 1,974,262</b>	<b>\$ -</b>
<b>Expenditures</b>					
Personnel Services and Mandatory Fringes	\$ 487,734	\$ 512,734	\$ 217,197	\$ 473,940	\$ 38,794
Communications					
Open Enrollment Communications	280,168	353,212	247,480	250,051	103,161
Operations Communications	97,923	97,923	7,042	84,657	13,266
Wellness Communications	200,165	264,918	40,753	131,000	133,918
Other Communications	29,025	29,025	7,676	8,687	20,338
Total Communications	\$ 607,281	\$ 745,078	\$ 302,952	\$ 474,395	\$ 270,683
Wellness	30,000	130,000	49,732	79,732	50,268
Initiatives to Reduce Health Care Costs	380,500	472,670	171,603	457,670	15,000
SFGTV/Board Meetings	11,056	11,056	10,644	23,000	(11,944)
Contingency for Unforeseen Issues	102,724	102,724		150,000	(47,276)
<b>Total Expenditures</b>	<b>\$ 1,619,295</b>	<b>\$ 1,974,262</b>	<b>\$ 752,129</b>	<b>\$ 1,658,737</b>	<b>\$ 315,525</b>
Balance *	\$ -	\$ -	\$ 683,579	\$ 315,525	\$ 315,525

\* Ongoing balance to be carryforwarded into FY 2017-18

5. Interest - \$0.4 million increase in fund balance from HSS Trust cash balances
6. Surrogacy and adoption - \$0.2 million (\$150,000) decrease in fund balance from performance guarantees for January – June 2017. The program is effective January 1, 2017 and two applications are under review.
7. Transfers Out of Forfeitures - \$0.5 million decrease in fund balance associated with transfers to the General Fund pursuant to the FY 2016-17 budget

### Pharmacy Rebates

The following table summarizes the FY 2016-17 pharmacy rebates as of February 28, 2017 and year-end projection. The rebates offset the amount of claims HSS pays to the vendors.

Vendor	Amount (year to date)	Time Period Covered	Year-End Projection
Blue Shield	\$1,032,145	October 2015 – March 2016	\$3,400,000
UHC	363,688	October 2015 – September 2016	800,000
<b>Total</b>	<b>\$1,395,833</b>		<b>\$4,200,000</b>

General Fund Administration Budget (including Enterprise Content Management System)

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



**HEALTH SERVICE SYSTEM**  
**STATEMENT OF REVENUES AND EXPENSES**  
FY 2016-2017  
FOR THE EIGHT MONTHS ENDED February 28, 2017

*ACTIVE & RETIRED COMBINED*

	Year-To-Date Revenues	Year-To-Date Expenses	Year-To-Date Net Excess(Shortage)
<b>SELF-INSURANCE</b>			
City Plan, including ASO *	37,273,970	45,414,608	(8,140,638)
Blue Shield Flex *	202,757,562	196,923,810	5,833,752
Delta Dental - Active only, including ASO	31,355,209	28,683,292	2,671,917
<b>TOTAL SELF-INSURANCE</b>	<b>271,386,741</b>	<b>271,021,710</b>	<b>365,031</b>
<b>INSURANCE PRODUCTS</b>			
Blue Shield-HMO	15,789,334	15,789,334	-
Kaiser-HMO	242,012,094	242,178,090	(165,996)
Vision Service Plan, All (City Plan & HMO)	3,388,071	3,388,071	-
Sub-total HMO	261,189,499	261,355,495	(165,996)
Delta Dental - Retired	9,033,219	8,942,012	91,207
Delta Care	658,758	658,887	(129)
Pacific Union	224,937	224,791	146
Sub-total Dental	9,916,914	9,825,690	91,224
Long Term/Short Term Disability	4,896,549	4,896,549	-
Flexible Benefits	690,135	690,135	-
Flexible Spending-Dependent Care	3,011,302	3,116,209	(104,907)
Flexible Spending -Medical Reimbursement	3,478,993	2,831,115	647,878
Best Doctors (\$1.40)	189,630	189,630	-
Healthcare Sustainability Fund (\$3.00)	1,230,741	848,425	382,316
<b>TOTAL INSURANCE PRODUCTS</b>	<b>284,603,763</b>	<b>283,753,248</b>	<b>850,515</b>
<b>SAVINGS AND INVESTMENTS</b>			
Interest	278,408	-	278,408
Performance guarantees	-	-	-
Forfeitures	-	-	-
<b>TOTAL SAVINGS &amp; INVESTMENTS</b>	<b>278,408</b>	<b>-</b>	<b>278,408</b>
<b>TRANSFERS OUT OF FORFEITURES</b>			
<b>TOTAL FUNDS</b>	<b>556,268,912</b>	<b>554,774,958</b>	<b>1,493,955</b>

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

SUMMARY- In millions	FY16-17	FY16-17
	Year-To Date Actual As of Feb. 2017 - Net	Projected Annual-Net
Self Insurance		
City Plan	(8.1)	(10.4) (a)
Blue Shield-Flex	5.8	11.6 (b)
Dental, Actives	2.7	3.7 (c)
Insurance Products		
Medical HMOs	(0.2)	0.0
Dental	0.1	0.0
LTD/Flexible Benefits/FSA/Best Doctors	0.5	0.0
Healthcare Sustainability Fund (\$3.00)	0.4	0.3 (d)
Savings & Investments		
Interest	0.3	0.4
Performance guarantees	0.0	0.0 (e)
Performance guarantees - Surrogacy and adoption	0.0	(0.2) (f)
Forfeitures	0.0	0.0 (g)
Transfers Out of Forfeitures	0.0	(0.5) (h)
<b>TOTAL</b>	<b>1.5</b>	<b>4.9</b>
Net assets		
Beginning of the year		68.6
End of the year		73.5

(a) Annual Projection is net of claim stabilization of \$7.0 million used to reduce 2016 rates, \$3.8 million to reduce 2017 rates, and Pharmacy rebate of \$0.8 million

(b) Annual Projection is net of claim stabilization of \$2.2 million to increase 2016 rates, \$2.6 million to increase 2017 rates, Pharmacy rebate of \$3.4 million, reduction in Legislative Fees of \$5.5 million, and HIT refund of \$9.9 million

(c) Annual Projection is net of claim stabilization of \$0.6 million to reduce 2016 rates and \$1.2 million to reduce 2017 rates

(d) \$3.00 per member per month for communications, wellness, actuarial work; is part of a total premium, paid 90% to 100% by employer.

(e) Only reflects performance guarantees received in FY 2016-2017

(f) Reflects use of fund balance

(g) Will be adjusted after the runout period for 2016 FSAs

(h) Transfer of forfeitures to General Fund per FY 2016-2017 budget



**ACTIVE & RETIRED COMBINED**

		For eight months ended February 28, 2017	For eight months ended February 28, 2016	\$ Change	% Change	Notes	
1	<b>SELF-INSURANCE</b>						1
2	City Plan, including ASO						2
3	Revenues	37,273,970	28,377,185	8,896,785	31.4%	m	3
4	Expenses	(45,414,608)	(33,918,902)	(11,495,705)	33.9%	m	4
5	Net City Plan Excess(Shortage)	(8,140,638)	(5,541,717)	(2,598,921)	46.9%		5
6	Blue Shield-Flex						6
7	Revenues	202,757,562	190,621,191	12,136,371	6.4%	l	7
8	Expenses	(196,923,810)	(193,034,505)	(3,889,305)	2.0%		8
9	Net Blue Shield-Flex Excess(Shortage)	5,833,752	(2,413,314)	8,247,066	-341.7%		9
10	Delta Dental - Active only, including ASO						10
11	Revenues	31,355,209	31,034,669	320,540	1.0%		11
12	Expenses	(28,683,292)	(27,425,683)	(1,257,609)	4.6%	f	12
13	Net Delta Dental - Active Excess(Shortage)	2,671,917	3,608,986	(937,069)	-26.0%		13
14	<b>NET SELF-INSURANCE</b>	<b>365,031</b>	<b>(4,346,045)</b>	<b>4,711,076</b>	<b>-108.4%</b>		14
15	<b>INSURANCE PRODUCTS</b>						15
16	Blue Shield-HMO						16
17	Revenues	15,789,334	21,587,098	(5,797,764)	-26.9%	m	17
18	Expenses	(15,789,334)	(21,587,098)	5,797,764	-26.9%	m	18
19	Net Blue Shield HMO Excess(Shortage)	-	-	-	0.0%		19
20	Kaiser-HMO						20
21	Revenues	242,012,094	228,448,498	13,563,596	5.9%	d, l	21
22	Expenses	(242,178,090)	(228,622,487)	(13,555,603)	5.9%	d, l	22
23	Net Kaiser- HMO Excess(Shortage)	(165,996)	(173,989)	7,993	-4.6%		23
24	Vision Service Plan, All (City Plan & HMO)						24
25	Revenues	3,388,071	3,297,599	90,472	2.7%		25
26	Expenses	(3,388,071)	(3,297,599)	(90,472)	2.7%		26
27	Net Vision Service Plan Excess(Shortage)	-	-	-	-		27
28							28
29	Delta Dental - Retired						29
30	Revenues	9,033,219	9,102,493	(69,274)	-0.8%		30
31	Expenses	(8,942,012)	(9,032,525)	90,513	-1.0%		31
32	Net Delta Dental - Retired Excess(Shortage)	91,207	69,968	21,239	30.4%		32
33	Delta Care						33
34	Revenues	658,758	677,868	(19,110)	-2.8%		34
35	Expenses	(658,887)	(676,258)	17,371	-2.6%		35
36	Net Delta Care Excess(Shortage)	(129)	1,610	(1,739)	-108.0%		36
37	Pacific Union						37
38	Revenues	224,937	208,135	16,802	8.1%	d	38
39	Expenses	(224,791)	(214,171)	(10,620)	5.0%	d	39
40	Net Pacific Union Excess(Shortage)	146	(6,036)	6,182	-102.4%		40
41	Net Dental	91,224	65,542	25,682	39.2%		41
42							42
43	Long Term/Short Term Disability						43
44	Revenues	4,896,549	4,582,624	313,925	6.9%	d	44
45	Expenses	(4,896,549)	(4,582,624)	(313,925)	6.9%	d	45
46	Net Long Term/Short Term Disability Excess(Shortage)	-	-	-	0.0%		46
47	Flexible Benefits						47
48	Revenues	690,135	594,401	95,734	16.1%	k	48
49	Expenses	(690,135)	(594,401)	(95,734)	16.1%	k	49
50	Net Flexible Benefits Excess(Shortage)	-	-	-	0.0%		50
51	Flexible Spending-Dependent Care						51
52	Revenues	3,011,302	2,673,643	337,659	12.6%	d	52
53	Expenses	(3,116,209)	(2,974,479)	(141,730)	4.8%	f	53
54	Net Flexible Spending-Dependent Care Excess(Shortage)	(104,907)	(300,836)	195,929	-65.1%		54
55	Flexible Spending -Medical Reimbursement						55
56	Revenues	3,478,993	2,974,524	504,469	17.0%	d	56
57	Expenses	(2,831,115)	(3,134,723)	303,608	-9.7%	j	57
58	Net Flexible Spending-Medical Reimbursement Excess(Shortage)	647,878	(160,199)	808,077	-504.4%		58
59	Best Doctors (\$1.40)						59
60	Revenues	189,630	-	189,630		n	60
61	Expenses	(189,630)	-	(189,630)		n	61
62	Net Best Doctors Excess(Shortage)	-	-	-			62
63	Healthcare Sustainability Fund (\$3.00)						63
64	Revenues	1,230,741	1,073,090	157,651	14.7%	e	64
65	Expenses	(848,425)	(923,333)	74,908	-8.1%	e	65
66	Net Healthcare Sustainability Fund (\$3.00) Excess(Shortage)	382,316	149,757	232,559	155.3%		66
67	<b>NET INSURANCE PRODUCTS</b>	<b>850,515</b>	<b>(419,725)</b>	<b>1,270,240</b>	<b>-302.6%</b>		67
68	<b>SAVINGS AND INVESTMENTS</b>						68
69	Interest	278,408	254,015	24,393	9.6%	b	69
70	Performance guarantees	-	223,443	(223,443)	-100.0%		70
71	Forfeitures	-	-	-			71
72	<b>TOTAL SAVINGS &amp; INVESTMENTS</b>	<b>278,408</b>	<b>477,458</b>	<b>(199,050)</b>	<b>-41.7%</b>		72
73	<b>TOTAL NET EXCESS (SHORTAGE)</b>	<b>1,493,955</b>	<b>(4,288,312)</b>	<b>5,782,266</b>	<b>-134.8%</b>		73

Notes: a decrease in membership  
b increase in interest rates  
c decrease in deductions  
d increase in membership  
e \$3 per member per month for communications, wellness, actuarial work  
k implementation of voluntary benefits effective 1/1/17

f increase in claims  
h decrease in rates  
i increase in rates  
g increase in deductions  
j decrease in claims  
m conversion into New City Plan effective 1/1/17  
n effective 1/1/17



**Health Service System**  
CITY & COUNTY OF SAN FRANCISCO

HEALTH SERVICE SYSTEM - ADMINISTRATION  
STATEMENT OF REVENUES AND EXPENDITURES  
As of February 28, 2017

YEAR-TO DATE				ANNUAL					
Fav/(Unfav)				Fav/(Unfav)					
Budget	Actual	Variance	% Var	Original Budget	Carryforward/ Changes	Revised Budget	Projection	Variance	% Var
<b>REVENUES</b>									
308,353	30	(308,323)	-100.0%	462,530	0	462,530	462,530	0	0.0%
6,994,312	6,994,312	0	0.0%	10,456,135		10,456,135	10,456,135	0	0.0%
374,740	374,740	0	0.0%	0	374,740	374,740	374,740	0	0.0%
7,677,405	7,369,082	(308,323)	-4.0%	10,918,665	374,740	11,293,405	11,293,405	0	0.0%
<b>EXPENDITURES</b>									
3,407,543	3,297,854	109,689	3.2%	5,111,314	0	5,111,314	5,111,314	0	0.0%
1,567,866	1,458,364	109,502	7.0%	2,351,799	0	2,351,799	2,351,799	0	0.0%
1,318,625	752,002	566,623	43.0%	1,737,982	239,956	1,977,938	1,977,938	0	0.0%
36,942	37,378	(436)	-1.2%	51,797	3,616	55,413	55,413	0	0.0%
898,471	856,277	42,194	4.7%	1,665,773	131,168	1,796,941	1,796,941	0	0.0%
7,229,447	6,401,875	827,572	11.4%	10,918,665	374,740	11,293,405	11,293,405	0	0.0%
447,959	967,207	519,248	116%	0	0	0	0	0	0.0%