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# Annual Conference

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## Treasury Transformation Slashing Your Cash

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# Introduction

- Jonathan Rollins, CFA
  - Vice President and Treasurer
  
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  - Senior Finance Consultant

# 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

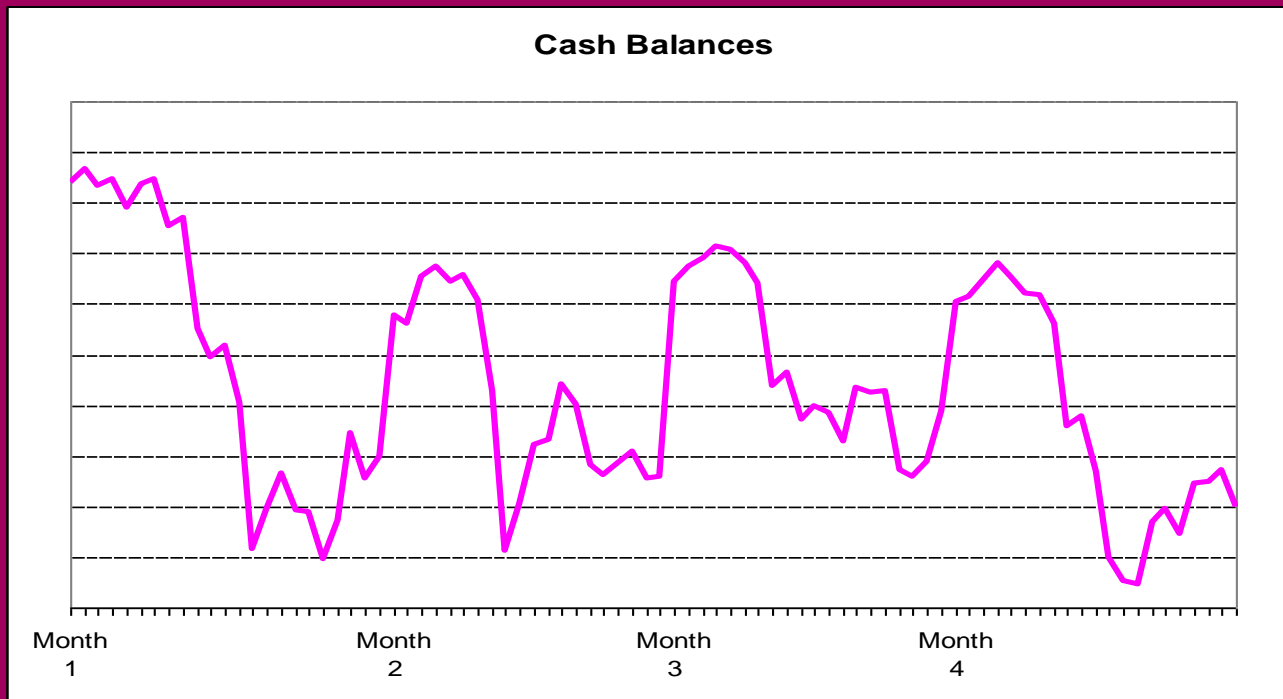
1. Detailed analysis of cash balances
2. Develop new forecasting models
3. More vigorous cash management

# 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.)

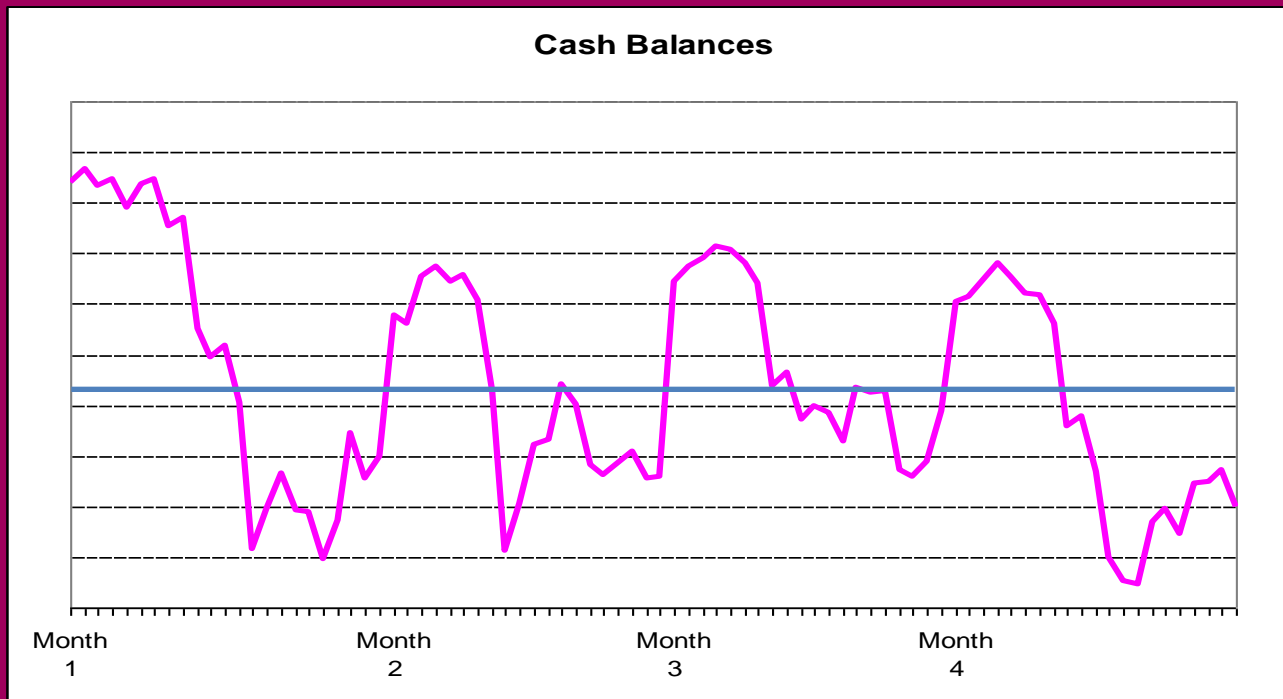
- Observing the data in graphical form was extremely useful
- Balances are highest at the beginning of the month and decrease until the 4th week when there is a gradual rise before month end





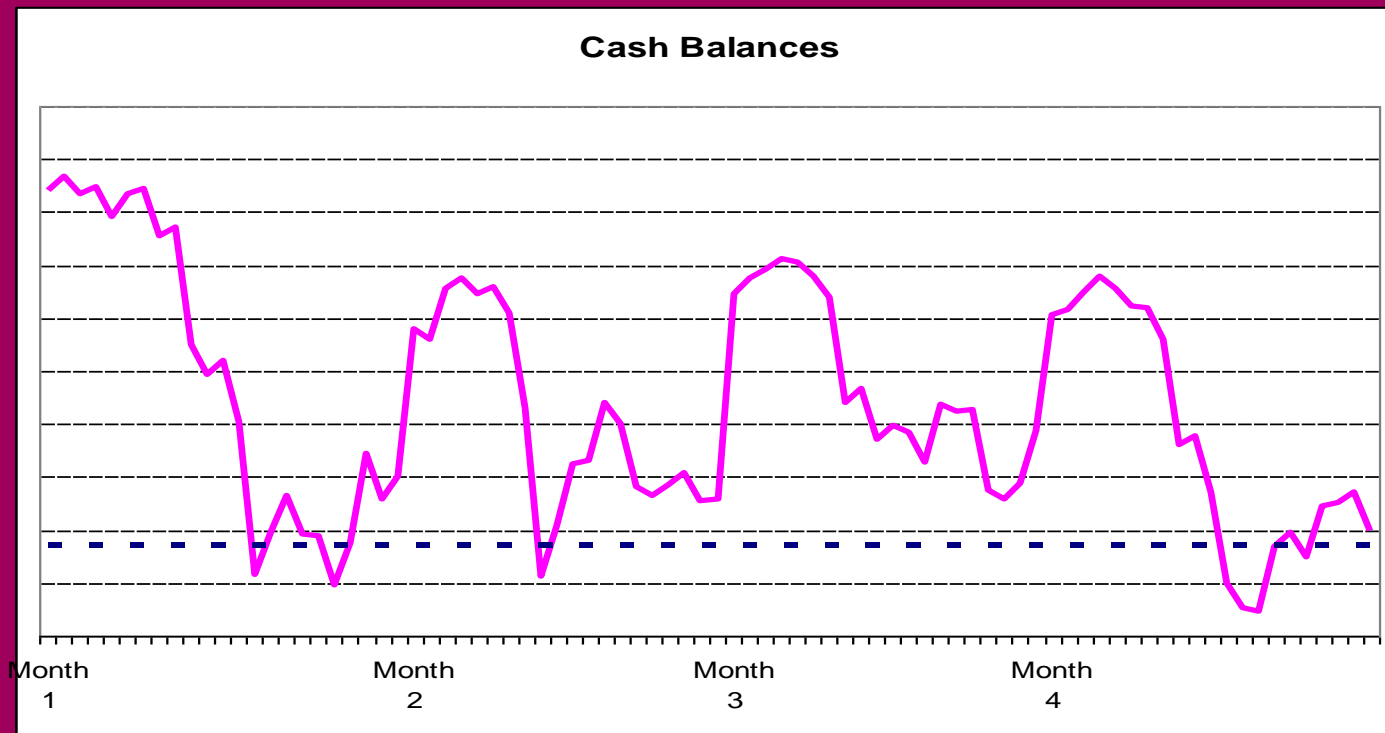
# Analysis of Cash Balances (cont.)

- 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	<u>2.50</u>
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	<u>\$ 0.06</u>
Net benefit (cost) of incremental investment	<u><u>\$ 2.44</u></u>

## 3 Part Strategy

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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

Type	Day	Corporate			Company 1			Company 2			Company 3			Company 4		
		In	Out	Balance	In	Out	Balance	In	Out	Balance	In	Out	Balance	In	Out	Balance
				\$ 98			\$ 200			\$ 48			\$ 17			\$ 17
F	1	\$ 2	\$ (12)	\$ 88	\$ 200	\$ (90)	\$ 310	\$ 120	\$ (5)	\$ 163	\$ 3	\$ (1)	\$ 20	\$ 38	\$ (6)	\$ 50
F	2	\$ 17	\$ (12)	\$ 93	\$ 15	\$ (10)	\$ 315	\$ 1	\$ (10)	\$ 154	\$ 2	\$ (1)	\$ 21	\$ 1	\$ (3)	\$ 48
F	3	\$ 2	\$ (12)	\$ 83	\$ 15	\$ (15)	\$ 315	\$ 0	\$ (5)	\$ 150	\$ 3	\$ (3)	\$ 22	\$ 0	\$ (4)	\$ 44
F	4	\$ 14	\$ (12)	\$ 85	\$ 15	\$ (10)	\$ 320	\$ 1	\$ (5)	\$ 146	\$ 2	\$ (2)	\$ 21	\$ 0	\$ (1)	\$ 44
F	5	\$ 79	\$ (72)	\$ 91	\$ 10	\$ (45)	\$ 285	\$ 0	\$ (35)	\$ 111	\$ 3	\$ (2)	\$ 23	\$ 1	\$ (3)	\$ 42
F	6	\$ -	\$ -	\$ 91	\$ -	\$ -	\$ 285	\$ -	\$ -	\$ 111	\$ -	\$ -	\$ 23	\$ -	\$ -	\$ 42
F	7	\$ -	\$ -	\$ 91	\$ -	\$ -	\$ 285	\$ -	\$ -	\$ 111	\$ -	\$ -	\$ 23	\$ -	\$ -	\$ 42
F	8	\$ 2	\$ (12)	\$ 81	\$ 35	\$ (10)	\$ 310	\$ 2	\$ (5)	\$ 108	\$ 2	\$ (0)	\$ 24	\$ 0	\$ (4)	\$ 38
F	9	\$ 2	\$ (12)	\$ 71	\$ 10	\$ (35)	\$ 285	\$ 5	\$ -	\$ 113	\$ 5	\$ (0)	\$ 29	\$ 1	\$ (4)	\$ 35
F	10	\$ 2	\$ (12)	\$ 61	\$ 20	\$ (100)	\$ 205	\$ 0	\$ (5)	\$ 109	\$ 1	\$ (1)	\$ 29	\$ 2	\$ (5)	\$ 33
F	11	\$ 10	\$ (10)	\$ 61	\$ 10	\$ (10)	\$ 205	\$ 5	\$ (5)	\$ 109	\$ 1	\$ (1)	\$ 29	\$ 2	\$ (2)	\$ 33
F	12	\$ 113	\$ (165)	\$ 10	\$ 50	\$ (40)	\$ 215	\$ 0	\$ (35)	\$ 74	\$ 2	\$ (2)	\$ 29	\$ 0	\$ (6)	\$ 27
F	13	\$ -	\$ -	\$ 10	\$ -	\$ -	\$ 215	\$ -	\$ -	\$ 74	\$ -	\$ -	\$ 29	\$ -	\$ -	\$ 27
F	14	\$ -	\$ -	\$ 10	\$ -	\$ -	\$ 215	\$ -	\$ -	\$ 74	\$ -	\$ -	\$ 29	\$ -	\$ -	\$ 27
F	15	\$ 19	\$ (12)	\$ 17	\$ 20	\$ (80)	\$ 154	\$ 5	\$ (5)	\$ 74	\$ 1	\$ (3)	\$ 27	\$ 1	\$ (6)	\$ 22
F	16	\$ 35	\$ (21)	\$ 30	\$ 10	\$ (30)	\$ 134	\$ 0	\$ (5)	\$ 69	\$ 1	\$ (3)	\$ 25	\$ 1	\$ (3)	\$ 21
F	17	\$ 19	\$ (12)	\$ 38	\$ 15	\$ (10)	\$ 139	\$ 5	\$ (5)	\$ 69	\$ 1	\$ (3)	\$ 23	\$ 0	\$ (4)	\$ 17
F	18	\$ 11	\$ (12)	\$ 37	\$ 5	\$ (10)	\$ 134	\$ 0	\$ -	\$ 69	\$ 0	\$ (3)	\$ 21	\$ 0	\$ (0)	\$ 17
F	19	\$ 20	\$ (12)	\$ 45	\$ 5	\$ (10)	\$ 129	\$ 5	\$ (5)	\$ 69	\$ 2	\$ (1)	\$ 22	\$ 0	\$ (3)	\$ 14
F	20	\$ -	\$ -	\$ 45	\$ -	\$ -	\$ 129	\$ -	\$ -	\$ 69	\$ -	\$ -	\$ 22	\$ -	\$ -	\$ 14
F	21	\$ -	\$ -	\$ 45	\$ -	\$ -	\$ 129	\$ -	\$ -	\$ 69	\$ -	\$ -	\$ 22	\$ -	\$ -	\$ 14
F	22	\$ 106	\$ (88)	\$ 63	\$ 20	\$ (135)	\$ 14	\$ 78	\$ (35)	\$ 112	\$ 1	\$ (3)	\$ 20	\$ 0	\$ (11)	\$ 3
F	23	\$ 20	\$ (12)	\$ 72	\$ 5	\$ (10)	\$ 9	\$ 5	\$ (5)	\$ 57	\$ 1	\$ (3)	\$ 18	\$ 0	\$ (2)	\$ 14
F	24	\$ 13	\$ (12)	\$ 73	\$ 10	\$ (10)	\$ 9	\$ 5	\$ (5)	\$ 57	\$ 1	\$ (2)	\$ 17	\$ 3	\$ (3)	\$ 15
F	25	\$ -	\$ -	\$ 73	\$ 10	\$ (10)	\$ 9	\$ 5	\$ -	\$ 62	\$ 1	\$ (1)	\$ 17	\$ 3	\$ (3)	\$ 15
F	26	\$ 37	\$ (46)	\$ 63	\$ 20	\$ (15)	\$ 14	\$ -	\$ (5)	\$ 58	\$ 0	\$ (1)	\$ 16	\$ 0	\$ (1)	\$ 13
F	27	\$ -	\$ -	\$ 63	\$ -	\$ -	\$ 14	\$ -	\$ -	\$ 58	\$ -	\$ -	\$ 16	\$ -	\$ -	\$ 13
F	28	\$ -	\$ -	\$ 63	\$ -	\$ -	\$ 14	\$ -	\$ -	\$ 58	\$ -	\$ -	\$ 16	\$ -	\$ -	\$ 13
F	29	\$ 56	\$ (76)	\$ 43	\$ 125	\$ (20)	\$ 119	\$ 5	\$ (35)	\$ 28	\$ 1	\$ (0)	\$ 16	\$ 1	\$ (3)	\$ 11
F	30	\$ 86	\$ (27)	\$ 103	\$ 18	\$ (40)	\$ 97	\$ 5	\$ (5)	\$ 28	\$ 1	\$ (4)	\$ 13	\$ 3	\$ (4)	\$ 10

## 3 Part Strategy

1. Detailed analysis of cash balances
2. Develop new forecasting models
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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