Greater Tompkins County Municipal Health Insurance Consortium

Audit and Finance Committee

September 18, 2014

1:30 p.m.

LEGISLATURE CHAMBERS

Agenda

1.	Call to Order	Thayer
2.	Approve Minutes of August 21, 2014 Meeting (1:30)	
3.	Executive Director's Report (1:35)	Barber
4.	Recommend Reserves to Board of Directors (1:40)	
5.	Stop Loss Update (1:50)	Locey
6.	Recommend Budget and Premium Equivalent Rates to Board of Directors (1:55)	
7.	Recertification Process (2:10)	
8.	Discussion - Prorated premiums (2:25)	Locey
9.	Report on Two-person Rate (2:35)	Locey
10.	GASB 45 Discussion (2:45)	
11.	Retiree Health Insurance (2:55)	Barber
12.	Continued Discussion of Capitalization requirement for new members (3:00)	Barber
13.	Next Agenda Items	
14.	Adjournment (3:00)	

Minutes - draft
Audit and Finance Committee
August 21, 2014
1:30 p.m.
Old Jail Conference Room

Present: Steve Thayer, Glenn Morey, Chuck Rankin, Peter Salton
Excused: Mack Cook, Scott Weatherby, Laura Shawley,
Others: Don Barber, Judy Drake, Rick Snyder, Steve Locey

Call to Order

Mr. Thayer, Chair, called the meeting to order a 1:34 p.m.

Approval of Minutes of July 17, 2014

It was MOVED by Mr. Cook, seconded by Mr. Salton, and unanimously adopted by members present, to approve the minutes of the July 17, 2014 meeting as submtted. MINUTES APPROVED.

Executive Director's Report

Mr. Barber reported by a very close vote the Joint Committee on Plan Structure and Design did not recommend the addition of the Platinum Plan to the Consortium's health plan offerings. The Plan will be considered at the Board of Director's meeting on August 28th. The Committee did, however, direct Steve Locey to prepare information for the Committee on the Bronze Plan. Mr. Barber reported the Owning Your Own Health Committee will be bringing a resolution forward to the Board of Directors encouraging municipalities to adopt a wellness policy. He also reported the New York State Department of Financial Services submitted a draft report to the Consortium but gave very little time for a response to be prepared if the Consortium has any concerns. He doesn't believe the report contains any new information and the bulk of the recommendations have already been responded to and implemented. He will be working on this with the Consultant. Lastly, Mr. Barber reported the Retreat and flu clinic planning is moving forward.

CSEA/Dutchess Dental/Vision

Brad Breen, Region 5 Sr. Benefits Specialist for the Employee Benefit Fund, introduced himself and provided information for the Committee on the Fund's 2013 annual report. He extended an invitation to members to contact him if any questions arise or if information is needed.

Mr. Barber clarified this is part of the ancillary benefits provided under the umbrella of the Consortium. Many of the benefits run directly through the employers as opposed to the Consortium, however, this one has to be through a CSEA employer such as the County. As people are talking about other plans this may be something that could be incorporated into a benefit package. The contract with CSEA has expired and the Board needs to approve a new contract. Mr. Locey is reviewing final revisions to the contract and the Board is expected to take action at its next meeting. Mr. Locey said there is no cost to the Consortium for this, it is a complete pass through and the rate that is charged runs through the Consortium directly to the employers. He said for some employers that do not offer dental and vision this may be an opportunity to get some concessions on the medical side in future negotiations.

It was MOVED by Mr. Morey, seconded by Mr. Salton, and unanimously adopted by voice vote by members present, to recommend that the Board of Directors approve the CSEA dental/vision contract for ancillary benefits contingent upon review of the contract by the Consultant.

Consultant Report

Second Quarter JURAT Report

Mr. Barber reported the JURAT has been filed and received by the New York State Department of Financial Services. He thanked Mr. Snyder and his staff on their first time completing the report.

Financial Report

Mr. Locey reviewed financial reports provided and reported that thru July 31, 2014 the Consortium has almost $2.7 million worth of net income. In terms of revenues the Consortium has $22.6 million and is at $19.6 million in expenses. He said claims expenses are less than one-half of a percent off budget; medical claims are slightly above and prescription drug are below budget. He said in 2014 under liabilities and reserves there were a couple of changes, including the addition of a catastrophic claims reserve of $600,000 to help offset for future large losses and to account for the increase that was made in the specific Stop Loss deductible. The one area he said needs discussion for budget preparation is the unencumbered fund balance and at what level should it be at and what plans should be made for future use of fund balance. He said the income level is slowly being moved down to catch up with expenses so the Consortium is not gaining as much income because as much is not needed at this point; but spoke of the importance in doing so slowly.

Mr. Cook said if the Consortium is going to stay at 5% it is likely most of the actuaries for the GASB 45 are using around 8% for the actuary determination and asked if it would be possible to have discussions with the Consortium's Actuary about using 5%. Mr. Locey said he would look into this to see if it can be mitigated somewhat. This will be added as a future agenda item.

Stop Loss Insurance

Mr. Locey reviewed a memorandum he prepared to address the significant cost of Stop Loss and to see if the Consortium could get some relief. He explained that Article 47 of the New York State Insurance Law requires the Consortium to purchase two types of Stop Loss insurance -- Aggregate and Specific. Aggregate is an overriding policy on the entire group of claims and Specific is directed towards loss by a specific individual. With aggregate they set an expected level of claims costs for the year and if it is exceeded by another 25% the insurance will kick in and reimburse the plan for anything above 125% of expected claims. He said not only has the Consortium not come close to the 125% of expected claims, every year up to this year the actual claims costs have been below the expected claims costs. The cost of the insurance was $73,000 for this year. He recommended the Consortium consider petitioning the State to see if a waiver from purchasing the insurance would be granted. The Consortium can demonstrate that the paid claims result has been in line with what was budgeted, has been below the claims costs of the Stop Loss insurance carrier, there are significant reserves to withstand any type of significant increase over what was budgeted, and Locey and Cahill feels the Consortium could better-use of funds than paying $73,000 to an insurance company. He said in the event claims began to spike back up they may recommend going back to purchase it. He is unsure at this time what the process would be in moving forward with filing a petition for a waiver. He said he will ask around the State to see if anyone else has requested a waiver but is not aware of any.

With regard to Specific Stop Loss the requirement is that coverage be with a specific retention amount or attachment point not greater than four percent of the amount of expected claims for the fiscal year. Mr. Locey said this represents $1.3 million for the Consortium. This deductible level would not be attainable in the current insurance marketplace due to the lack of premium for a deductible this size and the potential risk associated with a claim that could exceed this level of deductible.

Right now the Consortium's deductible is $300,000 with a maximum annual benefit of $2 million (including the deductible). The Consortium is currently paying $658,000 in premium. Mr. Locey said he feels the Consortium is in a good enough financial position at this point that the deductible could be moved up with an increase to the Catastrophic Claims Reserve to cover the additional risk and ultimately save the Consortium a significant amount of money. By raising the deductible to from $300,000 to $400,000, he believes there could be a savings of approximately $200,000. In the four years the Consortium has existed it has averaged about four claims that have exceeded $200,000 a year during that time. By moving the Catastrophic Claims Reserve from $600,000 to $1,050,000 it would cover the exposure of seven people up to the $250,000 to $400,000 level. They will put a request together for quotes from Stop Loss carriers; last year there was no interest in responding to the Consortium's request for quotes because the premium to loss ratio was well over 100%. Highmark Life Insurance Company of New York is the company the Consortium has been using; he said they have never questioned any claims paid by the Blues because they are Blue Cross of Pittsburgh.

Mr. Locey said the expectation that was first set was that there would be rate increases of approximately 9.5% for the first five years. The rates of increase have been: year one – 9.5%, year two – 9%, year three – 8%, year four – 5%. He said the Consortium could go to a lower rate of increase but he worries about keeping the rate stable in years beyond that. Mr. Barber noted the claims trend is running at 8.5%. It was the consensus of the Committee that Mr. Locey proceed with the recommendations he made to the Committee and Mr. Thayer will provide an update to the Board of Directors at the upcoming meeting.

Unencumbered Fund Balance

Mr. Locey said there is no right or wrong decision when it comes to establishing fund balance levels, it is about the group's philosophy, ability to take on risk, and what types of leeway there is in terms of a cash flow perspective. With regard to the Consortium's fund balance there are monies that are "locked up" (IBNR and surplus accounts). The rate stabilization reserve that may be developed and the Catastrophic Claims Reserve are areas where there is flexibility because they were created by the Board and are not mandatory. He said with the 5% increase the Consortium is still going to maintain around a $10 million unencumbered fund balance which is 20-25% of the expected premium for the year. In moving past 2017-2019 when some of the fund balance is used to keep the rate around the 5% level he would recommend keeping the unencumbered fund balance near 5-10% of revenue. Because the Consortium is above that point now he suggested having a planned incremental use of some of the those funds in later years to help mitigate the rate increase to get down to the 10% level. Mr. Barber noted that without doing anything different by the end of 2017 the unencumbered fund balance will have declined.

Ms. Drake asked if Mr. Locey was comfortable with the 5 to 10% fund balance level. He said he is comfortable with this as long as the Consortium maintains the additional reserves it has. Mr. Locey reviewed an impact analysis he prepared on the Affordable Care Act “Cadillac Tax” using the Town of Ithaca as an example which demonstrated how a decision on a rate increase now can impact the future. He said he believes a five percent rate increase at this time is prudent. There was a brief discussion of how the excise tax will be billed. Mr. Locey said it is his understanding that for fully-insured groups it will come through the insurer and they will have to attach to premiums. When it gets closer a look can be taken at moving the rate ratio to manipulate the rates to keep them both under the threshold.

Mr. Salton said although he believes the Consortium is being very prudent, he finds the increasing rate of claims costs very frustrating. The cost of service was one area the Affordable Care Act did not address.

Capitalization Requirement for New Members

Mr. Barber said the Town of Newfield has approached the Consortium about joining; however, their reservation is coming up with funds for capitalization and asked if this is a requirement. At this point all members have been paid back and no one has capitalization in the Consortium and a policy has not been established on how to deal with this. Mr. Barber said if the Town of Newfield were to join it would result in a bump in the Contingency Reserve which is 5% of premiums. The Consortium is at a different place now that the initial investments have been paid back to participants and thought should be given to how to address this. Mr. Cook said the Village of Homer is also interested in joining the Consortium.

Mr. Locey said any municipality that joins the Consortium would be paying a full premium unless they are a large self-insured group. For example if they joined on January 1st they would have paid a full premium in December and would be asked to pay another full premium in January and therefore would not be getting any type of break in paying premium. On top of that they could be asked to pay more on top of that and this needs to be given thought. If the Consortium wants them to be a full equal partner that number would be very large. In theory their premium payment should cover their IBNR liability and possibly the surplus account but anything above that would likely become a barrier from them joining.

He suggested two options: 1) locking up any fund balance that was generated before new members came in if they didn’t pay their share of the fund balance; and 2) look at whether the funds that have been generated by the Consortium are the Consortium’s and not that of the individual municipalities. He said that is allowed but could be tricky because if a member is not going to get equity out when it leaves they may want to run a budget as lean as possible which could pose risks to meeting reserve level requirements. In other places new members are usually just asked to pay the full premium coming in and then the fund balance is segregated. Mr. Locey said records would need to be kept on what the fund balance was on the date they entered and what it was on the date of withdrawal. Mr. Cook said there is an established accounting practice to account for this. Mr. Barber noted the Municipal Cooperative Agreement stated a municipality must join for a minimum of three years and then if someone leaves the Board determines how long it will be before they can rejoin.

Tax Freeze

Mr. Cook reported efforts are being made to push back on the tax freeze look back period; several municipalities have adopted resolutions that are being forwarded to the State.

Next Agenda Items

The following items were identified for inclusion of the next agenda: Capitalization Reserve, Pro-rated premium discussion, Recertification Process, GASB 45 discussion, and providing retirees health insurance through the Consortium who are not offered through their employer.

Adjournment

The meeting adjourned at 3:05 p.m.

Respectfully submitted by Michelle Pottorff, Administrative Clerk

Next meeting: October 16, 2013