Audit and Finance Committee
Minutes – APPROVED
March 23, 2021
Meeting Held Remotely via Zoom

Present: Mack Cook, Bud Shattuck, Eric Snow, Rordan Hart, Steve Thayer, Laura Shawley, Jon Munson, Peter Salton
Excused: Jason Molino
Staff/ Guests: Elin Dowd, Executive Director; Michelle Cocco, Clerk of the Board; Judy Drake, Board of Directors Chair; Rick Snyder, Treasurer; Don Barber, Consultant; Steve Locey, Rob Spenard, Locey and Cahill; Amanda Anderson, Town of Dryden

<u>Call to Order</u>

Mr. Cook, Chair, called the meeting to order at 3:34 p.m.

<u>Changes to the Agenda</u>

Mr. Cook spoke of the Covid relief funding municipalities will be receiving from the Federal government. He said all local governments are going to receive a vast amount of money; however, there are rules attached to use. Mr. Cook said he and others are looking at whether the increase in this year's and next year's premium would qualify for reimbursement out of this fund. The U.S. Treasury will be weighing in on guidelines but he wanted to let the Committee know this is being explored.

There were no changes to the agenda.

<u>Approval of Minutes of February 23, 2021</u>

It was MOVED by Mr. Snow, seconded by Mr. Cook, and unanimously adopted by voice vote by members present, to approve the minutes of February 23, 2021 as submitted. MINUTES APPROVED.

<u>Executive Director Report</u>

Ms. Dowd provided the Committee with the first quarter Executive Director Report; there were no questions on the report. She referenced the goals and objectives that were a part of the Executive Director's performance review. There were questions raised at yesterday's Operations Committee meeting and a suggestion was made to include racial equity and diversity for the Consortium as a whole. There were no comments on the goals and objectives document that was submitted.

At the request of Ms. Dowd, Mr. Barber reviewed the following comments he circulated to the Committee on the goals and objectives:

"#1 Transition from Old-Style Indemnity and PPO plans: Underwriting work was done a couple years ago by Locey and Cahill which showed that these old plans produce more net income than Metal plans. Currently employers with the Old-Style plans with actuarial values ~96% are incentivizing transitions to the Platinum plan with an actuarial value of ~90%. This transition will have the impact of increasing our claims trends, which we use in creating our budget projections. The goal of digging deeper into this topic is important and could allow the Board to be proactive in maintaining premium rate increase stability. Similar claims trend pressure comes from retirees switching to our Medicare Supplement plan. In this case claim activity remains pretty constant with Medicare being primary, but premium revenue is significantly reduced. You may want to include the retiree plan movement in this analysis.

"When analyzing this underwriting data, we may want to consider the Rx side as well. Since inception, pharmaceutical has been steadily increasing as a percentage of our expenses. ProAct has mentioned several times that a restricted formulary would reduce our Rx spend. Restricted formulary is the brainchild of drug manufacturers to drive more business their way. Hence favorable formularies are incentivized with lower pricing. I believe our metal plans, which allow adjustment of benefits, would be easier to move to a restricted formulary than our Old-Style plans where benefit changes require collective bargaining. Including restricted formulary within the context of the underwriting analysis above may provide a different pathway forward for balancing the underwriting between the different plan structures."

Ms. Drake questioned whether changes could be made to prescription copays in Metal Level Plans without going through collective bargaining negotiations. Mr. Barber recalled when the County and City were transitioning to the Metal Level Plan which allows the Consortium to change the benefits to keep within the actuarial value that unions have to be part of the discussion. Mr. Locey said only the prescription copays are included in the actuarial value. Some of the changes mentioned by Mr. Barber in terms of restricting the formulary would not be included in the actuarial value; however, unions would likely have an issue if something, such as restricting the formulary, was changed outside of the process. Mr. Thayer agreed and said it would likely create issues in the City of Ithaca.

Mr. Locey said over the last few years the Consortium has found that the amount of revenue being produced by some of the Metal Level Plans may not be exactly commensurate with the paid losses and with the older style plans the Consortium is gaining some income in relation to their paid claims. He recognized wanting to move people to more cost-effective plan designs while being careful not to get into a situation of building a deficit. He stressed the importance of making sure that whatever the rate reduction associated with the benefit plans is that there is a commensurate reduction in expense. Ms. Dowd said Mr. Locey has been bringing this issue forward in his monthly reports; this is a goal for 2021 so the Consortium can be well-positioned in the future.

"#4 Growth: It may be worth a discussion about growth. Is there a limit to annual growth that we feel we have the appetite for from the financial side? Further, it may be good to discuss what is an optimal size. This may be a subject of the strategic planning process (#8).

"#9 Investment Manager RFP: The investment laddered approach of our current Investment Manager is a very rudimentary investment model and requires little monitoring and activity by our consultant. In fact, our new Finance Director, after identifying some trusted resources, could do this in-house. The team that interviewed the initial Investment Manager applicants saw other models where the manager actively monitored the yield curve of investment vehicles that met our Investment Policy requirements. With this activity being monitored, trades are made when it is advantageous to capitalize on yield curve changes, which occur quite often, and between investment vehicles. The result is higher return on investments which reduces the pressure on premiums. At this time of low interest rates, I think this extra attention is essential."

Ms. Dowd asked members who have additional comments to submit them to her. She will be working with each committee to move these items forward during the year.

Staffing

Ms. Dowd reported Teri Apalovich has accepted the position of Finance Manager and will be starting on March 29th. She also announced the resignation of Jessica Hobart from the Tompkins County Finance Department; however, she reported Jessica will be continuing to work part-time to help transition finance responsibilities to the Consortium.

Budget Amendment Policy

Ms. Dowd reported the budget amendment policy was approved by the Executive Committee at its last meeting.

Late Premium Payment Policy

Ms. Drake said the Operations Committee discussed this and provided feedback. Ms. Dowd said this Committee had requested feedback on compounding interest and whether efforts continue to move in that direction. Ms. Dowd reviewed examples that were provided in the agenda packet and said it is important to look at where the Consortium should be in the long-run. She said if a member is 90-days in arrears conversations should be taking place. She asked the Committee if members felt a one percent late fee is enough of an incentive to force someone out of being in arrears or if it should be increased or compounded at the end of a month.

Mr. Cook noted that at the present time the Consortium is only charging one percent on the first month a Participant is in arrears. This is one percent a year; therefore, any incentive in subsequent months to pay the arrears has been taken away since there is no interest being attached to the payment after the first thirty days. He also said this is a partnership and questioned if the Consortium wants a partner that can't abide by all the rules of the partnership. After looking into this further he recognizes the extra burden on the Finance Department on trying to put arrears on the sums owed.

Mr. Cook said there is no incentive to pay when no further harm can be done after the first month of being late. Mr. Locey said three entities: Tompkins County Soil and Water Conservation District, Tompkins Cortland Community College, and the Tompkins County Public Library technically are not partners. He suggested that the Consortium look at addressing this and broadening the definition of the municipalities that are allowed to participate under 5g of the General Municipal Law or by amending Article 47 by expanding the definition so that some could be considered their own entity of the Consortium and be subject to the terms of the Municipal Cooperative Agreement (MCA). He noted the Soil and Water Conservation District is already allowed but came in under Tompkins County. He recommended considering having less of these types of arrangements under a municipal employer going forward.

Ms. Dowd said the policy originally came up because there was a department of a member that was late on payment, but the member made them whole in the long-run. She suggested handling that situation separately. She also questioned if a member is over 90-days in arrears, whether having a late policy would be enough to get them back on track. She asked the Committee in going forward if it is important to have this policy in place and if so, what should it look like.

Mr. Salton suggested getting input from the new Finance Manager about this and said he would like the Consortium to strive to be as much like an insurance company as possible.

The Committee did not wish to make any changes to the current policy at this time. Ms. Dowd said this will be included in consideration of management of the membership of the Consortium going forward. This will continue to be looked at and any recommendation that is developed will be brought forward to this Committee.

HCRA (Health Care Reform Act) Tax

Mr. Barber provided a historical overview and stated in 1996 New York State created the Health Care Reform Act as a way to provide for indigent care and not having providers reject folks from care. This tax accounts for over 2% of the Consortium's claims expense. He said while State and federal laws are clear that local governments are exempt from sales and property tax he hasn't been successful in finding what other taxes local governments are exempt from. He said the State has abused these funds and is not using funds for purposes it was originally intended. He believes this makes a case that the Consortium shouldn't be charged for this tax. He and Ms. Dowd have developed a strategy for approaching State representatives and would like input from the Committee. Ms. Dowd commented that the Consortium's legal counsel is also looking into this.

Mr. Cook raised the subject of the Rural Hospital Tax and said local governments and counties are the only ones that are paying for a rural hospital tax twice. He suggested Mr. Barber reach out to Barbara Van Epps at the New York Conference of Mayors.

Financial Report

Mr. Locey reviewed updated financial information and noted in March the Consortium received its first ProAct rebate check for slightly over $515,000. He spoke of the contract count and changes relative to the number of covered lives and things that are being tracked relating to the Medicare Supplement Plan and the splitting of contacts. This has an impact on the paid claims trends and any per contract per month fees that are being paid. Mr. Locey said changes in these numbers largely relate to the Medicare Supplement Program and its splitting; these numbers will continue to be looked at to make sure adjustments are made so that contract fees are appropriate.

Mr. Locey reviewed a graph of the growth of members from 2011 to the current period and said a focus is on the over 65 population which has had the steadiest rate of growth. They are doing an analysis on that to see what impact that will have on claims trends and to make sure that all of the premiums are in line with where they should be from a risk perspective.

Mr. Locey had nothing new to report on revenue. With regard to expense there has been more activity and noted paid claims continued to be well below budget (22%) in total, drug claims were 5.3% below budget, and CanaRX was 7.7% below budget. He reported they are starting to see claims pick up with other groups and are following this for the Consortium as well. They anticipate seeing an escalation in claims starting in March with possibly higher than normal claims as people begin to catch up on medical visits.

<u>Large Losses</u>

Mr. Locey reviewed the large loss report and said for the history of the Consortium the loss ratio for Stop Loss was 46.43%; therefore, the amount paid out in premium was less than the amount paid out in claims. He called attention to total claims that are being accumulated for people who have claims in excess of $100,000 in a calendar year and how much pressure that is placing on the program. He stated one of the reasons the self-insurance pool was increased was to help alleviate this and said this will continue to be monitored. Another area that is being monitored is the percentage of the population generating total claims; last year 1% accounted for 24% of total claims.

In terms of large losses for 2020, there was one individual who went over the $.5 million deductible; however, this individual had a lasered deductible of $1 million; therefore, it wasn't a claim that the Consortium would have paid. Through February 28th there are no claimants that would fall into the catastrophic claims window; therefore, that Reserve has the $4.5 million in it from last year.

Mr. Locey reviewed Covid-19 information that was provided to the Committee and noted that even though paid claims are still well-below budget they are starting to pick up slightly. Also included in the information provided was information paid out by the program for Covid-related services. Through February 28th the spend was $2.1 million on services based on information received from BlueCross BlueShield on hospital, medical, and surgical services. This information did not include any drug-related information.

Accounts Receivable

Mr. Locey reviewed the aging report and said as of March 16 there was very little showing in terms of late payments.

Next Agenda Items

The next agenda will include a discussion of Covid-relief and a report on the external financial audit.

Adjournment

The meeting adjourned at 4:42 p.m.

Respectfully submitted by Michelle Cocco, Clerk of the Board