

**Audit and Finance Committee
July 18, 2018 – 3:30 p.m. - Approved
Old Jail Conference Room**

Present: Mack Cook, Steve Thayer, Bud Shattuck (arrived at 3:34 p.m.), Olivia Hersey, Ann Rider, Chuck Rankin, Peter Salton (arrived at 4:00 p.m.); Rordan Hart, Laura Shawley

Guests: Judy Drake, Board of Directors Chair; Don Barber, Executive Director; Steve Locey, Locey & Cahill; Rick Snyder, Treasurer

Call to Order

Mr. Cook, Chair, called the meeting to order at 3:32 p.m.

Changes to the Agenda

There were no changes to the agenda.

Approval of Minutes of July 18, 2018

It was MOVED by Ms. Hersey, seconded by Ms. Rider, and unanimously adopted by voice vote by members present, to approve the minutes of July 18, 2018 as corrected. MINUTES APPROVED.

Mr. Shattuck arrived at this time.

Executive Director's Report

Department of Financial Services Communication (DFS)

Mr. Barber reported the Consortium submitted revised Jurats to DFS and awaits a response. A meeting was held with Troy Oeschner at DFS to talk about legislation that was adopted by the New York State Senate about expanding districts that are able to join the Consortium and other ways State law can be changed to help Article 47's get started. Others who participated in that meeting included Mr. Cook, Ms. Drake, Mr. Locey, and Martha Robertson, Chair of the Tompkins County Legislature. Mark Lavigne, Executive Director of NYSAC (New York State Association of Counties) will be joining the conversation to help move it forward.

Other Committees

Mr. Barber reported the Joint Committee on Plan Structure and Design has not met over the summer but will be meeting on September 6th. The Owning Your Own Health Committee has been working on setting up flu clinics for the Fall; the Wellness Consultant's goal is to increase participation in flu clinics by 10%. The County has invited the Consortium to attend its benefits fair; contact will be made with the City to look into also having a presence at its benefits fair.

The Investment Management Services Subcommittee will be interviewing three firms on September 21st. As a result of discussion Mr. Snyder said he is in negotiation with financial institutions that hold the Consortium's funds to increase rates on existing funds. The responses from those institutions will become a part of the conversations at the Subcommittee and he will bring more information forward to the next meeting of this Committee.

New Members

Mr. Barber reported on potential members joining the Consortium: Seneca County, Town of Sennett, Town of Niles, and New Roots Charter School. He has requested a legal opinion to

make sure that New Roots Charter School qualifies as a municipal corporation under New York State Law.

Mrs. Shawley said she received an inquiry about the Town of Spencer and said the Supervisor is very interested in joining the Consortium. Mr. Barber said he has had several conversations with him as well and he was provided information showing the Town could save \$30,000 annually by joining the Consortium. Mr. Barber said the Town is aware of the deadline for applying for membership to the Consortium.

RESOLUTION NO. 015-2018 - ACCEPTANCE OF APPLICATION BY THE VILLAGE OF LANSING TO BECOME A PARTICIPANT IN THE GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

MOVED by Mrs. Shawley, seconded by Mr. Rankin, and unanimously adopted by voice vote by members present. The Village of Lansing will be bringing ten employees into the Consortium. It was noted that this will bring the total number of municipalities in the Consortium to 35.

WHEREAS, by Resolution No. 005 of 2012 and amended by Resolution No. 27 of 2014 the Consortium Board of Directors adopted a policy outlining a process of applying for membership to the Consortium, and

WHEREAS, the Village of Lansing has submitted an official resolution authorizing the Village of Lansing to join the Consortium in accordance with the terms and conditions outlined in the Municipal Cooperative Agreement, and

WHEREAS, the Village of Lansing has complied with membership process outlined in Resolution Nos. 005 of 2012 (amended by Resolution No. 027 of 2014), and Resolution No 7 of 2018, and has submitted copies of financial reports which have been reviewed and found acceptable by the Consortium's Treasurer, Chief Financial Officer and/or the Consortium's Auditor, now therefore be it

RESOLVED, on recommendation of the Audit and Finance Committee of the Greater Tompkins County Municipal Health Insurance Consortium, That the Board of Directors hereby accepts and welcomes the Village of Lansing as the 35th municipal participant, with health insurance coverage beginning January 1, 2019.

* * * * *

Captive Layer for Stop Loss

Mr. Barber reviewed a memorandum dated August 20, 2018 and said a draft set of bylaws have been set to the Consortium's legal counsel for review. Other things that will be worked on during this time include developing a model contract with Berkley, the Stop Loss carrier, for each member to execute which describes the terms of coverage, ceded premiums to the Captive Manager, the maximum liability of the Captive, and also a model contract with the Captive Manager, Green Mountain, for all partners that describes the operations of the Captive. Green Mountain will be subcontracting with Strategic Risk Solutions, LLC, to handle the accounting and reporting required in the Agreement. Mr. Barber said he only recently learned about this subcontract with Green Mountain and will be following-up on questions that he has. He expects to have more information to share at the next meeting after a conference call takes place.

Invoices

The following invoice was presented for information only:

Bonadio – July 31, 2018

\$5,865.00

It was MOVED by Mr. Cook, seconded by Ms. Rider, and unanimously adopted by voice vote to approve payment of an invoice for Hancock Estabrook dated July 31, 2018 in the amount of \$990. MOTION CARRIED.

Financial Report

Mr. Locey reviewed first quarter results thru July 31, 2018 and noted he will update the document in the next few days after the receipt of information on interest income, Graduated Medical Expense, covered lives, and contract count. He reviewed budgeted versus actual expenses and stated overall revenue is \$1.53% (\$386,000) above budget; this came predominantly from prescription drug rebates. This is an area that he is examining and may increase going forward. On the expense side of the budget medical claims are 2.5% above budget and 7.4% below budget on prescription drug claims. He said the usage of the CanaRx program has declined significantly over the last couple of years and suggested this be discussed by the Joint Committee on Plan Structure and Design. Stop Loss premium is way below budget and is due to the increase in the deductible. Over all expenses are down by 2.4% which gives the Consortium a \$1.2 million in net income as opposed to a budgeted decrease of \$200,000. Mr. Locey called attention to 94.49% going to pay benefits of members with only 5.5% being used to pay all expenses.

Report on Receivables

Mr. Snyder provided a summary of receivables (A/R Aging Summary) from all entities in the Consortium including Soil and Water Conservation District, Tompkins County Public Library, and Tompkins Cortland Community College that will now be included under Tompkins County, and reported there are no major issues at this time. The Town of Caroline was listed as being 31-60 days late in payment; however, that was due to an incorrect amount being submitted and time taken to have a new payment issued.

Mr. Salton arrived at this time.

2019 Budget

Mr. Locey reviewed a memorandum he prepared outlining Locey & Cahill's preliminary 2019 budget recommendation, noting there will be revisions prior to a final document being presented to the Board of Directors. Included in the memorandum were the following recommendations:

1. Maintain the Surplus Account at 5% of the annual premium of the Consortium in compliance with §4706(a)(5) of the New York State Insurance Law. The value of this reserve, as projected for the 2019 Fiscal Year, is \$2,230,817.34. This will maintain the financial stability of the Consortium and protect the Municipalities from the possibility of a mid-year assessment, if paid claims projections are exceeded.
2. Maintain the IBNR Claims Liability Reserve as required by §4706(a)(1) of the New York State Insurance Law at a value in line with the expected cost of "run-out" claims. We are recommending that this reserve continue to be funded at 12.0% of expected incurred claims consistent with the direction received by the Consortium from the New York State Department of Financial Services. This reserve would equal approximately \$5,182,353.23 for the 2019 Fiscal Year.
3. Continue to evaluate the stop-loss insurance policy which recently increased the deductible to \$600,000 for the 2019 Fiscal Year and maintain the Catastrophic Claims Reserve at an amount equal to \$2,000,000.00 for the 2019 Fiscal Year. This reserve is specifically designed to protect the cash flow of the Consortium from the effects of a significant increase in the overall paid claims due to individual high dollar claimants.

4. Maintain the Claims/Rate Stabilization Reserve in an amount equal to 5% of expected paid claims. These funds could be used in future years to mitigate premium rate increases and to “soften the blow” from a period of hyper-inflation.
5. Continue to negotiate reasonable increases to the administrative fees paid to Excellus BlueCross BlueShield and ProAct, Inc. as part of the annual renewal process.
6. Establish an investment strategy designed to maximize the interest income earned while maintaining the flexibility in cash assets necessary for the prudent financial management of the Consortium.
7. In consideration of the overall financial position of the Greater Tompkins County Municipal Health Insurance Consortium and its goals and objectives, Locey & Cahill, LLC is recommending that the Board of Directors approve a 5.0% increase in premiums for the 2018 Fiscal Year. As a point of information, a 1.0% increase in premiums paid equals approximately \$425,000 for the 2019 Fiscal Year.
8. It should be noted that the Consortium’s Silver Plan’s benefits did present an Actuarial Value which exceeded the set goal of 70% +/- a 2% standard deviation when it was calculated for the 2019 Plan Year. As a result, some benefit changes were made to the plan which will be effective on January 1, 2019. These benefit modifications lowered the Actuarial Value from 72.64% to 71.11% and will result in a premium increase of 3.47% on January 1, 2019, based on the 5% recommendation listed above.

With regard to a premium rate increase Mr. Locey said the charts are built on a 5% rate increase however, a 4% rate increase could be considered and he suggested it could be made contingent upon receiving information from ProAct stating the prescription drug rebate estimate would move from \$1 million to \$1.5 million.

Ms. Hersey questioned the list of new municipalities coming into the Consortium I 2019 and what expenses they could bring. Mr. Locey said from reviewing data around the State what Locey and Cahill has noticed is that Ithaca tends to be one of the more expensive areas in terms of costs and for this reason they expect the costs may be slightly less. He doesn’t anticipate any adjustment would be made to the budget based on this but may be something to look at it in the future. He noted that if a large municipality comes in such as Seneca County, the paid claims number will lag in the first year and until claims mature, and this will need to be factored into budgeting. At this time the number of covered lives in the small municipalities joining is approximately 100; if Seneca County joins it will add 600 covered lives.

Mr. Cook said he thinks a 4% premium rate increase is defensible and reasonable; he strongly suggested that in Mr. Locey’s budget presentation to the Board of Directors that he make it clear that this is not the cost of insurance and that cost is between 7-8%. Mr. Locey will incorporate a clear explanation into the trend information that will be presented to the Board.

Mr. Shattuck asked if it is known how much the Consortium will earn through investments. Mr. Locey said it is not known but this is something that should be built into the budget.

It was also brought to the Committee’s attention that the Consortium recently received a large claim that is not reflected in the data but will be included in the next report. Mr. Locey will reach out to Excellus and try to get more information on this.

Mr. Barber informed the Committee that the Executive Committee has been discussing the increased work he has taken on which has primarily been related to the additional municipalities coming into the Consortium and the Committee is presently considering whether to issue a Request for Proposals for an Assistant Executive Director. Mr. Locey said he has included \$75,000 in the proposed budget for this purpose.

Mr. Cook asked if there was consensus in recommending a 4% rate increase to the Board of Directors. Mr. Barber cautioned against recommending an increase at this level due to the impact it would have on rates going forward and because there is still information that is unknown at this time such as prescription drug rebates.

Mr. Salton said prescription rebates are starting to get attention and raising concerns; he agreed with Mr. Locey that drug companies should reduce the cost of medications rather than charging more than they need to and then issuing a rebate. Mr. Barber said when BMI conducted the prescription drug claims audit they verified that everything that is coming from Optum to ProAct is fully being transferred to the Consortium, but it is still unknown how much of the rebate Optum is receiving that is going to ProAct.

Mr. Hart, Mrs. Shawley, and Ms. Rider said they would support a 5% rate increase. Mrs. Shawley said given what Mr. Barber said she could support a 5% rate increase; however, 1% can make a big difference in a small municipality's budget. Mr. Salton, Mr. Shattuck, Ms. Hersey, and Mr. Cook said they would support a 4% rate increase. Mr. Shattuck said he thinks the data is showing that a 4% increase would not have an impact going forward. Ms. Hersey said she will always support a lower number because she represents labor and 4% would result in less that they have to pay. Mr. Cook said he supports a 4% rate increase because of the size of the Consortium's fund balance but strongly feels the true cost trend needs to be emphasized. Mr. Snyder commented that the County has built its 2019 budget with a rate increase of 5%.

Mr. Locey recommended there be a discussion about which of the reserves are available to a participant and which are restricted upon withdrawal from the Consortium. This would remove an incentive for a participant joining and withdrawing for the purpose of getting some of the fund balance.

Mr. Salton asked if a rate increase of 4% or 5% would have an impact on any municipality's decision to join. Mr. Locey said it is unlikely because either rate is significantly better than what the private sector is seeing.

Mrs. Shawley said one of the reasons the Consortium formed was to have rate stabilization and having a rate increase of 5% would be more aligned with that goal.

Mr. Thayer said he currently has 5% figured into his budget for the City of Ithaca but would like it to be 4%. He suggested consideration be given to an increase of 4.5%. Mr. Locey said a 1% differential is approximately \$450,000. Ms. Drake said she would like to see a 4% rate but with the trending change she would like to know if the recent claim will be ongoing and also what the prescription drug rebates will be.

Mr. Shattuck reiterated the importance of informing the Board that the real increase is near 7% and that the ability to approve a lower rate increase is the result of good management of the Consortium's funds.

Although there was agreement that the rate increase should fall between 4% and 5% there was not consensus on a recommendation within that range.

Ms. Drake suggested the Executive Director line be increased from \$75,000 to \$100,000 and also commented that this amount would likely still not be sufficient.

**RESOLUTION NO. - 2018 – RECOMMENDATION BY AUDIT AND FINANCE COMMITTEE
THAT CONSORTIUM ENTER INTO AGREEMENT WITH
SEGAL CONSULTING FOR AUDIT OF CONSORTIUM
OPERATIONS**

MOVED by Mr. Shattuck, seconded by Ms. Hersey. In response to Mr. Shattuck, it was stated that the maximum cost of the audit would not exceed \$54,000.

Mr. Barber explained the purpose of the audit is to get some measure of how the Consortium is doing in the three areas that were chosen to audit: Operations, Pharmacy Benefits Manager, and Stop Loss. Segal is a national consulting firm out of New York City that has experience in many areas including the healthcare industry. He said this audit will review and evaluate the Consortium's processes and operating procedures with others and will inform the Consortium as to how it is doing in comparison with others in the industry. Mr. Locey said the cost of this contract would be paid partly in 2018 and the remainder in 2019. Ms. Drake commented that the results of this audit will be important information for the Governance Structure Committee when it reconvenes and also for the next review of the Municipal Cooperative Agreement.

The resolution was unanimously adopted by voice vote by members present.

WHEREAS, The Greater Tompkins County Municipal Health Insurance Consortium is in its' eighth year of operations, and

WHEREAS, the Consortium has expanded from thirteen (13) municipal partners at inception to thirty-one in 2018, and

WHEREAS, this increase also represents an increase in total covered lives from 4,300 to 5,250, and

WHEREAS, the number of participating municipalities is expected to continue to rise, and

WHEREAS, the Consortium audits its financial records and claims administration on a regular basis, but has not audited or investigated its operations, and

WHEREAS, an operations audit could provide important information prior to the 2019 review of the Municipal Cooperative Agreement and an updated review of the organization structure by the Governance Structure Committees, and

WHEREAS, the Consortium continues to expand its membership, it would be prudent to evaluate current Consortium's operations efficiency, any areas in need of shoring up, and how our operations compare with comparable self-funded entities, and

WHEREAS, the Executive Committee has received two proposals for conducting a third-party operations audit work and recommends the Audit and Finance Committee consider the Consortium enter into a contract for an operations audit, now therefore be it

RESOLVED, on recommendation of the Executive Committee, That the Audit and Finance Committee recommends that the Board of Directors authorize the Board Chair to sign a contract with Segal Consulting to conduct operation audits of Administration, PBM contract and performance, and Stop-Loss contract.

* * * * *

Draft Policy on Exclusion of Population from the Consortium

Mr. Barber provided members with a memo he prepared relating to the impact of retirees enrolled with Medicare Advantage Plans and not Consortium plans and said more information needs to be gathered and reviewed before the Committee could make a recommendation.

Mr. Locey said one of the challenges with this issue is due to every municipality being different in how they treat their retirees and the only way the Consortium could globally react to this would be if someone does not provide coverage through the Consortium for a secondary population and it negatively affects the rest of the group, to apply a premium adjustment charge that would be in the range of three to five percent.

Mr. Cook said the City of Cortland is very concerned about this as its labor contracts put the City in a position that 39% of its premium dollars are paid for retirees who are Medicare-eligible and participating in Medicare. Mr. Locey said it is also a fairness and equity issue; when someone is doing something different than the rest of the population it makes sense that there be some kind of adjustment for that. Mr. Barber said municipalities coming in to the Consortium are aware of the importance of bringing all groups in and understand. Mr. Locey commented that he thinks it is unlikely the federal government will continue its subsidy of the Medicare Advantage Program and if that happens it is likely most of those retirees would come into the Consortium. This will continue to be discussed at the next meeting.

Unfinished Business

There was no unfinished business.

Next Agenda Items

The following items will be included on the next agenda:

- 2019 Budget Recommendation;
- Resolutions to accept new municipalities;
- Update from Excellus on the ACQA Program; and
- Discussion of Restricting Particular Reserve Accounts

Adjournment

The meeting adjourned at 5:22 p.m.