SAN FRANCISCO HEALTH PLAN
Here for you

Joint San Francisco Health Authority/San Francisco Community Health Authority
Minutes of the Finance Committee
January 4, 2017

Present: Eddie Chan, Pharm.D., Reece Fawley, Steve Fields, Steven Fugaro, MD, Emily Webb, John Gregoire, and John F. Grgurina, Jr.

Absent: None

Guests: None

Reece Fawley, Finance Committee Chair, chaired the meeting.

Approval of Agenda
The Committee unanimously approved the Finance Committee agenda.

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

2. **Approval of Minutes from November 2, 2016 Finance Committee Meeting**
The minutes of the November 2, 2016 Finance Committee meetings were approved with one amendment to change the list of attendees to remove Eddie Chan's name because he was not present at the November 2, 2016 Finance Committee meeting.

3. **Review and Approval of Year-To-Date Unaudited Financial Statements and Investment Reports**

Recommendation: Review and approval of unaudited monthly financial statements and investment reports as presented.

John Gregoire, CFO, presented the monthly unaudited financial statements for the period ending November 30, 2016. (The narrative summary and financial documents were provided to the Finance Committee and are incorporated by reference.)

November 2016 shows an overall surplus of $1,029,000 which is $284,000 below budget. Some of the key items impacting the November financial statements include:

- $1,166,000 increase in medical expenses as the result of a provider disbursement of strategic reserves in November. These funds are tied to the SFHP Practice Improvement Program.
- $1,011,000 increase in revenue for July through November due to a retroactive Medi-Cal premium rate increase effective July 1, 2016. The majority of this increase was in response to SFHP's request for DHCS/Mercer to reexamine the blending of AIDS costs into the regular categories of aid. The result of their reexamination was to increase our rates by approximately $183,000 per month.

- $543,000 decrease in medical expenses as the result of a capitation reconciliation with Kaiser.

Other key events of an ongoing nature that were recorded in the November statements include:

- 8% capitation rate reduction for the Medi-Cal Adult Expansion (MCE) category effective July 1, 2016.
- Continuation of paying AIDS capitation to providers, $1,409,000 for November. The AIDS and AIDS Dual categories of aid were eliminated effective July 1, 2016. Provider AIDS capitation rates will be eliminated effective on January 1, 2017.
- $803,000 reduction in Hepatitis C revenue due to a 23.4% rate reduction effective July 1, 2016.

For the month of November, overall premium revenue was $48,203,000 versus a budget of $52,524,000. This decrease was driven by:

- $4,052,000 less in Hepatitis C revenue due to 662 fewer treatment weeks along with a 23.4% rate reduction in the kick payment compared to the budgeted amount.
- $776,000 less in MCE premium revenue due to a rate reduction effective July 1, 2016.

	PROFIT/LOSS					
	--------------------NOV 2016--------------------					
	----------MONTH----------			----------YTD----------		
	ACTUAL	BUDGET	FAV (UNFAV)	ACTUAL	BUDGET	FAV (UNFAV)
FROM OPERATIONS (LOSS)	$ 1,160,315	$ 1,255,787	$ (95,472)	$ 986,405	$ 6,995,350	$ (6,008,945)
INTEREST/INVESTMENT CHANGE	$ (130,967)	$ 58,000	$ (188,967)	$ (33,858)	$ 290,000	$ (323,858)
NET SURPLUS (LOSS)	$ 1,029,348	$ 1,313,787	$ (284,439)	$ 952,547	$ 7,285,350	$ (6,332,803)

November actual membership compared to budget is noted below.

- 1,930 **fewer** member months overall
- 36 **more** Medi-Cal Expansion member months
- 1,612 **fewer** Medi-Cal non-SPD member months
- 434 **fewer** Aged and Disabled (SPD's) member months
- 171 **fewer** Healthy Workers member months
- 251 **more** Healthy Kids member months

MEMBER MONTHS BY LINE OF BUSINESS											
	-------NOV 2016------		-VS BUDGET-		-----------VS LAST MO-------------			------------VS LAST YR------------			
LOB	ACTUAL	BUDGET	FAV (UNFAV)	%	Oct-16	FAV (UNFAV)	%	Nov-15	FAV (UNFAV)	%	Nov-14
MC	64,217	65,829	(1,612)	-2.4%	63,902	315	0.5%	62,125	2,092	3.4%	61,655
SPD	14,266	14,700	(434)	-3.0%	14,174	92	0.6%	14,422	(156)	-1.1%	14,567
MCE	58,216	58,180	36	0.1%	58,353	(137)	-0.2%	55,474	2,742	4.9%	40,156
HW	11,289	11,460	(171)	-1.5%	11,245	44	0.4%	11,680	(391)	-3.3%	12,187
HK	853	602	251	41.7%	877	(24)	-2.7%	1,972	(1,119)	-56.7%	2,182
TOTAL	148,841	150,771	(1,930)	-1.3%	148,551	290	0.2%	145,673	3,168	2.2%	130,747

The Finance Committee unanimously approved the monthly financial statements and investment reports for the period ending November 30, 2016, as presented, for forwarding to the full Governing Board for approval.

The meeting was adjourned to Closed Session.

4. Review and Approval of Recommendation for Qualified Health Plan Potential 2018 Bid

This item was discussed in closed session.

The meeting resumed in Open Session.

5. Report on Closed Session Action Items

Reece Fawley, Chair, reported that the Finance Committee approved the following action items:

a. Approved the recommendation for no 2018 SFHP Qualified Health Plan Bid for Covered California.

6. Review and Approval to Negotiate a One-Year Extension of Beacon Health Options Contract to June 30, 2018.

Recommendation: San Francisco Health Plan (SFHP) requests approval to negotiate a one-year extension of the current Beacon Health Options performance-based contract, through June 30, 2018.

Dr, James Glauber, Chief Medical Officer, reviewed the background of the Beacon contract. Beginning January 1, 2014, the Department of Health Care Services (DHCS) adjusted the health plan capitation payments to include the responsibility to provide non-specialty mental health (NSMH) services.

Effective September 15, 2014, DHCS also made Medi-Cal managed care plans responsible for Behavioral Health Therapy (BHT) services for Medi-Cal children and adolescent beneficiaries, 0 to 21 years of age, diagnosed with Autism Spectrum Disorder (ASD).

In September 2014, the Governing Board approved SFHP to contract with Beacon Health Strategies, now Beacon Health Options, for NSMH and behavioral health treatment for autism spectrum disorder. The two-year contract with Beacon Health Options became effective on January 1, 2015, with an expiration date of December 31, 2016. (Detailed memo was provided in the Board packet.) On May 4, 2016, the Governing Board approved a contract extension to June 30, 2017, which includes fees at risk for increased utilization rates and improved service levels.

With the pending expiration of the contract, Dr. Glauber requested the authority to negotiate a one-year extension, with an expiration date of June 30, 2018.

The Finance Committee unanimously approved SFHP to negotiate a one-year extension of the Beacon Health Options contract to June 30, 2018, for forwarding to the full Board for approval.

7. Review and Approval of Contract with Reinsurance Vendor.

Recommendation: SFHP requests the Finance Committee and Governing Board to approve the contract with RGA Reinsurance Company, the reinsurance vendor, within a specific price range, for calendar year 2017.

John A. Gregoire, CFO, 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 2017 calendar year (CY).

We expect that coverage terms may change slightly from calendar year 2016 with respect to deductible limits. Any changes to coverage terms will be used to control possible premium rate increases for CY 2017 and maximize potential recoveries.
The total CY 2016 premiums are estimated to be approximately $6.2 million.
The total CY 2016 reinsurance recoveries are estimated to be in the range of $4.5 million to $5.5 million (total claims submissions and review are not complete).

Our estimated loss ratio is approximately 86% to date in CY2016. Reinsurance companies target their premiums to achieve a 70% to 75% loss ratio.

The estimated CY2017 renewal premium range is between $6.2 million and $7.0 million (based on CY2016 actual membership), based on cost trends, member growth, and adjustments to achieve the 70-75% range.

SFHP recommends approval from the Finance Committee and Governing Board to purchase reinsurance coverage as described above for CY 2017, not to exceed a 15% premium rate increase from CY2016. If rates and terms are finalized before January 4, 2017, we will present them at the January meeting.

The Finance Committee unanimously approved the contract with reinsurance vendor for forwarding to the full Board for approval

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

Recommendation: SFHP recommends approval to pay the entire projected amount of SFHP's CalPERS pension unfunded accrued liability estimated to be $771,113 as of June 30, 2017. If approved, payment will be made by February 1, 2017.

John A. Gregoire, CFO, 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 November 15, 2016 and attached to this memo, SFHP's projected unfunded accrued liability as of June 30, 2017 is as follows:

• Classic Miscellaneous Plan	$634,250
• PEPRA Miscellaneous Plan	$136,863
Total unfunded accrued liability	$771,113

This payment will be treated as Prepaid Pension Expense for FY16-17. The Prepaid Pension Expense will be amortized and recorded as an administrative expense during FY17-18.

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

1) Pay it back over a 30-year period with annual interest payments of 7.5% (this is the assumed annual investment rate of return CalPERS is using for all pension funds). This would mean total payments of $2,107,923 over 30 years (interest payments would be $1.3 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 back now.

SFHP is recommending to the Finance Committee and the Governing Board the third option, to pay off the entire amount now, for the following reasons:

1) It is financially advantageous to pay the entire amount to avoid the annual 7.5% interest payments (totaling $1.3 Million over 30 years).
2) Because of SFHP's strong financial balance sheet, we currently have the cash to pay off the entire amount now.
3) Paying off the unfunded accrued liability would place SFHP's CalPERS pension funding level at approximately 100% (currently at 97.5%).

We are confident that the unfunded liability will continue to grow as CalPERS is unlikely to achieve a 7.5% annual return as projected in their valuation documents.

The Finance Committee unanimously approved San Francisco Health Plan (SFHP) to pay the entire projected amount of SFHP's CalPERS pension unfunded accrued liability estimated to be $771,113 as of June 30, 2017, for forwarding to the full Board for approval.

9. Adjourn

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Reece Fawley, Secretary