

Greater Tompkins County Municipal Health Insurance Consortium

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"Individually and collectively we invest in realizing high quality, affordable, dependable health insurance."



RESOLUTION NO. 015-2020 – ADOPTION OF BUDGET GUIDELINES

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

WHEREAS, the Consortium's vision statement reads: The Greater Tompkins County Municipal Health Insurance Consortium is an efficient inter-municipal cooperative that provides high-quality, cost stable health insurance for members and their employees and retirees, and

WHEREAS, each year the Consortium adopts a budget with a five-year projection which envisions fairly stable rate increases in subsequent years, and

WHEREAS, the Consortium desires to comprehensively state guidelines for sound fiscal management by articulating a budget philosophy with the anticipated level of reserves, fund balance and mechanism to return excess fund balance to establish a practice going forward which is prudent in establishing a baseline of financial health, and

WHEREAS, the reserves held by the Consortium are the cash assets assigned to cover a direct liability or to assist the Consortium with cash flow and provide protection during times when paid claim projections are exceeded. In recent years, these cash assets have also been a source of revenue through the interest earned to the Consortium which has allowed the Consortium to hold premium increases down. The Consortium has historically maintained the following reserves according to these definitions:

INCURRED BUT NOT REPORTED (IBNR) CLAIMS LIABILITY RESERVE

The IBNR Claims Reserve is required for the Consortium to be compliant with §4706(a)(1) of the New York State Insurance Law. The New York State Department of Financial Services requires this reserve to be funded at an amount equal to 12.0% of expected incurred claims.

SURPLUS ACCOUNT

The Consortium is required to fund the Surplus Account at an amount equal to 5.0% of expected premium income for the year. By funding this reserve at this level, the Consortium is operating in compliance with §4706(a)(5)(A) of the New York State Insurance Law.

Article 47 of the New York State Insurance Law describes this reserve as being established and maintained for the sole purpose of satisfying unexpected obligations of the Municipal Cooperative Health Benefits Plan. Article 47 further states that this reserve is for the purpose of satisfying unexpected obligations of the Plan in the event of termination or abandonment.

CATASTROPHIC CLAIMS RESERVE

This reserve was established by the Consortium's Board of Directors resolution #06-2014 to protect the financial integrity of the Consortium as the Board made the decision to increase the deductible associated with the Specific Stop-Loss Policy to reduce premium. It is agreed that the Consortium's risk pool is of adequate size that it can absorb an increase in Specific Stop-Loss Deductible without damaging the financial integrity of the Consortium with the Catastrophic Claims Reserves serving as a backstop. In subsequent years, certain

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subscribers were “lasered” by the Stop-Loss insurer. The Consortium also raised the amount in the Catastrophic Claims Reserves for that additional risk exposure. For the 2020 fiscal year the Board of Directors, resolution #09-2020 agreed to increase the Specific Stop-Loss Insurance Deductible to \$1,000,000. It also agreed to transfer funds from this reserve quarterly to cover any claims in the captive layer between \$500,000 and \$1,000,000; and interest earned by this reserve shall be maintained within the reserve. It was recognized that this decision created a sizeable increase in the risk exposure to the Plan. To mitigate this exposure, the Board of Directors made the decision to increase the Catastrophic Claims Reserve to \$4,500,000 for the 2020 Fiscal Year.

RATE STABILIZATION RESERVE

Resolution #10-2020 established the Rate Stabilization Reserve to sustain predictable and stable premium increases at an amount equal to 7.5% of the expected hospital, medical, surgical, and prescription drug claim payments for the year.

These funds may be used to establish a multiple year plan to maintain stable premium rate increases.

WHEREAS, in addition to the reserves the Consortium wishes to maintain an unencumbered fund balance at 18% of premium for cash flow purposes, and

WHEREAS, each year the Consortium will create a budget that creates a target net income of 2%. 1% to fund structural reserves increases of approximately 5%/year and 1% to maintain the 18% threshold for our unencumbered fund balance which also increases approximately 5%/year, and

WHEREAS, Section L(5) of the Municipal Cooperative Agreement allows The Board, in its sole discretion, may refund amounts in excess of reserves and surplus, or retain such excess amounts and apply these amounts as an offset to amounts projected to be paid under the next Plan Year’s budget, and

WHEREAS, in accordance with Section L5 of the MCA, excess net income can be considered to be returned to the Consortium members and their employees through targeted premium relief, but not through annual premium increase significantly below the claims trend assumption, now therefore be it

RESOLVED, on recommendation of the Audit and Finance Committee, That the Consortium shall establish a practice of establishing the annual premium increase equal to, or very close to, actual claims trend experience analysis and include the following targets when establishing its annual budget:

- Maintain the reserve levels required by Article 47 of the NYS Insurance Law (IBNR Reserve and Surplus Account) (statutory reserves).
- Maintain the reserve levels of the additional reserves (Rate Stabilization Reserve and Catastrophic Claims Reserve) established by the Board of Directors (discretionary reserves).
- Maintain an unencumbered fund balance at a level which at the discretion of the Audit and Finance Committee ensures the financial stability and sustainability of the Consortium but shall not be less than 12% of expected premium through at least year four of the annual proforma calculation.
- Set the annual budget to accomplish a zero to two percent (2%) net income level before any deduction or distribution of surplus fund balances to members.

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RESOLVED, further, the Board of Directors may annually consider premium reduction for subsequent year(s) to refund excess amounts of reserves and fund balance over budget targets through a premium reduction mechanism that may be in full monthly increments or partial monthly increments or other mechanisms, but not a reduction in premium increase that is significantly below the claims trend assumption.

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STATE OF NEW YORK)
) ss:
COUNTY OF TOMPKINS)

I hereby certify that the foregoing is a true and correct transcript of a resolution adopted by the Greater Tompkins County Municipal Health Insurance Consortium Board of Directors on August 27, 2020.



Michelle Cocco, Administrative Clerk