



# Greater Tompkins County Municipal Health Insurance Consortium

125 East Court Street • Ithaca, New York 14850 • (607)274-5590  
www.healthconsortium.net • consortium@tompkins-co.org

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

## Audit and Finance Committee

### Agenda

February 25, 2020 - 3:30 PM

**Town of Ithaca**

Toll number: +1 (607) 378-3962/Conference ID: 449576631

1. Call to Order (3:30) M. Cook
  
2. Changes to Agenda (3:30)
  
3. Approve Minutes of January 28, 2020 (3:32)
  
4. Executive Director (4:15) E. Dowd
  - Report
  
5. Financial Update (4:30)
  - Financial Review S. Locey
  - Report on large loss claim activity S. Locey
  - Account Receivable S. Locey
  - Accounts Payable R. Snyder
  - JURAT Annual Reporting Update R. Snyder
  
6. Discussion:
  - Managing Consortiums Fund Balance (4:45) R Hart
  
7. Next meeting Agenda Topics (5:25)
  
8. Adjourn (5:30)

Next Meeting: March 24, 2020

All meetings of the Consortium are open to the public. Members of Committees and the Board of Directors shall be provided with an option to call in to meetings when attendance in person is not possible; however, a member may not vote or be counted for purposes of quorum where participation is by phone. New York State Open Meetings Law permits attendance and participation by videoconferencing.

**Audit and Finance Committee  
Minutes – APPROVED  
January 28, 2020 – 3:30 p.m.  
Legislature Chambers**

Present: Mack Cook, Steve Thayer, Rordan Hart, Bud Shattuck, Laura Shawley, Olivia Hersey (arrived at 3:47 p.m.), Eric Snow, Peter Salton  
Excused: Jason Cole  
Staff/Guests: Elin Dowd, Executive Director; Don Barber, Consultant; Rick Snyder, Tompkins County Deputy Finance Director; Steve Locey, Robert Spenard, Locey and Cahill; Judy Drake, Board Chair; Brittini Griep, Administrative Assistant; Michelle Cocco, Clerk of the Board; Mary Alice; Mary Alice Avery, Zia Qasim, Lauren Mance, Wilmington Trust

**Call to Order**

Mr. Cook called the meeting to order at 3:32 p.m. He introduced and welcomed Eric Snow who was recently appointed to serve on the Committee.

**Changes to the Agenda**

There were no changes to the agenda.

**Approval of Minutes of December 10, 2019**

It was MOVED by Mr. Shattuck, seconded by Mrs. Shawley, and unanimously adopted by voice vote by members present, to approve the minutes of December 10, 2019 as submitted. MINUTES APPROVED.

**Wilmington Trust Investment Portfolio Review**

Ms. Dowd said she has been working with Wilmington Trust on a more regular basis; there has been an increased interaction and she expects the Committee will be seeing them on a more regular basis going forward.

Ms. Avery who works on the client development relationship side of Wilmington Trust and who makes sure any questions or concerns the Consortium has are addressed, introduced Zia Qasim, Portfolio Manager for the relationship and who converses with Mr. Snyder on a regular basis concerning the Portfolio. She also introduced Lauren Mance who has been added as an extra point of contact between the Consortium and Wilmington Trust.

Mr. Qasim provided the Committee with a market commentary. He explained how what is going on in the market affects the Portfolio and reviewed what has happened with the Portfolio since the last time Wilmington Trust met with the Committee. Mr. Qasim said the Federal Reserve is meeting this week and it is expected to stay within a target range of 150-175. He said they are forecasting inflation to be approximately 1.7% which is still way below the 2% that the Federal Reserve is targeting. He said many of the risks that were threatening the United States recovery last year have since abated and with no further policy stimulus the market is expected to remain in an expansion period with growth expected to be about 2%. The corporate sector has continued to out-perform making 2019 the 3<sup>rd</sup> best year of outperformance.

Mr. Qasim provided a 2019 review of the 10-year Treasury Yield and said as the Treasury curve changed throughout the year there were certain events that took place throughout the year such as relations with China beginning to falter in the spring and



articulates all of the fees involved in the Blue Card which includes the value-added as well as the Global Care because sometimes those claims include both actual and estimated claims costs, and average claims costs. It has been very confusing to some participants in figuring out how they are charged. Members have been provided detailed information on how these fees will be charged going forward. She said the Consortium has the ability to track these fees which equate to less than one percent of claims expenses.

Mr. Barber said one of the new phrases is "value added" and recalled years ago when the Consortium was approached by CAP (Cayuga Area Preferred) and wanting the Consortium to front \$500,000 to help the program start up. The Consortium, as well as Cornell University and Ithaca College did not support that and CAP then came up with the Accountable Cost and Quality Arrangement (ACQA). Excellus has been keeping the Consortium updated on how these arrangements have been successful in reducing claims costs for the general population and Cayuga Medical Center. He said he originally had concerns that these arrangements are set up between Excellus and providers and the Consortium is not part of the objectives. He said there is an escape clause that says if there are any fees they will be distributed to the subscribers and he has always had concern about that.

Mr. Barber said this has shown up in this contract and now includes groups that are outside of Cayuga Medical. He asked if any value-based fees have been charged to date from Excellus. Mr. Locey said he is not aware of any; if there have been any they have been included in the claims expense. Mr. Barber recommended the Consortium communicate with Excellus that it would like to know about these fees if they come forward and that those expenses be included in the biennial medical claims audit. Ms. Dowd will communicate this to Excellus.

It was MOVED by Ms. Hersey, seconded by Mr. Thayer, and unanimously adopted by voice vote by members present.

WHEREAS, the Greater Tompkins County Municipal Health Consortium Board of Directors executed an Administrative Services Agreement with Excellus BlueCross BlueShield effective January 1, 2018, and

WHEREAS, the Agreement has been revised with updated and clearer language from the BlueCross BlueShield Association (BCBSA) to better describe the program, and

Whereas, the following outlines modifications to the Agreement:

- a better description of the manner in which Host BlueCard claims are handled;
- a revised description of BlueCard Fees including the Access Fees;
- additional language around Value-Base Payment Programs at Host Plans; and
- a description of what is now called "Global Care", which is the new name for the BCBSA Worldwide program;
- the addition of new language protecting the confidentiality of Home and Host Blue Plan claim pricing information; this requirement also included a new paragraph that the group notify the Consortium if they get acquired by another organization. The purpose of these changes is to protect Blue Plan data due to the recognition of the increasing importance of data to the health care industry; the BCBSA wants to protect confidential and proprietary Blue Plan negotiated rates from inappropriate disclosure, including to competitors;
- new language describing the fact that Excellus may employ new clinical editing-type programs and that any savings associated with the programs will be credited back to the Consortium net of its administrative expenses associated with the program.

now therefore be it

RESOLVED, on recommendation of the Audit and Finance Committee, That the Board of Directors authorizes the Chair of the Board to sign the revised Administrative Services Agreement with Excellus BlueCross BlueShield retroactive to January 1, 2020.

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### **Administrative Fees Historical Review**

Ms. Dowd said as the Consortium's administrative fees continue to grow as the Consortium grows there have been questions raised as to whether the cost of adding municipalities is worthwhile. She worked with the financial team to pull together historical expenses relative to all of the administrative fees. She said while the internal and external support fees have grown from inception from \$110,000 to \$634,000 in the 2020 budget. As a percentage of total expenses for each year the Consortium has grown from .45% of total expenses to an anticipated 1.16% level in 2020.

Mr. Cook stated total administrative expenses are still running at 6% of the plan which he feels is a more valuable benchmark and to him than the growth in administrative fees. Mr. Locey said in 2021 the GASB 75 expenses will go away; the revenue will be included but with an offsetting revenue. Mr. Snyder said going forward he would prefer not to have those expenses included in the budget as a pass-through. Ms. Dowd said the actuarial contract will be reviewed this year and these comments can be considered at that time.

Mr. Barber commented on the document showing the Consortium's historical fees and said there were many years where the Consortium was operating very lean with very little overhead. The Board recognized that and made significant changes in 2019 to respond to its growth and to improve the Consortium's operations. He thinks the Consortium is now where it should be going forward. Mr. Locey said there are a couple of lines that need further clarification and work. He will continue to work on these and present a revised document at the next meeting.

### **Financial Report**

Mr. Locey distributed preliminary financial results for 2019 and stated overall revenue was below budget for revenue by 1.6% of which most was attributed to lower premium income. Interest income was \$430,000 year-to-date which is more than double what was expected. He said prescription drug rebates were below budget by 7.19%; however, prescription drug expenses were lower than budgeted. Medical claims were approximately 11% below budget. Mr. Locey said the Consortium had \$4.56 million net income for 2019. At the end of 2019 the Catastrophic Claims Reserve was at \$2.8 million; in January it will be revised to reflect \$4.5 million. The unencumbered fund balance is slightly over \$17 million.

Mr. Snyder questioned the Advanced Deposit of pre-paid claims amount on the spreadsheet and asked where the highlighted number came from. Ms. Dowd said it was included in an Excellus claims fee that the Consortium was recently made aware of. Mr. Locey will look into this and provide more information to Mr. Snyder.

Mr. Locey distributed information on large losses for 2019 and said there were no large losses since he reported at the last meeting. He said of all premium paid in, 49% was been paid back in claims.

Accounts Receivable

Mr. Snyder provided a report on accounts receivable. He said the Tompkins County, Cortland County, and the State of New York advanced TC3 a large sum of funds to assist the College in paying some of its bills of which included health insurance premiums.

**RESOLUTION NO.        - 2020 - ESTABLISHING POLICIES AND PROCEDURES FOR THE  
CATASTROPHIC CLAIM RESERVE POLICY**

Mr. Cook said at the last meeting there was discussion and agreement by members to increase the Catastrophic Claims Reserve to \$4.5 million and this resolution outlines how those funds would be utilized.

It was MOVED by Mr. Salton, seconded by Ms. Hersey, and unanimously adopted by voice vote by members present.

WHEREAS, the Greater Tompkins County Municipal Health Insurance Consortium (“GTCMHIC”) has been issued a Certificate of Authority to operate as a New York State Insurance Law Article 47 Municipal Cooperative Health Benefit Plan, and

WHEREAS, Section 4707(a)(2) of the New York State Insurance Law requires the GTCMHIC to purchase “specific stop-loss coverage with a specific retention amount or attachment point not greater than four percent of the amount certified by a qualified actuary to represent the plan’s expected claims for the current fiscal year”, and

WHEREAS, four (4) percent of the GTCMHIC’s expected claims for the 2020 Fiscal Year equals approximately \$2,048,000 (\$51,200,000 in expected claims x .04), and

WHEREAS, the GTCMHIC Board of Directors issued a Request for Quote (RFQ) to licensed, reputable insurance carriers seeking quotes for specific stop-loss insurance at various deductible levels and with certain required coverage parameters, and

WHEREAS, the GTCMHIC Board of Directors has agreed to purchase specific stop-loss insurance from Excellus BlueCross BlueShield (“Excellus”) with a policy period deductible of \$1,000,000 for all covered insured members with the exception of one member who has a separate deductible of \$1,200,000, and

WHEREAS, the GTCMHIC Board of Directors recognizes the purchasing of specific stop-loss insurance at a \$1,000,000 deductible level increases the amount of risk that the Consortium retains as a primarily self-insuring entity, and

WHEREAS, the GTCMHIC maintains a Catastrophic Claims Reserve of \$4,500,000 to help cover large dollar claimant expenses, now therefore be it

RESOLVED, on recommendation of the Audit and Finance Committee, That the GTCMHIC Board of Directors hereby adopts the following policies with respect to the Catastrophic Claims Reserve for the 2020 Fiscal Year:

1. Interest income earned on funds held in the Catastrophic Claims Reserve shall be retained within same, as they are earned.

2. The GTCMHIC Treasurer is directed to, on a quarterly basis and within 60 days of the end of said quarter, transfer from the Catastrophic Claims Reserve to the general operating fund of the GTCMHIC a dollar amount equal to any claims paid in excess of \$500,000 but less than \$1,000,000 per member, excepting:
  - a. The one member identified by Excellus as having a separate deductible of \$1,200,000. For this member, funds will be transferred from the Catastrophic Claims Reserve to the general operating fund for any claims incurred above \$500,000 but less than \$1,200,000.
  - b. The foregoing provisions apply only to claims incurred between January 1, 2020 and December 31, 2020 and paid between January 1, 2020 and March 31, 2021.
  - c. This policy shall be reviewed and amended as necessary, on an annual basis in coordination with the GTCMHIC budget process and the purchase of specific stop-loss insurance coverage as required by statute.

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### **Rate Stabilization Reserve Policy**

Ms. Dowd said this was put on the agenda as it was part of the proposal on the Stop Loss insurance and not only that the Consortium would change its Catastrophic Claims Reserve but would also increase the Rate Stabilization from 4.5% to 7%. Mr. Locey said this is a philosophical discussion of how the Consortium wants its reserves to work. Up to this point there have been four reserves of which two are statutory and two discretionary. A decision has now been made that one of those discretionary reserves would be part of the mechanics of the Consortium in that if an insured exceeds a certain level of claims that reserve can be tapped into and used as part of the operating cash flow. The discussion relates to whether a policy should be established whereby if projected claims for a particular year are exceeded by a set percent that this reserve could be used to help offset some of those expenses. He suggested there be discussion of whether this reserve would kick in if a set of circumstances were met, how it would be used if that happens, how it would be replenished, and what the target of the reserve would be every year going forward.

Mr. Shattuck said Mr. Locey has done a great forecasting every year and each year there is a four to five percent rate increase but looking out it has always been at a higher rate. He said having a rate stabilization reserve would help manage that so that rates forecasted out would not have to be at an incrementally higher rate because of not knowing what will happen.

Mr. Salton said in order to have a discussion about stabilizing rates there needs to be an understanding of the factors that go into rate increases. Mr. Locey said there are certain things that cannot be predicted but the best thing to do is look at the past. Most groups have a Catastrophic Claims Reserve and a Rate Stabilization Reserve but do not have as extensive and collective set of reserves as the Consortium does. He said it should be kept in mind that with the higher reserve that the Consortium does have saves about a 1% premium rate increase every year because of the interest income being generated. Mrs. Shawley suggested the wording in a policy would have to be as flexible as possible because of the unpredictability of things that would happen. Mr. Locey responded that the Municipal Cooperative Agreement provides great flexibility with the reserves in order to be able to respond to what is happening.

Mr. Hart sees rate stabilization as protecting against a shock that comes from a need to increase premiums from having a bad year. Another is the need to protect against elected officials as there could be someone who wants to lower the unencumbered fund balance and to return funds to municipalities, and another is if Albany were to order that the IBNR be increased immediately (while the Consortium's IBNR is set at 12%, all other groups are at 17%). He said the bigger the Rate Stabilization Reserve is the better of a position the Consortium would be to respond to any of these situations.

Mr. Cook agreed with Mrs. Shawley and supports the Consortium having the subjective ability to set reserves. He thinks there may be a time in the future where there would need to be objective benchmarks to trigger use of the reserves but does not think the Consortium is at that point yet. Mr. Locey reminded members that the original goal of the Consortium was long-term stable financial results (i.e. premiums that increase at a stable rate); when the fund balance begins to be used to mitigate rate increases that is when problems arise. He said in order to exist for a long time he thinks the Consortium should be prudent with its reserves, take the feelings of municipalities into consideration but keep modest, steady growth to ensure long-term success.

Ms. Drake said it will go to 7.5% for 2020 and Mr. Hart has suggested moving towards 10%. She thinks moving to 10% will cause there to be more pushback from municipalities and without having a definition of how it will be used and replenished needs to be addressed. Mr. Cook suggested working towards developing a statement that includes the risks that are being protected against that can be put in place during the development of the 2021 budget.

Mr. Locey noted that municipalities are paying less than they would be paying other insurance companies and any funds that are not used in those arrangements is kept by the insurance company as profit.

Discussion on this will continue at the next meeting.

### **Adjournment**

The meeting adjourned at 5:00 p.m.

Respectfully submitted by Michelle Cocco, Clerk of the GTCMHIC Board



Executive Director Report  
February 20, 2020

Governance Structure and MCA Review Committee

The Governance Structure and MCA review committee has asked our membership to review the final draft of the 2020 Amendment to the MCA. This was sent out to all Directors with instructions to return comments by March 13<sup>th</sup>. A copy of the newly drafted Executive Committee Bylaws was sent along with the recommended MCA changes. The Board will be asked to vote on advancing the 2020 Amendment to the MCA at the March 24<sup>th</sup> Board of Directors' meeting.

Owning Your Own Health

OYOH will be moving their meetings to coincide with the Joint Committee on Plan Structure and Design meetings to allow both committees to collaborate more effectively.

Municipalities eligible to participate in the Blue4U biometric screening program should have received information regarding this year's program which will run from February 14<sup>th</sup> to March 31<sup>st</sup>. Several on-site clinics in Tompkins Seneca Counties have been set up at worksites to assist in making this screening accessible. A list of clinics participating in this program has also been sent out for those areas where it is not convenient to attend a worksite clinic.

The Joint Committee on Plan Structure and Design

Don Barber has been reviewing plan design recommendations with the Joint Committee. The changes include both vision and hearing improvements and out of pocket co-insurance changes for out of network services. Don will continue to work with the Committee through this process and final recommendations will be brought forward.

Operations Committee

After a review of the Cyber Security Audit and recommendations for improvement were presented to the Operations Committee a resolution was approved to file the 2019 Cyber Security Audit compliance certificate. The certificate was filed on February 13<sup>th</sup>.

New Member Presentations

On February 20<sup>th</sup> Don Barber, Judy Drake and Elin Dowd will present to the Tioga County Council of Government on the benefits of joining the GTCMHIC. Other plans are being made to give similar informational meetings to perspective members.

Staffing

Brittni Griep will be joining The Tompkins County Legislature staff as a Deputy Clerk. In this capacity she will be joining Michelle Cocco as part of the County's Legislature's administrative team. Michelle and Brittni are working on a seamless transition plan and Judy Drake has started the recruiting process to help the Consortium find a suitable replacement.

Greater Tompkins Cty Mun Health Ins Consortium  
**Expenses by Vendor Summary**  
January 2020

	<u>Jan 20</u>
ARMORY ASSOCIATES, LLC	1,250.00
CanaRx GROUP INC	9,565.50
Catalog and Commerce Solutions, LLC	600.00
DON BARBER	1,075.00
EXCELLUS HEALTH PLAN-GROUP	139,330.02
EXCELLUS HEALTH PLAN - CLAIMS	2,907,506.99
HANCOCK ESTABROOK, LLP	55.00
HAYLOR, FREYER & COON, INC.	43,612.63
LOCEY & CAHILL, LLC	7,210.00
PROACT, INC.	1,133,347.65
TOWN OF ITHACA NY	17,755.17
<b>TOTAL</b>	<b><u>4,261,307.96</u></b>

### SUGGESTED JURAT CALENDAR

- All of Feb – Jessica: Prepares JURAT with all QB Reports and Notes.  
3/2/20 - Latest date to receive actuary's report (send actuary's report immediately to Randy) and slide these numbers into our JURAT.
- 3/4/20 – After Rick and Drew's review: Present Randy with QB financial statements, reports, and our first draft of JURAT; Randy begins his work on JURAT
- 3/17/20 - Jessica sends email w/ electronic attachments to auditors containing the Consortium QuickBooks file for 2019, year-end bank reconciliations, bank statements, and detail listings of accounts payable and accounts receivable
- 3/19/20 - Receive **draft** of the JURAT from Bonadio (Randy & Heather)
- **3/23/20 - 3/30/20 - Field audit here with Insero & Co. CPAs, LLP** (Mimi Thuesen, Conrad Whyte, Patrick Jordan)
- 3/25/20 - Receive **final draft** of the JURAT from Bonadio (Randy)
- 3/30/20 - Last day for us to make adjustments and reclassifications to our final QuickBooks file (includes any and all final adjustments from Randy from the final JURAT, Jessica, Rick, Steve Locey, and auditors)
- 3/30/20 - Auditors complete field audit
- 3/31/20 – 4/13/20 - Auditors work on financial report (their offices)
- 4/14/20 - Receive **draft** of Financial Audit from auditors for internal review
- 4/20/20 - Receive final draft of Financial Audit from auditors - for Audit & Finance Committee agenda
- 4/28/20 - 3:30 pm: auditors present Financial Report to Audit & Finance Committee

Date: January 29, 2020  
To: Audit and Finance Committee  
From: Don Barber- Consultant  
Re: Reserves and Fund Balance

Yesterday's discussion of Rate Stabilization Reserve caused me to reflect on where we have been and how that might influence the decision on our philosophy for managing assets going forward. At inception, the Consortium had no assets and our plan was to steadily increase our reserves. Our initial focus was first to pay back the initial partner's capitalization and to provide security to weather unexpected claims activity like happened in year two (2012).

This plan worked well until the end of year 2015 when we had very few large claims yielding a net profit over \$6M. It was at that time that we created the Rate Stabilization Reserve to provide reserves to keep rate increases consistent with experience at that time roughly 5%. And, due to a large 2015 year end Fund Balance, we only raised premiums 3% in 2016.

As fate would have it, we had high claims activity in 2016 from a new medicine for Hepatitis C. Premium rate increase for 2017 was 5%, but then dropped back to 4% for 2018 and 2019. See the attached chart of adopted rate increases and rate increases we were projecting at that time. It would appear, in looking at the chart that premium increases between 4% and 5% are where we are tracking.

I could envision a Consortium policy regarding Fund Balance and Rate Stabilization, that could last for the next several years (provided no major hick-ups in the health care system), whereby we manage premium increases between 4% and 5%. In keeping with a goal of managing Fund Balance at 18% of premium, we could spend our current oversized Fund Balance down to 18% over the next several years. If we take this path, we need to recognize that as we get closer to 18%, we will need to use less Fund Balance so that premiums are not required to make a heavy lift when Fund Balance is no longer used to mitigate premium increases.

The Board recently approved increasing Rate Stabilization to 7.5% of Paid Claims for 2020 (\$3.86M). Mayor Hart has proposed setting the goal to increase this reserve to 10% of Paid Claims in coming years. I support this goal for two reasons. 1) Interest earned on funds in reserve puts less pressure on premium to cover expenses. 2) Should the Board consciously decide to decrease Fund Balance to 18%, then Fund Balance would no longer be the source of funds to mitigate premium increases in years where claims activity exceeded budget. The Rate Stabilization Reserve would then become that source of funds. Over the next 3 years, I recommend keeping an eye on trends to determine if increasing the Rate Stabilization Reserve to, yet a higher percentage of claims is prudent.

The Consortium is in a fortunate position having adequate assets to be having the discussion we had yesterday. This is partially due to luck of having claims activity under budget, partially due to having conservative claims trend models, and partially due to the conservative fund management guidance of Locey & Cahill.

Lastly, I would like to share a couple of thoughts about our investment portfolio. I was glad to see that the fund managers have taken steps to diversify our portfolio if only to have some investments longer than one year. A comment was made by WT about municipal bonds being riskier investments. I'm not sure I would have made that statement because our investment policy, which mirrors state policy, lists municipal bonds as approved safe investments. My recommendation, going forward, is to work with WT to begin additional diversification of our portfolio to include the current Treasuries with maturities that are dictated by the yield curve at that time. Note the yield curve changes daily so that the reinvestment of a maturing Treasury is made according to the yield curve at that time and the exist portfolio of Treasuries. Also, we should have a portion of holdings in Agencies, like Freddie Mac and Fannie Mae, and in municipal bonds if their yield adds value to our portfolio. The comment Steve Locey made yesterday that earned interest reduces the amount of premium needed to cover expenses is important to internalize. I suggest that we work closely with WT to diversify our investment portfolio and maximize its return within our investment policy specified vehicles. Possibly a resolution to this affect would provide important direction to WT.

Thank you for your time in considering these thoughts.

