

Greater Tompkins County Municipal Health Insurance Consortium

Audit and Finance Committee

August 23, 2016 - **3:30 p.m.**

Old Jail Conference Room

1. Call to Order (3:30) Thayer

2. Approve Minutes of July 26, 2016 Meeting (3:32)

3. Executive Director's Report (3:35) Barber
 - a. DFS Audit for 2012-2015
 - b. Update on Municipal Interest in Joining the Consortium

4. 2016 Financial Update (3:45) Locey

5. 2017 Budget Development (3:50) Locey
 - a. Rx Claims trend model

 - b. Stop-Loss Insurance retention options

6. PBM RFP Report (4:15) Locey

7. Top 3 Highmark Suggestions for Managing Risks (4:35) Locey

8. CanaRx report from Owing Your Own Health Committee (4:45) Barber

9. Next Agenda Items (4:55)

10. Adjourn (5:00)

Next Meeting: September 20, 2016

MINUTES
Audit and Finance Committee - DRAFT
July 26, 2016 – 3:30 p.m.
Old Jail Conference Room

Present: Steve Thayer, Chuck Rankin, Peter Salton, Mack Cook, Laura Shawley (arrived at 3:35 p.m.)

Excused: Rordan Hart

Absent: Phil VanWormer

Guests: Don Barber, Judy Drake, Steve Locey, Rick Snyder, Michael Larca, David Schriver, ProAct

Call to Order

Mr. Thayer called the meeting to order at 3:34 p.m.

Approval of Minutes of June 28, 2016

It was MOVED by Mr. Cook, seconded by Mr. Salton, and unanimously adopted by voice vote by members present with Mr. Salton abstaining, to approve the minutes of June 28, 2016 as submitted. MINUTES APPROVED.

Executive Director's Report

Mr. Barber reported the Joint Committee on Plan Structure and Design approved a resolution recommending changes to the actuarial values for Metal Level Plans. This sets the target for the budget and affects premiums for the plans. This Committee will consider that as well and make a recommendation to the Board of Directors.

Mr. Barber said the plans have to meet the requirements for the actuarial values and this has been brought to the Joint Committee over the course of several meetings for discussion. Mr. Cook questioned whether the Consortium should also be determining how those values are met. He said many of the individuals who are members of the Joint Committee are not enrolled in the Metal Level Plans and the majority of Consortium members who have these plans are non-labor and do not have representation on the Committee. Mr. Barber said management has a voting seat on the Committee and has been very involved in the discussions. Mr. Cook said it is the obligation of the Board of Directors to ensure that plans offered by the Consortium meet the requirements set by law; however, there are options to restructure benefits within the plan to meet the actuarial value. He said it could be left to the employees within the plan to collectively produce a benefit plan. Mr. Barber explained that language was given to employers before they signed on to a Metal Level Plan that the Board of Directors would be making these plan design changes.

Mr. Locey said he doesn't see a problem if the language is structured properly and both labor and management agree that the Board of Directors is going to dictate what the plan design will be each year. Ms. Drake commented that the conversations that have taken place at the Joint Committee have been very good and the non-labor members have been represented well. She believes the process will produce a package of plans that work better for employees than if plan changes were dictated by Excellus.

**RESOLUTION NO. - 2016 - ESTABLISHING TARGET ACTUARIAL VALUES FOR
PLATINUM, GOLD, SILVER, AND BRONZE BENEFIT PLANS**

MOVED by Mr. Rankin, seconded by Mr. Cook, and unanimously adopted by voice vote by members present.

WHEREAS, the Greater Tompkins County Municipal Health Insurance Consortium (GTCMHIC) Board of Directors pursuant to Resolutions No. 016-2014 and No. 014-2015 adopted the GTCMHIC Standard Platinum, Gold, Silver, and Bronze Plans adding said plans to the available benefit plan menu, and

WHEREAS, the GTCMHIC standard metal level plans, Platinum, Gold, Silver, and Bronze, are designed to maintain an actuarial value (AV) of 90%, 80%, 70% and 60%, respectively on an annual basis within an acceptable deviation of + or – 2%, and

WHEREAS, each year, the AV is calculated by the Consortium’s medical plan administrator and/or plan consultant using the AV Calculator developed by the Centers for Medicare & Medicaid Services (CMS) Center for Consumer Information & Insurance Oversight (CCIIO) which was implemented in accordance with the Patient Protection and Affordable Care Act (ACA). If, in any given year, such calculator is no longer available or in use, the Consortium will have an independent Actuary develop the AV of these health insurance plans. In either case, it is the intent that the result of the AV calculation will represent an empirical estimate of the AV calculated in a manner that provides a close approximation to the actual average spending by a wide range of consumers in a standard population, and

WHEREAS, the GTCMHIC Joint Committee on Plan Structure and Design, at the July 7, 2016 meeting, adopted a resolution to provide the Audit and Finance Committee with recommended plan design changes necessary to maintain the target AV of the GTCMHIC Standard Platinum, Gold, Silver, and Bronze Plans for the 2017 Plan Year, and

WHEREAS, the Audit and Finance Committee reviewed the recommendations of the Joint Committee on Plan Structure and Design, and now therefore be it

RESOLVED, That the GTCMHIC Board of Directors hereby establishes target Actuarial Values for the Platinum, Gold, Silver, and Bronze Benefit Plans of 91.13%, 79.47%, 70.69% and 61.23% respectively.

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Financial Audit Contract

Mr. Snyder said the Board of Directors approved a two-year contract extension with Inero & Co. LLP and it has another year before it expires. Mr. Salton said there was discussion at the last meeting of the number of years the contract has been renewed for the same company and there was concern that the Consortium has contracted with this company to perform the financial audit for six years without issuing a new request for proposals. Following a brief discussion there was consensus to stay with the current plan of issuing an RFP in mid-2017 for financial auditing services.

Status of Co-investing with BOCES to Increase Reserve Fund Interest Rate

Mr. Barber said at the last meeting he reported on a meeting he and Martin Cahill had with the BOCES Consortium Executive Director to talk about a common reserve fund and investing it to increase the interest rate. At this time there are not enough reserve funds for the Consortium to do this but he is waiting for a report back on discussions BOCES has had on this and will report back when he learns more.

NYSDFS Audit

Mr. Barber reported on he received a letter from the Department of Financial Services stating the will audit years 2012-2015. He noted this comes after they recently audited 2011 and the first half of 2012 two years ago. They are looking to begin the audit within 45 days of the letter and provided a 16-page memo containing a number of questions. He will update the Committee as the audit moves forward.

Municipal Interest in Joining the Consortium

Mr. Barber reported there are seven municipalities interested in joining the Consortium. The Towns of Springport and Scipio and the Village of Union Springs have passed resolutions and are in the process of getting financial information to Mr. Snyder and Mr. Thayer. Interest has also been expressed by the Towns of Preble, Covert, Moravia, and Aurelius.

Cayuga Heights and MCA Section A3

Mr. Barber reported the Village of Cayuga Heights recently signed an agreement for the Teamsters to cover its employees and retirees although they had an opportunity and it was believed that they would be moving employees to the Consortium. The MCA Section A3 states that to avoid adverse risk selection that all contracts should be moved over to the Consortium. Mr. Locey will be developing a proposal for how this will impact the Consortium. He said that because they took retirees to the Teamsters as well it creates less of an adverse risk concern but a decision can be made after that analysis is complete. He said it is not a requirement that employers have all groups be in the Consortium. However, the MCA language exists to state that inclusion of all groups is the goal and if all groups are not brought in there could be financial consequence if it is found that not bringing them in causes a financial hardship to the Consortium.

Mr. Locey said there are a couple of municipalities that have Medicare Advantage plans for their employees and this should be discussed at some point.

Financial Update

Mr. Locey reviewed financial data from the Treasurer through June 30, 2016. He has been working with Ms. Christian in the County's Finance Office and believes items are now categorized properly. He reported year-to-date the Consortium is showing a positive net income (\$111,000) even though there has been some significant paid claims during the year. Revenue is close to budget although slightly down on premium which is due to some employer benefit changes. On the expense side the Consortium is over but close (1.33%) to budget on medical claims; however, on the prescription drug side of the budget expenses are 18.5% over budget. Paid claims are accounting for 93.6% of the Consortium's total budget; the remaining 6.4% is very good given the acceptable range for administrative expenses for small group plans is approximately 20%.

Mr. Locey reviewed cumulatively where the Consortium has budgeted versus actual results and said the cumulative variance has been approximately -2.8% less in paid claims since the Consortium began. In recent months there have been some large loss dollar claims that have come through in the last few months with a large loss being on the prescription drug side. He reviewed trend information and said the Consortium is trending at 9%; however, that is being exacerbated by recent months when it has been above the trend line. The medical claims trend shows a trend of 9.2% and the drug trend is running at 8.98%. The drug claims run approximately 30% of the total claims expenses.

He presented information on 2011-2015 pharmacy use data and said there have been approximately the same number of people utilizing specialty drugs with the close to the same

number of prescriptions filled. Total paid claims have gone from \$1.77 million in 2013, to \$2 million in 2014, to \$2.4 million in 2015, and will exceed that amount in 2016. He said although there is only small population that use specialty drugs they do carry an overall weight when it comes to the overall drug spend of 28%. For the first six months of 2016 the overall spend on specialty drugs has been 33.2%. Mr. Locey even with these drug expenses the Consortium is still generating a net income; however, this information should be kept in mind as discussions take place on the 2017 budget.

Mr. Locey reviewed an updated preliminary budget memorandum he distributed to members this morning and said the budget is being built based on a 5% premium rate increase for 2017 and 2018 and a 7.5% increase for 2019 and 2020. He said with a 5% increase in 2017 there would be a negative net income generated of \$1.4 million but the ending fund balance is still over the target of 26% and he is comfortable with that. However, in 2018 with only a 5% premium rate increase the fund balance would drop below the target that was established. He said there are still a couple of non-mandatory reserves that were established and could be revisited for the unencumbered portion of the fund balance. He noted that it's difficult to forecast four years out but thinks a 5% premium rate increase for the 2017 budget would be good as it would maintain all of the reserves at their current or required levels and would leave an unencumbered balance at year-end that would exceed the 18% target. He would not recommend approving a rate increase less than 5%.

Mr. Locey said the memo is not final and additional information, including trend information and the assumptions used in developing the budget, will to be added up until the Board takes action on the budget at its September meeting. He believes the concerns raised at a Board meeting last year relative to Directors not having enough time to review budget information have been addressed by information being provided earlier during this year's process.

Mr. Cook spoke of fiscal pressures local governments are facing and said the message of why the rate increase cannot be 4% needs to be communicated clearly to municipalities.

Ms. Drake called attention to Stop Loss projected increases of 20% each year. Mr. Locey said the Stop Loss carriers are taking in a lot less money than they are receiving these days and it is reasonable to expect that if the deductible is not increased the increases will be between 15-20%.

Mr. Barber said last year a premium rate increase for 2017 was projected at being 4% with a positive net income at the end of the year. He doesn't think the Consortium should be communicating to municipalities that it is looking at 5% in 2018 as he thinks it should be 7% which is much closer to where the Consortium is trending but would still produce a negative net income.

Discussion of Escalating Prescription Drug Costs

Mr. Schryver said Prescription Benefit Managers do their best to control prices through identifying discounts, negotiating rebates with pharmacies and the pharmaceutical manufacturers. He said with the formulary in place there are very few restrictions on what an individual must do before trying a different drug and there are some formulary solutions ProAct can propose that would put the Consortium in a higher rebate tier. This could mean saying the drug is no longer available and that a generic or preferred brand must be used. He said ProAct can negotiate bigger rebates with Pharma and if they can take one of its bigger competitors off of a formulary the Consortium may be able to get much more in rebates on the same product because more people would be using it and Pharma would pay more rebate on a per claim basis with that product.

Mr. Schryver said there are approximately 78 products that can be taken off the formulary and this would impact approximately 2.2% of the Consortium's overall prescription drug claims (97.2% of all drugs currently on the formulary would remain on the formulary). That 2.2% of people would still have a comparable product available to them. He said over a six-month period there would be a savings of \$195,000, and an annualized savings of \$390,000, along with additional rebate dollars. There is also value in cost avoidance in the future with this exclusionary formulary program. Mr. Locey said collective bargaining is brought in whenever there is discussion of restricting something; it would be easier to do this in the Metal Level Plans than in the traditional plans.

Mr. Schryver said ProAct would know all members who would be impacted by this change and would send out a letter to each member letting them know about this. Mr. Locey asked if a softer approach could be taken to let members know an alternative drug is available at a lesser cost. Mr. Schryver said by doing this the rebate position would not change; the Consortium could start with this soft approach to reduce the number of members disrupted by the change. He said there are no exceptions allowed with the exclusionary formulary; there are other formulary options that could include things such as step therapy but the savings would not be as great.

Mr. Schryver said there are other opportunities for the Consortium to save on specialty drugs and noted the cost share is presently .4%. This means half of a percent of what is being spent on specialty drugs is being shared by the membership. He said although this can be difficult to negotiate ProAct has cost-share plans that many of their plans are using. He provided an example of the member having a 20% copay on specialty drugs and said in reality the pharmaceutical manufacturers are strongly driven to keep members on their drug and there is money for them to subsidize those programs. Based on the first six months of 2016 the Consortium spent \$1.8 million on specialty drugs alone of which members spent only \$9,000. He said moving to a 20% cost share would result in a savings of \$352,000 in six months and for \$276,000 of that there is direct copay assistance that could be received.

Mr. Barber said these are plans that could be made available but would need to be negotiated by bargaining units. These would also need to go to the Joint Committee on Plan Structure and Design.

Mr. Salton asked if there is any way to forecast any new drugs that are coming into the market. Mr. Schryver provided an example of how they have been able to forecast for Hepatitis C drugs and new cholesterol drugs but said outside of these it would be difficult without working with Excellus to see what conditions exist and this hasn't been done before. He also spoke of changes and said as new drugs come on the market older ones move to generic.

Top 3 Highmark Suggestions for Managing Risks

This item was deferred to the next meeting.

Request for Proposals – Medical Claims Audit

Mr. Locey said the Review Committee will try to meet this week before the Board of Directors meeting. There were five responses received to the Request for Proposals. A selection will be made at the September Board meeting.

Next Agenda Items

The following items were suggested for inclusion on the next agenda.

Audit and Finance Committee
July 26, 2016

Update on NYDFS Audit;
Update on Prescription Drug Manager RFP Review;
Top 3 Highmark Suggestions for Managing Risks; and
2017 Budget Development

Adjournment

The meeting adjourned at 4:56 p.m.