Introduction

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About Health Net

• Health Net, Inc. is a publicly traded managed care organization that delivers managed health care services through health plans and government-sponsored managed care plans.

• The company provides health benefits to approximately 6.0 million individuals across the country through group, individual, Medicare, Medicaid, Department of Defense, and Veterans Affairs programs.

• Health Net and its subsidiaries collect and disburse on average $1.1 billion each month.
Context

• Net investor

• Very low short term investment rates

• Management focus on continual process improvement
Health Net Example

• Could we operate the business with less cash and increase the balance of our available-for-sale investment portfolio?
• How should we determine the amount of cash to invest at a longer duration?
• What was the expected economic benefit from executing this strategy?
3 Part Strategy

1. Detailed analysis of cash balances

2. Develop new forecasting models

3. More vigorous cash management
Analysis of Cash Balances

• Treasury cash balances were analyzed for multiple subsidiaries to determine “core” cash

• The cash patterns were then analyzed to determine how many times each subsidiary would have to borrow if core cash were reduced
Analysis of Cash Balances (cont.)

• Observing the data in graphical form was extremely useful
• Balances are highest at the beginning of the month and decrease until the 4th week when there is a gradual rise before month end
Analysis of Cash Balances (cont.)

- The average cash balance was found to be of limited use because of the significant volatility of the daily cash balances.
Analysis of Cash Balances (cont.)

- The following graph illustrates the cash available to redeploy.
- The cash patterns were then analyzed to determine how many times each subsidiary would have to borrow if core cash were reduced.
- The amount below the dotted horizontal line can be redeployed.
Analysis of Cash Balances (cont.)

• Conclusions
  – Core cash can be reduced with the freed-up cash available for long term investments
  – Approximately 250bp increase in investment yield on the shifted balances
  – Approximately 20bp increase in interest expense
Calculate the Benefit

• The following hypothetical analysis illustrates the potential benefit of borrowing cash short-term to cover expected cash shortages.

Incremental Invested Funds $ 100
x Incremental yield 2.5%
= Incremental investment revenue 2.50

Less incremental cost of borrowing
Average Amount borrowed (millions) $ 30
x Average days of borrowing per month 2
x Prime Rate 3.25%
/Interest rate basis 365
= Annual cost of borrowing $ 0.06

Net benefit (cost) of incremental investment $ 2.44
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Forecasting Model

- Forecasting model is built in Excel
- Historical data is downloaded from our treasury management system
- Adjust the historical data for new trends, business changes and other effects
- Maintain active coordination with other key departments
Forecasting Model (cont.)

• Good visibility of inflows
  – Premiums are largely collected during the beginning and end of each month

• Outflows are more challenging
  – Claim payments
  – Large contractual monthly payments

• The timing of intercompany settlements has significant impact on each subsidiary
## Cash Planning Tool

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3 Part Strategy

1. Detailed analysis of cash balances

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Cash Management

• Increasing cash velocity allows a smaller amount of cash to accomplish the same economic effect
• Identify the primary drivers of cash
  – Timing of intercompany settlements
  – Borrowing short-term to cover cash shortfalls
• Demands highly accurate short-term cash forecasting
Conclusion

• Current market conditions and volatility create new opportunities and challenges
• Treasury departments must challenge previous orthodoxies
• All Treasury organizations can benefit from a fresh appraisal of their operations
Thank You

• There is recertification credit available for this session
• Please do not forget to complete the evaluation form and return it to the program sponsor table outside of the room