

Audit and Finance Committee - APPROVED
April 26, 2016 – 3:30 p.m.
Old Jail Conference Room

Present: Steve Thayer, Chuck Rankin, Peter Salton, Mack Cook

Absent: Phil VanWormer, Laura Shawley,

Guests: Don Barber; Steve Locey; Judy Drake; Rick Snyder; Mimi Theusen, Insero & Co.; Kevin Conway, HM Insurance Group

Call to Order

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

Approval of Minutes of March 22, 2016

It was MOVED by Mr. Cook, seconded by Mr. Rankin, and unanimously adopted by voice vote by members present with Mr. Salton abstaining, to approve the minutes of March 22, 2016 as submitted. MINUTES APPROVED.

External Auditor's Report

Ms. Theusen reviewed the process undertaken for conducting the audit and stated Insero & Co. encountered no significant difficulties in dealing with management in performing and completing the audit. She provided an overview of the full audit report; within her presentation the following items were noted:

- Management's estimate of the incurred claims liability is based on statutory requirements, an actuarial report, and other relevant information. They evaluated the key factors and assumptions used to develop the incurred claims liability in determining that it is reasonable in relation to the financial statements taken as a whole.
- The Auditor's Opinion stated the financial statements "presented fairly in all material aspects, the financial position of the business-type activities of the Greater Tompkins County Municipal Health Insurance Consortium as of December 31, 2015, and the respective changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States."
- For the year ending December 31, 2015 the Plan's net position has steadily increased for the past three years and the Consortium funded a Catastrophic Claims Reserve and established a new Rate Stabilization Reserve, while unrestricted net assets increased by approximately \$5 million.
- Within the Management Comment Letter a prior year comment was summarized, stating during the review of prior year minutes discussion was noted recommending a "targeted fund balance" (unencumbered funds) level, and a recommendation was made that the Board establish a "targeted fund balance". The current year minutes noted discussion of targeted fund balance levels, and establishment of a rate stabilization reserve at 5% of paid/incurred claims.

Mr. Cook said last year's audit contained a comment relating to the billing and TC3 and asked if that was still an issue. Ms. Theusen said as a result of Mr. Snyder's work it is no longer

a problem. Mr. Snyder said although there is still a premium receivable it is at a management amount and the Consortium's exposure is down considerably.

**RESOLUTION NO. - 2016 - ACCEPTANCE OF EXTERNAL AUDIT REPORT
PERFORMED BY INSERO & CO. (CDLM)**

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

WHEREAS, the Board of Directors entered into a contract for auditing services with Insero & Co. (CDLM), for the purpose of conducting an external audit of the Consortium's financial records for fiscal year 2015, now therefore be it

RESOLVED, on recommendation of the Audit and Finance Committee, That the 2015 external audit report prepared and presented to the Board of Directors by Insero & Co. (CDLM) is hereby accepted.

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JURAT Update

Mr. Snyder reported the JURAT (financial filing) said the process in preparing the Consortium's annual statement came together with help from many different parties and found the process to run smooth and was much more streamlined from past years. He reviewed the process and systems that are used in preparing the JURAT which is the accounting statement the Department of Financial Services requires the Consortium to submit.

Mr. Snyder noted the following figures contained in the report:

Total Assets: \$22,163,922 (increase of 44%);
Liabilities and Net Worth: \$4.5 million to \$4.3 million (down 4.8%);
Aggregate Write-ins for Surplus Funds: \$2,563,287 (newly designated reserves; previously was \$666,000);
Total Capital and Surplus (Net Position): \$17,827,966 (up from \$10.9 million); the net position went up by \$6,927,267;
Total Liabilities: \$22,153,922

Revenues and Expenses

Total Revenues: \$37,729,402 (up from \$36,210,591 or 4.2%);

Expenditures

Total hospital and medical: \$29,049,000 (down from \$30,131,000 or 3.6%);

Total Administrative Expenses: very slight increase;
Net Income: \$6,658,000 (up \$2,591,974 of 63.7%); and
Net Change in Capital and Surplus: \$6,927,267;

Mr. Snyder called attention to Schedule C: Premium Receivables, and said last year's amount for premium receivables was \$36,379 and this year it is \$46,866. He noted that TC3's liability was lowered considerably and now only owes \$26,000 at the end of the year and is primarily associated with the Culinary group. The remaining amount is attributed to the Town of Danby. He said the amount is increasing but he is working with the Town to resolve an ongoing billing issue with Excellus.

Financial Update

Mr. Locey distributed 2011-2015 Actual Results, again demonstrating the Consortium's growth in net income during its first five years of operation from \$525,808 to \$6,658,425 and growth in its unencumbered fund balance from -\$40,127 to \$14,746,529 in addition to having net reserves and protections that didn't exist when the Consortium first began. He also provided the information based on a per contract per year and per covered life per month basis. Mr. Snyder asked if there are any other groups the Consortium could be compared to. Mr. Locey said health consortiums are unique in that they are driven by the region they exist in and by its demographics. The New York State Health Insurance Plan would be the closest but noted it also included a lot of people from downstate. He said he has the data for the local school consortium and would prepare a comparison to it for the Committee to review.

Mr. Locey distributed the budget performance analysis for the first three months, noting revenue is .77% below budget; medical claims are -3.19 below budget, and prescription drug claims were 16.29% above budget. He called attention to there being five billing periods last month.

He distributed and reviewed a financial report that included information showing each internal account code that is associated with each of the categories. He and Mr. Snyder will continue to work on clarifying the Internal Coordination accounts. He summarized the Consortium's financial position and said there was a modest rate increase this year and is hopeful that can continue for a couple more years. If those modest increases continue, at some point the fund balance will be used which is what was intended.

Mr. Salton asked how many Article 47 insurance companies exist in New York State; Mr. Locey said there are 12 and while the State has not taken a hard look at the Consortiums that exist he wants to make sure that the Consortium plans wisely. He said it is important to find the right balance between having sufficient reserves and not continually saving money at a time when municipalities are struggling financially. Mr. Snyder asked what municipalities would have had to budget for health insurance if the Consortium did not exist; Mr. Locey said the national average increase is 8-9%.

Report on Stop Loss Insurance

Mr. Locey introduced Kevin Conway of HM Insurance Group, which has been the Consortium's Stop Loss insurance carrier since 2012. Highmark Blue Cross Blue Shield is the parent company and of which the HM Insurance Group is a subsidiary of. He provided an overview of the company, stating HM Insurance Group is in the top four carriers nationally and has \$750 million in Stop Loss premium revenue. Mr. Conway stated since plans have done away with caps in plans they are seeing dramatic increases in the +\$1million claims. Mr. Locey said additional things that have impacted the large dollar claims include the lack of pre-existing condition clauses, removal of lifetime maximums, and permitted dependent coverage until the age of 26 which are all mandated items.

Mr. Conway distributed information showing an increase in the number of claims per year as well as the cost per employee per month from 2011 to 2015. He said one area that is of great concern is the dramatic increase in usage and cost of specialty drugs and noted ProAct is very proactive and upfront in dealing with pharmaceutical companies to keep prices as low as possible. He said as benefit plans are developed there are further mechanisms that can be included that were designed to provide additional cost controls.

It was noted that there is only one provider in the community that offers kidney dialysis and is not a participating provider with Excellus. He suggested if there are potentially high-cost cases that there could be negotiated with the provider up front.

Mr. Conway felt the Consortium's current Stop Loss deductible of \$400,000 is adequate. Mr. Locey stated in the past the Consortium has taken out a policy with laser on two individuals whose claims were expected to have a high claims expense. Mr. Snyder asked what alerts the Consortium to those types of cases. Mr. Locey said Excellus produces large loss reports that will show cases that will show particular diagnosis and anyone who is within 50% of the deductible. From that they will evaluate those cases to see what potential costs will be.

Mr. Conway presented information on 18 areas they see that can be addressed to build a stronger plan document.

Mr. Cook said he sees specialty drug costs being the Consortium's greatest liability in terms of costs that are rising at an unsustainable rate and Mr. Conway agreed. Mr. Locey said many plans have added a fourth prescription drug tier in which members pay a percentage of a drug cost up to a certain limit but noted in a collective bargaining environment this is something that has to be collectively bargained. Mr. Locey said there should have been a decrease in prescription drug costs over the last few years due to many drugs becoming available in a generic form; however, the increase of specialty drugs has absorbed that savings and has also caused a dramatic escalation in expense. He said what compounds the problem is that because these drugs impact a very small percentage of the population their patent life is much longer, there is no competition, no regulatory authority, and no consumer pressure because people aren't paying a lot for the drugs.

Executive Director's Report

Mr. Barber reported he is assembling a team to work on the next Newsletter. He circulated a draft contract with Jennifer Jensen who will be doing the editing of the newsletters at an annual cost not to exceed \$5,000. There is also a need to purchase an Adobe software program to produce the newsletter as well as costs to cover a photographer with costs not to exceed \$300. Mr. Locey agreed to purchase the software and will be reimbursed by the Consortium. Following discussion it was suggested that because the software needs to be registered to an e-mail address that an e-mail account would be set-up that could be transferred to another individual in the future if a need arises.

Ms. Drake said she would like to keep the newsletter costs as minimal as possible and suggested that a survey be conducted after a year to see if people are finding it useful.

RESOLUTION NO. - 2016 – AUTHORIZATION TO CONTRACT WITH AN INDEPENDENT CONTRACTOR FOR CONSORTIUM NEWSLETTER EDITING SERVICES AND EXPENSES

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

WHEREAS, it has been determined that continued production of the Consortium's newsletter requires editing and layout expertise and knowledge that is currently not available within the Consortium's resources, and

WHEREAS, Jennifer Jensen, has agreed to produce four quarterly issues of the newsletter at an annual cost of \$5000 if provided with necessary software, now therefore be it
RESOLVED, on recommendation of the Executive and Audit and Finance Committees, That the Consortium enter into a one-year contract through April 30, 2017 with Jennifer Jensen to provide services related to the production of the Consortium's newsletter at total annual cost not to exceed \$5000,

RESOLVED, further, That the amount of \$240/year is hereby approved to cover costs associated with the purchase of software needed to produce the newsletter.

Mr. Barber reminded members that the educational Retreat will be held at 9 a.m. on May 10th. He reported on the Recertification process and said as of last week the County had ten members left and TC3 had one left to recertify. Mr. Thayer said the City has signed an agreement with the Fire Association and they will be complete by May 12th. He asked that billing be delayed to allow for the City to complete its process. The Committee was in agreement to direct Mr. Snyder not to bill municipalities for unverified members until this Committee meets in May. Mr. Barber will communicate with Mr. Snyder.

Lastly, Mr. Barber reported on the ProAct Utilization report that will be made available on the Consortium website. He noted the report highlighted an increase in the usage of specialty drug medications and although there was a decrease in the number of prescriptions filled those drugs raised the Consortium's overall drug costs by 10 percent.

Medical Claims Audit Update

Mr. Locey reported all of the responses have been received on both the medical and prescription drug audit and there are two issues that will have to come back to this Committee at some point. They are benefit issues and relate to the way the plan is being administered and what the Consortium may want to do in the future. On the medical side the issue relates to emergency dental services and on the prescription side the issue relates to the amount of drug that has to be expended before a refill will be issued. The Committee can discuss how the Consortium will address these issues at the next meeting.

Mr. Barber asked that the Committee accept the reports to allow them to be submitted to the Department of Financial Services.

MOTION TO ACCEPT MEDICAL AND PRESCRIPTION DRUG CLAIMS AUDIT REPORTS

It was MOVED by Mr. Salton, seconded by Mr. Cook, and unanimously adopted by voice vote by members present, to accept the medical and prescription drug claims auditing reports to allow for submittal to the State. MOTION CARRIED.

Request for Proposals – Medical Claims Audit

Mr. Barber provided copies of a draft request for proposals. He said he and Mr. Locey will be working on the scope of work to make sure those items identified in the last audit are accounted for in this document. Mr. Locey suggested the next contract include a provision for the contract to be extended.

Executive Director Contract

Ms. Drake commented that the Executive Committee discussed this and is very supportive of continuing this contract.

RESOLUTION NO. - 2016 – EXTENSION OF CONTRACT FOR EXECUTIVE DIRECTOR SERVICES – DONALD L. BARBER

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

WHEREAS, it was determined in 2013 that based on the increased responsibilities placed on the Consortium by the State and Federal governments, the Affordable Care Act, and the managing of an increased number of contracts it was in the Consortium’s best interest to contract for services of an Executive Director, and

WHEREAS, following the issuance of a request for proposals in 2014 seeking contractors who could fulfil the responsibilities of Executive Director a contract was entered into with Donald L. Barber, and

WHEREAS, the contract will expire on June 30, 2016, and

WHEREAS, the Consortium’s Executive Committee which meets with Mr. Barber quarterly to review a work plan and the Consortium’s operations believes the Executive Director services provided to the Consortium by Mr. Barber are valuable and important for the Consortium’s stability, and has recommended the contract be continued for a two-year period, now therefore be it

RESOLVED, on recommendation of the Executive and Audit and Finance Committees, That the contract for Executive Director Services with Donald Barber be extended through June 30, 2018 under the terms and conditions contained in the original contract.

Request for Reimbursement

Mr. Locey requested Locey and Cahill be reimbursed for costs associated with the mailing of the 1095B forms. He said over 500 were sent out and less that ten were returned. The Committee supported this requested.

Mr. Barber said a request is being made of Excellus to reimburse the Consortium for costs the Consortium incurred with the Appeal that was approved and will report at the next meeting on the status.

Next Agenda Items

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

- Pharmacy Drug Plan Design;
- Recertification process update;
- Medical and prescription drug claims audit updates;

Update on resolution recommending employers establish guidelines for members changing plans;
Update on reimbursement from Excellus on Appeal expense; and
Define process for selection of Prescription Drug Manager

Next Meeting

The May meeting was rescheduled to May 17th at 3:30 p.m.

Adjournment

The meeting adjourned at 5:25 p.m.