

**Audit and Finance Committee
Minutes - APPROVED
August 24, 2021
Ithaca Town Hall/Remotely via Satellites**

Present: Mack Cook, Bud Shattuck, Eric Snow, Steve Thayer, Peter Salton, Laura Shawley (arrived at 4:01 p.m.), Rordan Hart, Jon Munson (arrived at 3:32 p.m.)
Vacancy: One seat
Staff/ Guests: Elin Dowd, Executive Director; Michelle Cocco, Clerk of the Board; Rob Spenard, Paul Pelton, Steve Locey, Locey and Cahill; Andrew Braman, Tompkins County Finance Department; Don Barber, Consultant; Amanda Anderson, Town of Dryden; Teri Apalovich, Finance Manager; Kylie Rodrigues, Benefits Specialist

Call to Order

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

Changes to the Agenda

There were no changes to the agenda.

Approval of Minutes of July 27, 2021

It was MOVED by Mr. Snow, seconded by Mr. Thayer, and unanimously adopted by voice vote by members present, to approve the minutes of July 27, 2021 as submitted. MINUTES APPROVED.

Mr. Munson arrived at this time.

Executive Director Report

Ms. Dowd reported after a lengthy wait the Consortium has received a new Certificate of Authority from the Department of Financial Services and is now able to operate in 16 counties and at this time there are three municipalities within those counties that have inquired about joining in 2022. Ms. Dowd said the Operations Committee will meet next week and will be making a recommendation for a Prescription Benefit Manager to the Executive Committee.

Ms. Dowd reported within her August Executive Director report there is a section pertaining to the American Rescue Plan that was discussed at the last meeting. The update is will be distributed to the Chief Elected Officer at each municipalities with a copy to all Directors.

Ms. Dowd said there may be some new member applications that come through later than usual and proposed this Committee change its September meeting date to September 21 to take action on those applications prior to the Board meeting. The Committee agreed to change its meeting date to accommodate this.

Financial Report

Accounts Receivable and Expenditure Reports

Ms. Apalovich provided a brief update on expenditures, stating there was nothing notable to report; information was included in the agenda packet.

Mr. Locey provided a financial update through July 31st, noting much of the information is contained within the budget information that will be presented later in the meeting. With regard to revenue, he said premium is down due to members moving into the Platinum Plan and retirees moving out of traditional programs into the Medicare Supplement Plan. This has been offset somewhat by greater-than-expected prescription drug rebates which he expects will be further enhanced by the new PBM (Prescription Benefit Management) contract.

Mr. Locey explained the first two rebates received in 2021 were based on the Consortium's prescription drug rebate model from 2020. The Consortium should expect to see some increased rebates later this year as a result of some enhancements ProAct has made. The Consortium originally budgeted \$1.4 million and later revised that to \$1.7 million. At this time and based on responses from the RFP (Request for Proposals), the expectation has been set at a conservative amount of \$3 million for 2022. He noted there will be some lag in payments; however, eventually the Consortium should reach a \$3.5-\$4 million level in rebates.

Mr. Salton questioned why rebates will be increasing at this level. Mr. Locey said ProAct has indicated that they are moving away from their current vendor to a new vendor for rebate aggregation and those deals have significantly increased over the last couple of years as pressure has come from the federal government for transparency in the prescription drug pricing models. Ms. Dowd also noted there has been a significant increase in rebates for specialty drugs.

Mr. Locey said another thing that impacted revenue is the big change there has been with new contracts. With regard to the Medicare Supplement, Mr. Locey said the Consortium loses a good amount of revenue for every two-person contract that goes from a family program to two individual Medicare rates. Also, changes in demographics have brought down premium revenue. There was an increase of 3.4% in the contract count but covered lives only grew by .9%. He said this growth is impacting the Consortium because it is at a much lower premium level than what the historical average has been.

Mr. Locey said through this period there has not been any Stop Loss recoveries. On the expense side of the budget, medical claims were approximately 3.2% below budget and prescription drug claims were 2.9% above budget. The Consortium was approximately 1% below budget in aggregate on claims. Mr. Locey noted the Consortium is paying 94.78% to pay for member benefits; the remaining 5.2% is what is being expended to operate the entire program. This demonstrates the Consortium is operating with an extremely efficient financial model.

Mr. Locey provided a Stop Loss report and said to date there have been no claimants above \$400,000; however, there is one claimant that is being monitored. This is an individual who was lasered in the past. Since the claimant is not lasered this year there would be a \$1 million deductible.

Mr. Locey said there have been concerns expressed by some members about the possibility of claims compression due to some procedures being delayed due to the pandemic; however, he stated there has been no sign of this to date.

Presentation of Proposed 2022 Budget

Ms. Dowd presented a preliminary 2022 Budget containing much of the same information presented at the last meeting. She said the situation has not changed and the premium increase for 2021 continues to be proposed at five percent. She said in 2022 some professional costs will be decreasing as Consortium staff will be taking on more responsibilities. She addressed other areas that will be decreasing such as not paying for actuarial reporting services for

municipalities and a decrease in the Consortium's contract with the Tompkins County Finance Department.

Mrs. Shawley arrived at this time.

Mr. Salton spoke of the unencumbered fund balance and said there are two different levels presented in reporting materials -- 18% and 23% for 2022. Mr. Locey said the one number represents year-to-date and should be updated based on the Catastrophic Claims Reserve. He said when the year started this reserve was set at \$4.5 million and in addition to that the delta between what was budgeted for the old Stop Loss and what is being paid for the new Stop Loss insurance accounts to approximately \$600,000 and this should be added to that Reserve. In addition, any interest earned on that Reserve would be netted out of income that has been used for the year and would also diminish the unencumbered fund balance at year-end. He said the biggest difference between the numbers reflected in the reports has to do with this and represents a difference of \$4.5 million and \$5.7 million). He said the funds are still there but have been allocated differently.

Mr. Locey stressed there are many fluctuations that occur due to the many changes that take place throughout the year. He noted a minimum unencumbered fund balance level has been established and under the modeling for the proposed budget the Consortium would be well within that target. In response to Mr. Cook, Ms. Dowd and Mr. Locey said they feel comfortable that the proposed budget adheres to the policies that have been put in place.

Noting that he would not necessarily support lower rate increases, Mr. Shattuck requested a spreadsheet showing rate increases at lower levels than what they have been presented for outlying years to show a visual of what the budget would look like. Mr. Locey said a model could be developed to demonstrate what different levels would look like.

Ms. Dowd recalled the conversation that took place last year when considering whether the unencumbered fund balance should be between 12% and 18% was that the Consortium was at the 18% when there were only two statutory reserves. By adding the Rate Stabilization and Catastrophic Claims Reserves, the Consortium became more heavily reserved and didn't have to rely on the unencumbered fund balance. Because of this, members felt that if we went as low as 12% there would still be a cushion of the discretionary reserves. Mr. Salton noted the reserves are still higher than the target.

Mr. Locey explained that years ago when the Consortium was using 18% it was trending much more conservatively in terms of medical and prescription drug claim trends. As a result, it was coming in below budget on claims and having a greater net income than expected. The Consortium is now operating with a tighter budget and not having as much net income at the end of the year and has reserves in place which lessens the unencumbered fund balance. He said the Consortium doesn't want to continue accumulating fund balance but wants to meet all requirements, liabilities, and reserving while having a reasonable amount of funds remaining to have protection in the event of something catastrophic happening.

Mr. Hart stated he feels there is an argument to allow the unencumbered fund balance to grow large while maintaining a 5% year-over-year premium increase. He said the larger the fund balance becomes the stronger the Consortium's ability is to be able to ensure that there is never a year where premiums need to be increased by a much larger percentage. He added that the Consortium also now has the ability to issue a one-time premium rebate if the need arises.

Mr. Salton said during the pandemic there were some abnormal trends and a lack of paid claims. He questioned whether things have returned to normal and what impact there has been recently on paid claims.

Ms. Dowd spoke to where claims were trending both prior to Covid-19 and now and said more normal levels are being seen but there may still be some surgeries that have not taken place yet that were postponed. However, due to availability of surgical centers and continued Covid risks it is not expected they will all return at once. She said while October is typically a month with higher activity it is not expected that there will be a great increase in claims activity beyond the normal level.

Ms. Dowd spoke of reports she has heard that in general people neglected preventive care during the pandemic; however, utilization reports have shown the Consortium still had a high rate of subscribers seeking preventive care during that time. Ms. Dowd responded to Mr. Salton and said the Consortium's contract with Excellus remains the same and the provider network which includes Cayuga Health System remains strong.

Mr. Salton said while he will support the proposed budget, he remains cautious about claims expenses in the coming year post-pandemic.

RESOLUTION NO. - 2021 – ADOPTION OF BUDGET, PREMIUM RATES, AND RESERVE AMOUNTS FOR 2022

MOVED by Mrs. Shawley, seconded by Mr. Shattuck, and unanimously adopted by voice vote, to approve the following resolution.

WHEREAS, the Audit and Finance and Executive Committees have had detailed discussions and have given great consideration to the Consortium's 2022 budget and premium rates, and

WHEREAS, the Board of Directors has adopted a policy that provides guidance on targets for net income, fund balance, and both statutory and discretionary reserve levels, in addition to creating a mechanism by which excess net income/fund balance can be returned to members, and

“WHEREAS, the 2022 proposed budget reflects the adopted budget guidelines (Resolution No. 015-2020) as follows:

- Maintain Incurred But Not Reported Claims Reserve at 12% of total claims;
- 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;
- Maintain the Rate Stabilization Reserve in an amount equal to 7.5% of expected paid claims;
- Maintain Catastrophic Claims Reserve at \$4,500,000 with additional interest and premium savings included;
- Maintain an unencumbered fund balance not 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; and
- Increase Premium Revenue by 5.0% in 2022 across all benefit plans”

now therefore be it

RESOLVED, on recommendation of the Audit and Finance and Executive Committees, That the Consortium's *attached* 2022 budget including premium equivalent rates and reserve amounts are hereby adopted by the Greater Tompkins County Municipal Health Insurance Consortium Board of Directors.

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Role of Committee Going Forward

Mr. Cook reviewed the history of the Committee, stating it has existed for a lengthy time and was only one of two standing committees and as a result, has been where much of the Consortium's business was done. Since that time there have been other committees created that has assumed much of the work and there is also now Consortium staff that has eased the work of the Committee. Mr. Cook suggested that there be discussion of the Committee's role going forward as there is no longer a need to serve in the same role as it has in the past. He spoke of discussion that took place in the past that related to strategic planning including looking at where the Consortium was heading and areas such as rate forecasting, demographics, and long-term planning.

Mr. Locey said the Consortium is heading into a new business venture with the expansion of its territory and there will be a need for additional planning. He suggested evaluating whether there should be some regional rating going forward as there is recognition that health care is delivered differently in other areas. He said there is a possibility for several additional members and thought should be given to the framework and how things will be addressed such as onboarding, rate setting, and the various elements involved with that process. Mr. Cook agreed and said the Committee may need to utilize the resources of Locey & Cahill on this going forward.

Ms. Dowd said this is a good time as the Consortium is going to be looking at strategic planning for the organization as a whole. The area of managing growth is specifically important at this time and as much of that work that can be addressed by specific committees would fit well into that process.

Mr. Shattuck spoke of the need to have a strong succession plan, noting this Committee and the Executive Committee have a strong group of members who have been with the Consortium for a long time but who won't be with the Consortium in perpetuity. Mr. Cook will work with Mr. Locey and Ms. Dowd on preparing a draft outline of how this Committee could be restructured for the next meeting.

Mr. Salton said what is being proposed makes sense with the changes that have occurred and staff that has been brought on board. He feels strongly that this Board needs to be a strong Board even more so than in the past and thinks it will be even more important that new members understand the strength of this alliance. He said there needs to be clarity of how this will align with the work of the Executive Committee and suggested looking at governance in this context.

There was consensus to add this to the next agenda. Mr. Cook encouraged members to provide input and suggestions and to include all members in those communications.

Next Agenda Items

The following items were suggested for the August agenda:

- Discussion of the future role of the Committee

Adjournment

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The meeting adjourned at 4:58 p.m.

Respectfully submitted by Michelle Cocco, Clerk of the Board