

Minutes - Approved
Audit and Finance Committee
September 25, 2014
3:30 p.m.
Legislature Chambers

Present: Steve Thayer, Glenn Morey, Mack Cook, Peter Salton (arrived at 4:00 p.m.), Laura Shawley

Excused: Chuck Rankin, Scott Weatherby

Others: Don Barber, Judy Drake, Rick Snyder, Steve Locey, Lisa Christian

Call to Order

Mr. Thayer, Chair, called the meeting to order at 3:35 p.m.

Approval of Minutes of August 21, 2014

It was MOVED by Mr. Morey, seconded by Mr. Cook, and unanimously adopted by members present, to approve the minutes of the August 21, 2014 meeting as submitted. MINUTES APPROVED.

Recommend Reserves to Board of Directors

Mr. Locey said this was a follow-up to the two recommendations contained in the budget report in terms of reserves. One was to increase the Catastrophic Claims Reserve from its current level of \$600,000 to \$1,050,000 with the rationale that Stop Loss proposals would be sought with a deductible of \$400,000 and second, to establish a Rate Stabilization Reserve in the amount of 5% of expected claims beginning in 2015.

Executive Director's Report

Mr. Barber said he will report on items that will be discussed later in the meeting.

Stop Loss Insurance

Mr. Locey distributed information on the Request for Quotations for 2015 Stop Loss Insurance. He reviewed the document and noted other than just the deductible changes several of the options mirror what the Consortium currently has and there is an annual maximum of a \$2 million cap that is combined between the deductible and the maximum they would pay. If that was removed and there was unlimited (which the Consortium should have) which were also provided as options, with a request for deductibles ranging from \$300,000 up to \$500,000 to show what the rate would be. He thinks the target deductible should be around \$400,000 which would provide enough of a risk the Consortium could be comfortable taking on and would also drive the premium low enough to keep it under the budgeted amount. He would like to get this out in the next week as the deadline for submission is October 17th.

Recommendation of 2014 Budget and Premium Equivalent Rates

Mr. Locey reported information was sent to the Board of Directors yesterday containing recommendations on the 2015 budget that included a 5% increase in the budget and the addition of the two reserve components discussed earlier. The budget produces a slight income in 2015; however, with only a 5% increase over the next several years and by 2017 the

Consortium would break even. In 2018 approximately \$1.6 million of the fund balance would need to be used and slightly more in 2019 to maintain that level of increase. He said the goal when the Consortium was created was to see how far the 4 to 5% increases could be maintained and noted this rate of increase is significantly below market increases.

He said in the next couple of years questions may come up as to why the Consortium is accumulating fund balance but believes this is prudent and a good long term strategy and use of fund balance to keep rates down. If there are concerns about the level of fund balance there are some options but noted giving the premium back would be difficult because not all of it came from the employers as it includes employee and retiree contributions and Cobra payments. One Consortium he works with gave a one-month "vacation" from premium payment. His recommendation would be to keep the rate increase low for as many years as possible because it could get out of control quickly and go in the other direction. The new Premium Equivalent Rates will be uploaded to the Consortium website upon approval by the Board of Directors.

Mr. Barber distributed a spreadsheet showing Consortium premium versus expenses from 2011 thru 2019 and said in looking at what differences in premium and total expenses the Consortium is building fund balance through 2017 and starts to go on the negative side in 2018 and 2019 which indicates 5% rate increases will not be sustainable unless something changes. He addressed the question of why the Consortium has been building fund balance at such a rate and said the first year premiums were set to build \$3 million into the IBNR and the Consortium continued to add a percentage on top of that after the reserve was established.

Mr. Salton arrived at this time.

Mr. Cook said he took a look at the benefit of having a steady rate as opposed to bringing it down as it relates to the OPED liability and said that actuaries are using an 8% appreciation rate. A 5% appreciation rate will have an impact of 30% on OPED liability which in the City of Cortland is \$5 million. Being able to project a 5% rate lowers that liability which is a driver for bond ratings. He said being able to forecast 5% rate increases could be worth more to members than any one-time savings they might receive.

Mr. Barber spoke of projected increases in Stop Loss and suggested bringing the Stop Loss carrier in early next year to discuss what they view their business to be like and to find out if there is anything the Consortium can do to partner with them or if there is anything that can be done differently to mitigate costs.

Mr. Salton questioned what happens Excellus negotiates with the provider side on rates. Mr. Locey said the Blues do not differentiate between the different business models which is good for the Consortium so when they negotiate a deal with a provider they are doing it for their entire book of business which gives them more bargaining power. He believes over the next few years as Medicare and Medicaid rates go down the provider community will be looking to recoup those funds and may cancel contracts for leverage. Mr. Salton said he has seen this, particularly with specialist rates. He said he would like to hear from Excellus about what the soft points are in those negotiations. It was suggested that someone from Provider Relations at Excellus be invited to speak to the Committee about this.

It was MOVED by Mr. Salton, seconded by Mr. Morey, and unanimously adopted by voice vote by members present, to recommend the 2015 budget as submitted by the Consultant to the Board of Directors. MOTION CARRIED.

Recertification Process

Mr. Barber said the Board has adopted documentation for new hires and now is looking at a process that would start on November 1st to ask everyone who has a dependent to certify that they actually meet the criteria for coverage. He said there are financial implications for conducting this process and most risk pools that have undertaken this have shown around a 5% reduction in premium by removing people from plans who should not be on them. The strategy that has been discussed is providing a 90-day amnesty period; therefore, if someone is classified as a dependent and is not eligible for coverage they can be removed within that period with no questions asked and the Consortium would save money from that point forward. If someone does not remove an ineligible dependent within the time period they will be assessed the full costs associated with that dependent during the period they were ineligible. Mr. Barber will be meeting with all of the benefit clerks within the next week to ensure everyone has the same information going forward. He will be meeting with the Clerks monthly to talk about issues that have arisen and to ensure the process moving forward is consistent across municipalities. There will be an appeals process that will be handled by the Consortium's Appeals Committee.

Mr. Cook said he is considering handling this through a third party because he does not have a benefits clerk and would absorb the cost if the City of Cortland was the only municipality that wanted to use a third party. He said it creates problems because they do not have the staff to undertake this work and this is not included in any collective bargaining agreement so he would expect pushback. Mr. Barber said he has spoken to the Bonadio Group and they have a division that does this.

Ms. Drake said this type of process has already been happening in the private sector so it is not new and specific to the Consortium. Mr. Locey said a couple of clients his firm works with have been discussing whether having a centralized enrollment would make sense and that may be something the Consortium may want to discuss in the future. Ms. Drake said one comment she has heard is that the benefits clerks would like all communication about the recertification process to come from the Consortium.

Ms. Drake questioned whether there will be a format for municipalities to report out on this. Mr. Barber said he will be working with Beth Miller from Excellus to obtain a list of employees who have dependents and what their relationships are.

It was MOVED by Mr. Morey, seconded by Ms. Shawley, and unanimously adopted by voice vote by members present, to recommend that the Board of Directors Approve the 2014/2015 Recertification Plan Including Forms and Guidelines for Verification of Spouse and/or Dependent Status for all Contracts Active and Retired, of the Consortium. MOTION CARRIED.

Discussion of Prorated Premiums

Ms. Drake said when the Consortium first started a decision wasn't made on how premiums would be set when new employees began or left employment mid-month. She said Excellus is providing pro-rated premiums on the administrative side but the way it is being handled on a municipal level varies. The County which is the largest employer in the Consortium brings an employee on the first day of the month after the date of hire and they are allowed to stay on for the month that they have resigned or retired in until the month ends. She said this extends the Consortium's liability for paying bills for someone who is no longer employed but is done on the ease of not reimbursing for premiums paid. Mr. Locey said that is

a cleaner process but acknowledged there is some exposure to the Consortium by doing it this way. She said it is important to make a decision on how this will be handled, particularly with regard to billing.

Ms. Drake suggested a process be included in Mr. Barber's orientation manual. Mr. Barber will formulate a uniform policy for Consortium members and present it at the next meeting. Mr. Thayer suggested everyone look at how things are happening within each of the Consortium's municipalities.

Discussion of Two-Person Rate

Mr. Locey reviewed information he prepared and stated the Consortium will collect \$38.3 million in premium in 2015. There are 923 individuals and 1407 family contracts. The Consortium's rate factor for family versus individual is 2.17 and the average is usually about 2.4 to 2.6. The Consortium's average rate for an individual is approximately \$800 per month and \$1,700 for a family. If the Consortium were to put in a two-person rate there would be 597 two-person contracts, 923 individuals, and 810 families. There would need to be a family rate ratio of about 2.3 times the individual in order to generate the same amount of revenue that is needed for a \$38 million premium budget using a two-person rate of two times the individual rate as the rate ratio.

The two-person contract would see a decrease in a contract of approximately \$138 per month and the family contract would increase by approximately \$102 per month. Although in the end the Consortium would still receive \$38.3 million in premium it could mean a big difference for individuals within the Consortium. Mr. Cook suggested this be referred to the Joint Committee on Plan Structure and Design because of the impact it would have on employees and retirees. Mr. Locey said in theory one would think the two-person contracts are less expensive; however, in health insurance it is not how many people are being covered that is as important as it is who is being covered.

Ms. Drake agreed that this is something that should be discussed by labor but it is important to let member municipalities know that if there is a need for the Consortium to work with them on billing for a two-person rate that this could be done.

The Committee was in agreement that this issue should be discussed by the Joint Committee on Plan Structure and Design.

Discussion of GASB 45

Mr. Cook said the issue is whether to have the Consortium contract with an agency as opposed to each municipality contracting separately with an agency. There are two benefits to doing it this way: 1) it becomes a cost of the health care plan, and 2) consistency in the actuarial assumptions being used by the group. At the next meeting the Committee will continue to discuss whether there is any value in having this done collectively through the Consortium as opposed to doing it individually. Mr. Locey suggested everyone report back at the next meeting on what their individual municipalities are doing.

Retiree Health Insurance

This item was deferred to the next agenda.

Capitalization Requirement for New Members

This item was deferred to the next agenda. Mr. Locey agreed to develop a recommendation for the Committee to consider.

Next Agenda Items

The following items were identified for inclusion on the next agenda: Continued discussion on GASB45, retiree health insurance, and Capitalization requirement for new members. Approval of a Stop Loss carrier will be included on the November agenda. The next meeting was rescheduled for October 23rd. The Committee will also discuss upcoming meeting dates.

Adjournment

The meeting adjourned at 5:05 p.m.

Respectfully submitted by Michelle Pottorff, Administrative Clerk