SAN FRANCISCO HEALTH PLAN
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**Joint San Francisco Health Authority/San Francisco Community Health Authority**
**Minutes of the Finance Committee**
**January 3, 2018**

**Present:** Reece Fawley, Steve Fields, Steven Fugaro, MD, Emily Webb, John Gregoire, John F. Grgurina, Jr., and Nina Maruyama

**Absent:** Eddie Chan, Pharm D.

**Guests:** Craig B. Keizur, Milliman

Reece Fawley, Chair, Finance Committee, chaired the meeting.

**Call to Order and Public Comment on any matters within the SFHA/SFCHA purview -** There were no public comments.

**1. Approval of Minutes from November 1 , 2017 Finance Committee Meeting**

The minutes of the November 1, 2017 Finance Committee meetings were unanimously approved with one revision requested by Reece Fawley to correct his title to Vice President, Health Plan Strategy and Managed Care Chief Contracting Officer.

**2. Review and Approval of Year-To-Date Unaudited Financial Statement and Investment Reports**

**Recommendation:** Review and approval of year-to-date unaudited financial statement and investment reports.

John Gregoire, CFO, presented the year-to-date unaudited financial statement and investment reports investment ending November 30, 2017. (The narrative summaries and financial documents were provided to the Finance Committee for reference.)

The following are key highlights:

1. November 2017 results produced a margin of $735,000 versus a budgeted margin of $1,061,000.

2. November 2017 results are $326,000 below budget due to:
   a. $1,106,000 less in revenue due to an increase in the number of Medi-Cal members placed on hold awaiting completion of their annual redetermination process.
   b. $962,000 less in pharmacy expense due to a decrease in utilization during the second half of November.
   c. Paid $153,000 in Strategic Use of Reserves (SUR) payments related to FY15-16.

3. When looking at year-to-date results, it is important to note that the FY17-18 budget projected we would record $38 million in revenue and

medical expense during September related to the Assembly Billy (AB) 85 to cost provision within the Medi-Cal Expansion category. Per AB 85, Designated Public Hospitals (DPHs) are to be reimbursed in amounts no less than cost for applicable services provided to newly eligible Medi-Cal Expansion members. SFHP received the AB 85 to cost funding, however as this funding related to FY15-16, audit rules required that we record this revenue and related medical expense in June 2017. $30.6 million of AB 85 funding was disbursed to Zuckerberg San Francisco General in early December.

4. The chart below highlights the key income statement categories with adjustments for Strategic Use of Reserves (SUR) and AB 85 to cost in order to show margin from ongoing operations for the month of November.

| | ----------------------NOV 2017 | --------------------------- | | | ---------------------FYTD 17-18 THRU NOV | --------------------------- | | |
|---|---|---|---|---|---|---|---|---|
| **CATEGORY** | **ACTUAL** | **BUDGET** | **FAV (UNFAV)** | **% FAV (UNFAV)** | **ACTUAL** | **BUDGET** | **FAV (UNFAV)** | **% FAV (UNFAV)** |
| REVENUE | $ 47,188,000 | $ 48,294,000 | $ (1,106,000) | -2.3% | $ 243,060,000 | $ 279,574,000 | $ (36,514,000) | -13.1% |
| LESS: AB85 TO COST | $ - | $ - | $ - | | $ - | $ 38,232,000 | $ (38,232,000) | |
| REVENUE - REVISED | $ 47,188,000 | $ 48,294,000 | $ (1,106,000) | -2.3% | $ 243,060,000 | $ 241,342,000 | $ 1,718,000 | 0.7% |
| MLR | 91.2% | 90.4% | | | 91.6% | 91.7% | | |
| ADMINISTRATIVE EXPENSES | $ 4,256,000 | $ 4,374,000 | $ 118,000 | 2.7% | $ 20,736,000 | $ 22,602,000 | $ 1,866,000 | 8.3% |
| ADMINISTRATIVE RATIO | 7.6% | 7.6% | | | 7.2% | 6.8% | | |
| MARGIN (LOSS) | $ 735,000 | $ 1,061,000 | $ (326,000) | -30.7% | $ 3,942,000 | $ 4,560,000 | $ (618,000) | -13.6% |
| OPERATING ADJUSTMENTS: | | | | | | | | |
| FY15-16 SUR PMTS/ACCRUALS | $ 153,000 | $ - | | | $ 925,000 | $ - | | |
| FY16-17 SUR PMTS/ACCRUALS | $ 625,000 | $ 625,000 | | | $ 7,252,000 | $ 3,125,000 | | |
| MARGIN FROM OPERATIONS | $ 1,513,000 | $ 1,686,000 | | | $ 12,119,000 | $ 7,685,000 | | |
| MLR W/O SUR AND AB85 TO COST | 89.5% | 89.1% | | | 88.2% | 89.1% | | |
| ADMIN RATIO WITHOUT AB85 TO COST | 7.6% | 7.6% | | | 7.2% | 8.0% | | |

## PROJECTIONS

Financial projections through May 2018:

1. As of November 30, 2017, SFHP has recorded $7,500,000 (50% of $15,000,000) for the medical groups related to the FY16-17 Strategic Use of Reserves. Also as of November 30, 2017, 92% of the remaining $7,500,000 has been added to the PIP program covering the months of January through November 2017. Another $625,000 will be added to the PIP program for December 2017 for a grand total of $7,500,000.

2. As of November 30, 2017, $14,295,000 was either paid to or accrued for the hospitals related to the FY16-17 Strategic Use of Reserves. It is anticipated another $705,000 will be paid or accrued by the end of the fiscal year.

3. At the September meeting, the Governing Board approved SFHP's recommendation to increase provider capitation and fee-for-service rates for Medi-Cal and Healthy Kids, effective January 1, 2018. The overall weighted average change is an increase of 6.2%. The FY17-18 budget included $13.2 million to cover these increases.

4. In October 2017, DHCS reduced Hepatitis C reimbursement rates retroactive to July 2017. SFHP will experience a 3.2% decrease in Hepatitis C reimbursements for the period of July through December 2017. For the period of January through June 2018, SFHP will see a 32.1% decrease in reimbursements. The total impact for FY17-18 is a decrease of $4.3 million in Hepatitis C revenue. Our Pharmacy department is working closely with the provider network to increase the use of Mavyret as this is the new low-cost Hepatitis C drug that is driving the reduction in reimbursement rates. The goal will be to have Hepatitis C drug cost reductions offset the loss in reimbursement revenue.

5. In February 2018, SFHP expects to receive $39.2 million related to AB 85 funding intended to bring the public hospital, Zuckerberg San Francisco General Hospital (ZSFG), up to cost for services provided to the Medi-Cal Expansion population during FY16-17. We expect to disburse $33.9 million of this AB 85 funding to ZSFG in February. For budget purposes, we estimated that $20.0 million in revenue and a similar amount in medical expense related to AB 85 would be recorded in December 2017.

**HIGHLIGHTED IMPACTS TO THE HEALTH PLAN AND/OR PROVIDERS**

**RECAP OF STRATEGIC USE OF RESERVES (SUR) PROGRAMS**

In the last six fiscal years, the Governing Board approved one PIP Block Grant program for FY12-13, one Provider Distribution for FY14-15 and three SUR programs for FY15-16, FY16-17 and FY17-18. These distributions total $78.6 million. Below is a summary of each program. SFHP has budgeted $13.6 million for the FY17-18 SUR program. SUR allocations have not yet been determined.

| | | Total Approved | Remaining To Be Paid |
|---|---|---|---|
| FY12-13 | PIP Block Grants | $8,000,000 | $136,000 |
| FY14-15 | Provider Distribution | $12,000,000 | $0 |
| FY15-16 | Strategic Use of Reserves | $15,000,000 | $4,205,000 |
| FY16-17 | Strategic Use of Reserves | $30,000,000 | $6,648,000 |
| FY17-18 | Strategic Use of Reserves | $13,600,000 | $13,600,000 |
| Total | | $78,600,000 | $24,589,000 |

Mr. Gregoire also reviewed the investment report and stated that the Investment strategy is already paying higher yields.

The Finance Committee unanimously approved the year-to-date unaudited financial statements and investment income reports for the period ending November 30, 2017, as presented, for forwarding to the full Governing Board for approval. The Finance

Committee also requested some changes to the Investment Dashboard format, which will be provided in March.

The meeting adjourned to Closed Session

**3. Review and Approval of Recommendation Regarding a Potential Qualified Health Bid in 2019**

This item was discussed in closed session.

**4. Review and Approval of Proposal for an Alternative Payment Model Contract Amendment with University of California, San Francisco**

This item was discussed in closed session.

The meeting was resumed in Open Session.

**5. Report by Chair on Closed Session Action Items**

Mr. Fawley reported that the Finance Committee took the following actions in Closed Session for forwarding to the full Governing Board:

**a.** Approved the recommendation to forego a Qualified Health Plan Bid in 2019.
b. Approved the recommendation to forego pursuing a Dual-Eligible Special Needs Plan in 2020.

**6. Review and Approval of Resolution to Establish an SFHP Retirement Plan Committee for Employees Retirement Investment Accounts**

**Recommendation:** SFHP requested the Finance Committee approve SFHP to establish an SFHP Retirement Plan Committee for Employee Retirement Investment Accounts. John Gregoire, CFO, reviewed the background with the Finance Committee.

SFHP established 401(a) and 457 retirement investment accounts for its employees, both active and now terminated. SFHP is the fiduciary of the Participants' retirement investment accounts and retains the responsibility to ensure investments are made in the best interests of Participants and to act prudently.

Based on recent research, SFHP determined that the establishment of an administrative committee, to be called the "Retirement Plan Committee for Employee Retirement Accounts," would be in the best interests of SFHP and its employees.

We propose the establishment of the Retirement Plan Committee and the Chief Executive Officer would appoint the members, including a secretary, and that the Retirement Plan Committee would be initially comprised of at least three members, with the Chief Financial Officer named as the chair. Among the key responsibilities, the committee would establish a charter and investment policy and hire a registered investment advisor and record keeper for the 401(a) accounts. The Committee would meet at least twice a year.

We will provide the Finance Committee and Governing Board with updates as needed.

We recommend the Finance Committee approve Resolution 18-01 for forwarding to the Board to establish the Retirement Plan Committee for employee retirement accounts.

The Finance Committee unanimously approved the Resolution to Establish an SFHP Retirement Plan Committee for Employees Retirement Investment Accounts as presented, for forwarding to the full Board for approval.

**7. Review and Approval of Contract with Reinsurance Vendor, RGA Reinsurance Company**

**Recommendation:** SFHP requested the Finance Committee approve SFHP to contract with the reinsurance vendor, RGA Reinsurance Company, not to exceed a 15% premium rate increase, for calendar year 2018.

Mr. Gregoire reviewed the background to the Finance Committee. SFHP purchases reinsurance to protect from losses due to high-cost professional, hospital and pharmacy claims and encounters.

SFHP has reviewed its options and has elected to stay with our current broker, Re-Solutions, and our current carrier, RGA Reinsurance Company, for the calendar year (CY) 2018. We have been with our current broker and carrier since CY 2015.

The total CY 2017 premiums are estimated to be approximately $6.3 million. The recovery percentage from CY 2015 and CY 2016 was 135% and 122%, respectively. For CY 2017, total claims submissions and review are not yet complete, however, the recovery percentage is expected to trend similarly above 100%. Reinsurance companies target their premiums to achieve a 70% to 75% loss ratio.

Based on the historical recovery percentages, we expect that coverage terms will change from CY 2017, with respect to deductible limits. Any changes to coverage terms will be used to control possible premium rate increases for CY 2018 and maximize potential recoveries.

The estimated CY 2018 renewal premium range is between $6.3 million and $7.2 million (based on CY 2017 actual membership), based on cost trends, member growth, and adjustments to achieve the 70-75% loss ratio. Mr. Gregoire stated the rate increase will be limited to 15% and the likely return next year will be a little less than the premium. Emily Webb requested a breakout by plan vs medical groups. Mr. Gregoire responded that SFHP would provide that information at the next Finance Committee.

SFHP recommended approval from the Finance Committee to purchase reinsurance coverage as described for CY 2018, not to exceed a 15% premium rate increase from CY 2017.

The Finance Committee unanimously approved the contract with Reinsurance Vendor, RGA Reinsurance Company as presented, for forwarding to the full Board for approval.

**8. Review and Approval of Payment of CalPERS Unfunded Liability**

**Recommendation:** SFHP recommended approval to pay the entire projected amount of SFHP's CalPERS pension unfunded accrued liability estimated to be $2,691,425 as of June 30, 2018. If approved, payment will be made by February 1, 2018.

John F. Grgurina, Jr., CEO, briefly reviewed the background to the Finance Committee. The Government Accounting Standards Board (GASB) Statement number 27 (GASB 27) is in reference to an accounting standard for pension by State and Local Government

Employers. It specifies that an employer's fiscal years ending on or after 2015 must accrue for unfunded pension liabilities.

SFHP is a government employer in the CalPERS Miscellaneous Pooled Plans for the defined benefit pension plan known as 2% @ 55 for employees with hire dates prior to January 1, 2013 and 2% @ 62 for employees with hire dates after December 31, 2012. According to CalPERS statements dated August 2017 and attached to this memo, SFHP's projected unfunded accrued liability as of June 30, 2018 is as follows:

| | |
|---|---|
| • Classic Miscellaneous Plan | $2,224,839 |
| • PEPRA Miscellaneous Plan | $ 466,586 |
| Total unfunded accrued liability | $2,691,425 |

When projecting how future year pension obligations will be met, CalPERS assumed a 7.5% annual rate of return on its investment portfolio. For the year ending June 30, 2016, CalPERS achieved only a 0.61% return which is the main driver behind the increase in SFHP's unfunded accrued liability balance.

This payment will be treated as Prepaid Pension Expense for FY17-18. The Prepaid Pension Expense will be amortized and recorded as an administrative expense during FY18-19.

CalPERS offered the following options to pay off the unfunded accrued liability:

1) Pay it back over a 30-year period with annual interest payments of 7.375% (this is the assumed annual investment rate of return CalPERS is using for all pension funds). This would mean total payments of $6,520,636 over 30 years (interest payments would be $3.8 million of this total amount).
2) Pay it back over a 25-year or 20-year period or whatever shortened time period the organization selects.
3) Pay it all in one payment.

SFHP recommended the Finance Committee approve the option to pay off the entire amount in one payment to be made by February 1, 2018 for the following reasons:

1) It is financially advantageous to pay the entire amount to avoid the annual 7.375% interest payments (totaling $3.8 Million over 30 years) versus keeping the cash in our Liquid Management Portfolio account at a current annual investment return of 1.15%.
2) Because of SFHP's strong financial balance sheet, we currently have the cash to pay off the entire amount in one payment.
3) Paying off the unfunded accrued liability would place SFHP's CalPERS pension funding level at approximately 100% (currently at 90.3%).

CalPERS has reported a preliminary 11.2% net return on investments for the 12-month period ending June 30, 2017. This level of return along with paying off the unfunded accrued liability should put SFHP in an overfunded situation when the June 30, 2017 annual valuation report is released. This will put SFHP in a stronger position should future year rates of return fall below the CalPERS targets which are 7.375% for FY2018-19, 7.25% for FY2019-20 and 7.00% for FY2020-21.

The Finance Committee unanimously approved payment of CalPERS Unfunded Liability as presented, for forwarding to the full Board for approval.

**9. Adjourn**

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Reece Fawley, Secretary