

**Audit and Finance Committee
Minutes – Approved
August 13, 2019 – 3:30 p.m.
Legislature Chambers**

Present: Mack Cook, Rordan Hart, Bud Shattuck, Peter Salton, Ann Rider, Olivia Hersey, Chuck Rankin (excused at 5:33 p.m.), Steve Thayer

Excused: Laura Shawley

Guests: Elin Dowd, Executive Director; Don Barber, Consultant; Rick Snyder, Treasurer; Steve Locey, Robert Spenard, Locey and Cahill; Judy Drake, Board Chair; Lisa Holmes, Deputy County Administrator; Greg Potter, Director of Tompkins County ITS; Brittni Griep, Administrative Assistant

Call to Order

Mr. Cook called the meeting to order at 3:31 p.m.

Changes to the Agenda

The resolution entitled Medical Claims Audit Action Items for Excellus BlueCross BlueShield was deferred to the September meeting.

Approval of Minutes of July 23, 2019

It was MOVED by Ms. Hersey, seconded by Mr. Thayer, and unanimously adopted by voice vote by members present, to approve the minutes of July 23, 2019 as submitted. MINUTES APPROVED.

Cyber Security Risk Analysis Review

Ms. Dowd introduced Greg Potter, Director of Tompkins County Information Technology Services. She said she and Mr. Barber met with Mr. Potter to discuss the certification process regarding Article 47 and Cyber Security and the Consortium has contracted with Tompkins County to assist with the process. Mr. Potter walked the Committee through the risk assessment process that was outlined in a document prepared by Mr. Potter dated August 9, 2019 and covered under a Memorandum of Agreement between the Consortium and the Tompkins County ITS Department.

Mr. Potter said this relies primarily on the use of County systems; there will need to be further discussion of interactions with the Medical Claims Administrator and Prescription Benefit Manager. The following areas will be addressed during the assessment:

- Identification of information systems used by the Consortium
- Assessment of Risks: physical, data, 3rd party penetration and vulnerability assessment
- System Controls: Office 365 Security Center, Varonis, Sophos Cloud-based management system; and Internal Intrusion Detection System
- Access Control
- Reporting and Accountability: contracts in place with vendors, Breach Response Reporting

In response to Mr. Salton regarding how this would apply to e-mail, Mr. Potter said if an e-mail is sent to a Consortium (Tompkins County) e-mail address it would be filtered through the

system; any e-mail that is exchanged between non-County e-mail addresses is not included in this.

Ms. Dowd said the Committee will be updated on this as progress is made; however, this is something that will eventually fall under the purview of the Operations Committee unless a need for funding is identified.

Invoices

There were no questions or concerns related to the July 2019 invoices included in the agenda packet for information only.

Financial Update

Presentation of Preliminary 2020 Budget

Mr. Locey said budget information is being presently differently this year and is in the form of a PowerPoint presentation; he also noted additional information will be shared when all as July expenses become available. July claims data has been received and included in premium numbers. Feedback received during the meeting will be incorporated into a revised presentation and a budget memo will be developed that will be shared at the September meeting. The recommendations that come out of this Committee will be incorporated into a final recommendation that will be presented to the full Board of Directors.

Mr. Locey walked the Committee through the presentation. With regard to budgeted versus actual results for the first six months of 2019 medical plan premiums were approximately 2% below budget. Factors that attributed to this include:

- A move of 100 people in Tompkins County from more traditional, higher-cost indemnity and PPO plans into a Platinum Plan which has a significantly lower premium. Additionally, Seneca County member premiums were based on a higher plan cost and then enrolled in a Platinum Plan as well. These factors collectively make up for the 2% differential. He also noted that when the budget is set it is based on the census at that time and there are subsequent changes that occur.
- Interest income is significantly above budget due to the improved investment management strategies;
- Prescription rebates are slightly below budget; however, paid claims are also below budget;
- There has not been any Stop Loss insurance revenue; there has not been anyone within 50% of the \$600,000 deductible level to date.

Mr. Locey reviewed budgeted expenses versus actual results, noting medical claims were 6.3% below budget and prescription drug claims were 10.2% below budget. He will be checking with Ms. Miller at Excellus on the Advance Deposit/Pre-paid claims line to correct the amount budgeted if needed. Total expenses are \$1,853,911 (7.05%) below budget year-to-date. In summary, key factors related to expenses include:

- Covered lives are up by 18.43% and the number of contracts is up by 17.09%;
- Paid claims account for 93.59% of total expenses;
- There has been a lower frequency of large dollar claimants in the first six months;
- Medical claims are currently 6.34% below the projected budget for the year; and
- Rx paid claims are currently 10.22% below budget and continue to trend down below budget.

Mr. Locey commented that the July results of both medical and prescription drug claims recently received were both below budget.

Mr. Locey reviewed graphs contained in the presentation and noted in terms of total paid claims versus budget cumulatively over time there is a trend variance of 3.02%; therefore, the Consortium has beat projections over the entire time it has existed.

He reviewed the Consortium's assets and reserve accounts:

- **IBNR (Incurred But Not Reported) Claims Liability Reserve:** New York State Insurance Law requires this reserve for payment of claims that have been incurred but not paid and to be an amount not less than 25% of expected incurred claims and expenses for the current year unless an actuary has demonstrated that a lesser amount will be adequate. It was noted that the Consortium received approval for its IBNR Reserve to be at 12% and the Consortium's Actuary has determined the Consortium's IBNR liability was less than 8% for the years 2015-2018.
- **Surplus Account:** New York State Insurance Law requires a Surplus Account for the purpose of satisfying unexpected obligations in the event of termination of the plan which is equal to 5% of the annualized earned premium equivalents during the current fiscal year.
- **Catastrophic Claims Reserve:** A discretionary reserve established by the Consortium to protect the financial integrity of the Consortium as decisions were made to increase the Specific Stop Loss Insurance Deductible. Currently, the deductible is set at \$600,000 per covered member (members identified as high risk) with "laser" deductibles of \$1 million and \$1.2 million.
- **Claims/Rate Stabilization Reserve:** A discretionary reserve established at 5% of expected premium income that is intended to bridge a gap during a hyper-inflationary period that would create a need for a large increase.
- **Unencumbered Fund Balance:** The amount of net cash asset balance after all liabilities and reserves have been accounted for. This Committee established 18% of expected annual premium as the target for these funds. As of the close of the 2018 Fiscal Year, the Consortium maintained a net cash asset position of approximately \$15.9 which represented 37.53% of premium income for the year.

Mr. Locey presented projected income for 2020-2024 and reviewed the major sources of income contained within the budget: medical plan premiums, ancillary benefit premiums (pass-through), interest earnings, prescription drug rebates, and Stop Loss claim reimbursements. He noted he is awaiting further information from ProAct and there may be adjustments to the prescription drug rebate number.

Important notes and assumptions related to income contained within the budget recommendation included:

- A premium rate increase of 5% for 2020 through 2023 and a 6.0% premium rate increase for 2024;
- Interest income is calculated at 1.6% of the Consortium's assets and is based on most recent rates of return experienced by the Consortium; and
- Prescription drug rebates earned by the Consortium and the \$1.6 million is based on estimates as provided by Pro Act for the 2020 Fiscal Year;
- Other income is based on the average going forward from 2020 through 2024.

Mr. Locey reviewed major expense categories: paid claims, claims administration fees (Excellus and ProAct), taxes and fees, Stop Loss insurance, professional service fees, insurance and internal fees, and ancillary benefits (pass through expense).

Important notes and assumptions related to expenses contained within the budget recommendation:

- Medical and pharmacy paid claims trends from April 1, 2011 to June 30, 2019 has equaled 4.745% and 5.056%.
 - The Locey and Cahill Municipal Cooperative Health Benefit Plan paid claim trend models for medical and pharmacy claims produce an average cost of 3.321% and 6.378%.
 - The paid claims trends utilized are based on a number of factors, including trends noted above and Locey and Cahill's 24+ years of experience working with Municipal Cooperative Health Benefit Plans like the Consortium.
 - The 2020 paid claims trends utilized for the budget projections were 5.0% for medical claims and 6.5% for prescription drug claims.

Mr. Locey said charts presented provided background and detail regarding paid claim trend information and data used, noting the information is based on a per covered life basis and takes into consideration fluctuations in terms of growth and covered lives.

Mr. Locey noted there is a contract in place with ProAct through 2019; a proposal is needed for 2020 and a decision on whether to issue an RFP for 2021 and beyond.

Recommendations:

Mr. Locey reviewed the following recommendations contained within the presentation:

- Maintain the Surplus Account at 5% of annual premium, the IBNR Reserve at 12% of expected incurred claims, maintain the Claims/Rate Stabilization Reserve at an amount equal to 5% of expected paid claims;
- Continue to evaluate the Specific Stop Loss insurance policy;
- Continue to negotiate reasonable increases to the administrative fees paid to Excellus BlueCross Blue Shield;
- Monitor and update investment strategies to maximize interest earnings;
- Adoption of a 5.0% increase in premiums for the 2020 Fiscal Years (a 1.0% increase in premiums paid equals approximately \$502,000 for the 2020 Fiscal Year), and 6.0% for 2024.

Historically, the rate increases on average from 2011-2019 have been 6.56% and the five-year average rate increase from 2015-2019 has been 4.60%. Projected average rate increases as presented in the recommendation would be 6.07% for 2011-2024 and 5.20% for years 2020-2024. Mr. Locey provided additional documents containing trend information.

Mr. Locey said in addition to the budget recommendations, Locey and Cahill is also recommending a \$50 increase in the single deductible and \$100 for the family deductible for the Gold Metal Level Plan to maintain its eligibility to be defined as a high deductible health plan.

Mr. Salton asked Mr. Locey when modeling the budget in the past whether he has used local or national trends. Mr. Locey said he reviews national information but does not typically use national trends because medical care is delivered very regionally and trends seen in

different states are very different; trends seen in Ithaca are also different than what is seen in different areas of the State. They trend on a regional model and have done this with clients for over 20 years. Mr. Locey noted as of June 30, the Consortium is at \$28.4 million in total assets and he anticipates that will go to up due to under-budget July paid claims.

Mr. Locey called attention to the chart entitled Net Equity Share Financial Results by Participant and said there needs to be discussion about the importance of not giving Participants an incentive to leave at some point in order to get their share of assets to resolve a short-term budget issue as it may not be in the long-term best financial interest of the municipality to do so.

Mr. Cook recognized there being different perspectives that exist on this and opened the subject up for discussion. Mr. Locey said efforts should be made to develop a cohesive recommendation by this Committee to take to the Board of Directors as there will likely be a number of other viewpoints that come forward at that time. Ms. Hersey encouraged members to narrow down what will be presented to the Board.

Ms. Drake spoke of the different elements that were contained in recommendations brought forward by Mr. Locey and Mr. Barber and suggested focusing on specific areas such as trending and how to address the fund balance level which tie into the premium rate increase. She presented a model spreadsheet to demonstrate the impact of how changes impact numbers going forward.

Mr. Hart said going back to 2011 Mr. Locey has always had out-years trending at a particular number and asked if the Consortium has ever hit those out-year numbers from a prior year's projections. Mr. Locey said there were some years when contract counts increased significantly which would impact that number; he didn't have the information at this meeting but said he could make it available. Mr. Barber responded that the Consortium never hit the next year but the 5-year pro forma shows the direction things are moving.

Mr. Hart said the Consortium is really good or really lucky. If the Consortium is really good it will stay under the 5-year pro forma projections forever; however, if it is really lucky at some point it will move back up to the average. He said part of the discussion is not only what trends are used that will impact what premium increases there are, but what reserve lines can be increased to protect the Consortium. He said if the results have been because the Consortium is good the result will be that it has more money. If the results are because the Consortium has been lucky it will need those funds in the future. He acknowledged this would be a difficult discussion for Directors to have.

Mr. Hart said for 2020 he would support a 5% rate increase along with the trend Mr. Locey proposed but would double the Catastrophic Claims Reserve and increase the Rate Stabilization Reserve to 7½%. This would result in an unencumbered balance of approximately \$12 million.

Mr. Locey said in developing the trend they looked at what they thought the true medical and prescription drug claims cost should be on a per covered life basis and used those numbers for the last six months. He said they didn't trend off what was the lower paid claims cost for this year but where it should be going forward.

Mr. Shattuck said he spoke to Legislators from municipalities in Cayuga County of which a number have already joined the Consortium and the one key thing that is important to everyone is rate stabilization because that is what keeps the tax rates as low as possible.

Mr. Barber spoke of his concerns with the proposed trend factors and said the most important component in setting the rate is claims cost so that number cannot be wrong. He said in the past local data has always matched the national trend data; however, this year it is not close and this causes him concern. He believes the medical claim trend rate proposed by Mr. Locey at 5% should be much higher as one-third of the premiums are based on family contracts which is 2.3 times higher than that. He said the reason why the prescription drug claims are lower is because the Consortium responded to increased specialty drug costs a few years ago by increasing the trend rate. He also referenced a seminar recently conducted by Excellus that highlighted expensive technologies on the horizon and would significantly increase high cost claims, thereby increasing the claims trend. He said for these and other reasons outlined in a memorandum dated August 9, 2019 he believes the proposed trend rate should be higher.

Mr. Salton was not in support of using national trends and commented that larger employers are migrating to lower-cost plans and when that happens it is favorable to the Consortium. He also wants to give taxpayers as much of a break as possible. Mr. Barber responded that trends are percentages and not absolute numbers.

Mr. Locey said the Consortium has been 3% under budget projections on claims since it began and also doesn't need to build more fund balance. He said because of this he didn't feel it was necessary to be as conservative on the paid claims trend for 2020. He said the paid claims trend of 5% for medical and 6.5% for prescription drug for from 2019-2020 is based on the average cost per covered life for the group.

Ms. Drake said Mr. Locey had left the trend the same for the first few years of the Consortium and in 2019 the trend was brought down to 6.8% and 8.5% and questioned why the Consortium wouldn't keep at least two years of the same trend. An example she provided contained the same trend for 2020 that was included in the 2019 budget. That created the ability to still do a 5% rate increase in 2020 and having to grow to 6%, 7%, and 7% in outlying years. She also demonstrated a 7% average trend increase going forward and noted this would require a higher rate increase but would retain a higher fund balance. She agreed with Mr. Barber in lowering of the trend model for 2019 and again in 2020 would be a drastic decrease.

Mr. Locey responded to his rationale in developing the numbers and said the Consortium has been underperforming for years and it is now much bigger than it used to be with now having over 6,200 covered lives and almost 3,000 contracts; because of these factors he believes it doesn't have to be as conservative as it has been in past years.

Mr. Hart commented that in either model presented by Ms. Drake the Committee is still looking at recommending a 5% rate increase.

Mr. Cook said it is very difficult for him to isolate his roles of City Manager and a Director of the Consortium due to possible layoffs at the City of Cortland and said this is one of the most difficult budgets he has been faced with in his 40 years working with budgets.

Ms. Hersey said she finds difficulty in the trend and although Mr. Locey may be correct in his analysis it is hard to absorb such a big change in one year. She thinks the Consortium is good but has also experienced an element of luck. Over the last several years there has been a push for wellness that has helped keep costs down; this has created a path to ensure that people not only have good insurance but are staying as healthy as possible. She understands the position Mr. Cook is in and commented that this is the first time in over 30 years that her

labor group does not have a settled contract. She suggested a good strategy would be retaining the trend proposed in 2019 by Mr. Locey for another year.

Mr. Hart said since the premium rate being proposed is the same regardless of what trend line is used he would like to see both trend lines followed on a quarterly basis. Mr. Locey said he could accommodate this request.

Mr. Thayer commented that he thinks being conservative for another year with the trend would be a good idea; he can support a premium rate increase in the range of five to six percent but would prefer the lower end of that range.

Mr. Shattuck said he doesn't think there would be support by the Board to raise the rate beyond five percent when there is so much money in the fund balance.

Ms. Drake asked for feedback on what to take to the Board of Directors meeting next week; she said the two areas that will be focused on will be the rate increase and the fund balance level and doesn't expect there to be a discussion there about trend models. She said she would like to see the fund balance decline gradually over the years but not all at once.

There was a brief discussion of municipalities that are currently engaged in budget deliberations and the importance of providing direction on the rate increase at next week's meeting. Ms. Drake said she would be comfortable recommending a 5% rate increase for 2020 but would like to see outlying years at a higher rate.

Mr. Rankin said he doesn't think there is an acceptable option for a rate increase for 2020 other than five percent.

Mr. Barber spoke to how important the claims trend assumption is and said a big hole would be built if it is not correct. Mr. Locey responded that he thinks the Consortium has been too conservative over the last several years and has built up too much fund balance. He disagreed with Mr. Barber's comment that the fund balance has been flat for the last few years and said income has still remained high and reserves have been built up at the same time. He said the paid claims trend has been too conservative because the Consortium has historically been three percent below budget. He said prescription drug claims over the last three years have been exactly on the trend line and he doesn't feel uncomfortable bringing the trends down slightly. Also, at this point he doesn't think the Consortium should continue to build its fund balance.

In response to a question by Mr. Hart as to whether there is any willingness to doubling the Rate Stabilization Rate from five to ten percent as a cushion if the claims trend ends up being wrong, Mr. Cook suggested this could be a topic of discussion at the next meeting.

Mr. Shattuck referenced discussion that took place at the last meeting concerning the development of a self-funded Stop Loss proposal that should be part of the discussion.

There was consensus to present a preliminary budget to the Board that includes a five percent rate increase and a report that the Committee continues to look at the structure of the Consortium's reserves.

There was consensus that for 2020 the recommendation will be a 5% premium rate increase with no change to other factors presented. For the outlying years a more conservative

trending will be used on claims and a rate higher than 5% will be used for those outlying years to keep the unencumbered balance in the 18% range. Mr. Locey will make these adjustments in his presentation.

Executive Director's Report

Ms. Dowd introduced Brittini Griep who was recently hired as an Administrative Assistant for the Consortium.

Mr. Rankin was excused at this time.

She said Mr. Locey covered much of what she has been working on over the last couple of weeks since the Committee met last.

RESOLUTION NO. – 2019 - RESOLUTION TO ADD MEDICARE ADVANTAGE AS A PASS-THROUGH ACCOUNT TO THE CONSORTIUM OFFERINGS

Ms. Drake said municipalities that have a Medicare Advantage Plan outside of the Consortium will be brought in to discuss this prior to it being presented to the Board for adoption.

It was MOVED by Mr. Salton, seconded by Mr. Shattuck, and unanimously adopted by members present.

WHEREAS, the GTCMHIC Municipal Cooperative Agreement (MCA) provides that participation in the Plan(s) by some, but not all, collective bargaining units or employee groups of a Participant is not encouraged and shall not be permitted absent prior Board approval, and

WHEREAS, any Participant that negotiates with a collective bargaining unit or employee group an alternative health insurance plan offering other than the plan offerings of the Consortium may be subject to a risk charge as determined by the Board, and

WHEREAS, several Participants of the Consortium do not have full participation by their members because at time of enrollment the Consortium did not offer a comparable plan to those new Participants entering with a Medicare Advantage plan for their retirees at age 65 and older, and

WHEREAS, the Consortium issued a Request for Proposals (RFP) for a Medicare Advantage Plan in May 2019 to review Medicare Advantage options, and

WHEREAS, Excellus BlueCross BlueShield (BCBS) was the only responder to the RFP with comparable benefits and pricing to plans utilized by current members, now therefore be it

RESOLVED, That the Audit and Finance Committee, effective January 1, 2020, recommends the Consortium provide the Excellus Medicare Advantage Plan as an ancillary benefit and pass-through as one of its offerings, to those Participants who are not in compliance due to keeping a Medicare Advantage plan in absence of this benefit provided by the Consortium.

Date of Next Meeting

The date of the next meeting was rescheduled to September 12th at 2:30 p.m. (This was subsequently changed).

Adjournment

The meeting adjourned at 5:09 p.m.

Respectfully submitted by Michelle Cocco, Clerk of the GTCMHIC Board