

**Meeting Notes**  
**Greater Tompkins County Municipal Health Insurance Consortium**  
**Executive Committee**  
**September 6, 2012**  
**1:30 p.m.**

Attendees: Don Barber, Steve Thayer, Liz Karns, Members; Joe Mareane, County Administrator; David Squires, Finance Director; Steve Locey, Locey and Cahill; Jerry Mickelson, Ciaschi, Dietershagen, Little and Mickelson; Michelle Pottorff, Administrative Clerk

Excused: Judy Drake

Mr. Barber called the meeting to order at 1:30 p.m. He said the purpose of the meeting is to address comments made during his meeting last week with Mr. Lovejoy and staff at the New York State Department of Financial Services (hereinafter referred to as the "Department") about the Consortium's filings. It was stated at that meeting that the reason the Consortium will be getting an audit is because of those filings. It was further stated that until there is an actuarial report they will conclude that the Consortium is deficient based upon the contents of the filings, specifically in the Contingency Reserve and the IBNR (Incurred But Not Reported).

Mr. Locey said the report did state that the Consortium had a negative balance in the amount of \$114,000 at year-end, therefore, the Department would determine the Consortium was insolvent at the end of 2011. He stated the Department views the negative balance to be higher than this because they agreed to an IBNR that was equal to 12%. When the Consortium submitted the data it was 12% of annualized paid claims; however, when the reports were submitted they said the number had to be on an accrued basis so it had to be incurred claims.

Mr. Locey said every group that has come under Article 47 started out mature so when they began submitting their paid claims figures this was basically the same as their accrued claims number because they had been operating for several years. In the Consortium's first year there were no prior claims and only had claims that were incurred in 2011 and paid in 2011 and this is how the data was submitted. Once the Department rejected this and required that everything be switched to accrued accounting this was done in addition to recognizing the full IBNR which Mr. Locey believes was counting the IBNR twice. Mr. Locey said he strongly believes the Department will not approve an amount for incurred claims plus expenses that is lower than 12%.

Mr. Mareane referred to the Audit Report and said it showed the Consortium having a negative balance of \$114,000 and commented that although a negative it comes very close in a budget of \$26 million. He asked how the Department would define the Consortium's shortfall. Mr. Locey said the Department would view the shortfall as being \$600,000 instead of \$114,000 and they would then want the Consortium to assess members for this amount.

Mr. Barber said in his conversations with the Department they did not hold fast to the 12.5%; they stated they are looking for a report from an accredited actuary to do an analysis on what the IBNR should be. Mr. Mareane asked if an actuarial report is included in the Scope of

Services with Locey and Cahill; Mr. Locey said it is not and commented there are many things Locey and Cahill are doing for the Consortium that are outside the Scope of Services. Mr. Barber said even though an actuarial report is outside the Scope of Work for Locey and Cahill it should still be brought to the Board of Directors as it is required under the filing and is work that needs to be done. Mr. Mickelson said the actuarial report is done in draft but has not been issued with a signature. Mr. Locey said that is correct; the report states \$2.3 million (9.4%); the Consortium was told that it had to have 12%. In the year-end report they are still looking for 12%.

Mr. Locey read from an e-mail dated August 23<sup>rd</sup> he received from Mr. Lovejoy in which Mr. Lovejoy stated he: "could not verify the claims payable reserve at \$2.6 million as reported on the annual report and that approval was granted to reduce this reserve fund to 12% of the current year's incurred claims and expenses. My review indicates that the reserve is significantly less than 12%". Mr. Barber said Mr. Lovejoy stated that since there is no actuarial report that he has nothing else to go by to determine what the IBNR figure is. Mr. Locey said an actuarial report will be submitted but does not believe 12% will be accepted.

Mr. Mickelson suggested that when the second quarter report goes through that it should show accrue the whole 12% of total expenses and this would satisfy all of the questions.

Mr. Barber said he asked about the Contingency Reserve and the Department was very clear this is not based on total revenue. It is based on premium; therefore, the number that was filed with the year-end report is higher than it needs to be which means the deficit is closer to \$77,000. Mr. Locey clarified that the correct term for this account is the Surplus Account. Mr. Barber said when the State does the audit they will likely ask the Board to do an assessment of its members to make up the difference. The Department sees the difference being approximately \$.5 million because they still do not agree with the \$2.6 million figure that was listed as the claims payable reserve. Mr. Barber referred to the quarterly statement ending June 30<sup>th</sup> and said there are problems with how information was entered into the document.

Mr. Locey summarized at the end of 2011 the Consortium had a negative balance in the amount of \$114,000. If the Department requires the Consortium to correct the \$2.6 million IBNR Reserve to \$3.1 million the deficit will be \$.6 million. Mr. Locey stated that even if the shortfall in 2011 was \$.6 million this has already been made up in 2012 with revenues exceeding expenditures. In 2012 the IBNR is \$3.14 million, the Contingency Reserve is \$1.438 million. After taking these into account the Consortium is still showing a Fund Balance of \$1.5 million. Mr. Locey said up until now they have not forced any group to assess its members or forced any group to discontinue operations.

Mr. Locey distributed document examples and reviewed the process that is used in compiling information for the annual report. Mr. Barber said when he spoke with the Department they offered to review the information presented in the report to make sure everything has been entered correctly. From the discussion he inferred that some of the money included in column B that is paid during the year is not supposed to include money that was paid during the year that was from the prior year; those amounts should be included in Section 1 - column C. Mr. Barber said getting clarification on the definitions is needed

because when they see \$2.3 million in Exhibit 2 - column F (Total Claims Paid During the Year and Claims Unpaid at End of Current Year on Claims Incurred in Previous Years), and \$1.5 million in Exhibit 2 - Column G (Estimated Liability of Unpaid Claims at End of Previous Year), they conclude that the Consortium has not gained enough in premium for its Reserve.

Mr. Locey reviewed the numbers contained within the report:

Section 1 B: \$12,372,524: "Paid During Year". This includes total claims paid incurred in 2011 and 2012;

Section 1 C: \$ 1,505,047: "Unpaid Prior Year". This claims incurred in 2011 that were paid in 2012.

Section 1 D: \$ 3,140,400: "Unpaid Current Year". This is the estimate for the IBNR.

Mr. Barber said it is his understanding that paid and during the year includes paid during the year for 2012 claims; however, this is something that needs clarification from the Department. Mr. Barber said Section 1 Column C should reflect the IBNR at the end of calendar year 2011 not June 30, 2012.

Mr. Mickelson said based on previous comments by Lou Siminetti who used to work for the Department, Exhibit 2 is supposed to be based on performance reports and not checkbook numbers and for this reason he uses percentages. Mr. Locey said that is part of the problem with the filling out the report. Mr. Barber said based on his discussion with Mr. Lovejoy the Department would accept percentages in quarterly reports but wants an actuarial report at the end of the year.

There was a discussion of rates for 2013. Mr. Mareane spoke of how close the budget is and suggested planning for rates at 9.5%. Mr. Locey said he was hoping for less but is inclined to be more conservative. Ms. Karns expressed concern that there are costs for work Locey and Cahill is doing that are not being paid for and that the Consortium is running too lean. Mr. Locey said he thinks part of the problem is that the Consortium has taken on too much work in its first year and half. There are three requests for proposals that have been issued, requests by other municipalities to join, and work is still being done to get up to speed with the Department of Financial Services.

The question was raised as to whether the Consortium should build into its premium an assessment of its members based on a deficit in the first year now that it appears the deficit has been recovered in 2012. Mr. Locey said in his opinion since the IBNR is covered and there is a surplus account the Consortium is not insolvent. The problem is that the Department does not agree with the IBNR number. Mr. Mareane said if the rates were left at 9% and there was extra money the Consortium could begin to pay back the Capitalization Reserve. Mr. Locey commented that the Department forced the Consortium to have the Capitalization Reserve and now they want it to be shown as a liability. Mr. Barber noted that the agreement stated that if and when the Consortium had the funds it would be paid back, however, it is not a liability because there was no absolute guarantee given that those funds would be paid back.

Mr. Barber said the numbers reported need to be revised to accurately reflect what is going on and the idea of 12% goes away when there is an actuarial report at year-end. Mr. Locey said although he agrees they need an actuarial report the Department is not going to automatically accept the number approved by the actuary. The only reason they want the actuarial report is to validate the 12% or give them a reason to raise it. He does believe they will be comfortable with the 12% and commented that everyone else is at 17%.

Mr. Mareane summarized that based on 2012 results the Consortium can cover \$3.1 million and can also attest that the in 2012 enough revenue is being generated that the 2011 shortfall has been covered and reserves meet the required level thereby removing the insolvent status. Mr. Locey agreed with this statement.

For purposes of the next report that is due now Mr. Locey will correct the IBNR figure and send the Excel file to members for review. He asked if submission of the report will include why and how numbers have been changed since the last submission. It was agreed that a formal letter should be prepared that explains the change is in how the numbers are being reported.

It was also agreed that an actuarial report will accompany the 2011 year-end report. Mr. Locey asked if the amendment would be made on the Contingency Reserve as well because it is overstated. Mr. Barber recommended that this be done and that it based on premiums and not on total revenue and the deficiency is \$77,000 and not \$114,000. Mr. Locey noted this will require a change in the Audit.

A question was raised on how to report the interest accrued on the Capitalization Reserve that has been accrued as an expense and a liability. Mr. Barber said members of the Consortium understand that the Contingency Reserve has to be met and the only way to do that was by cash that was put into it. They are expecting at some point in time when there is enough cash reserves to be paid back. They are also expecting that if there is not enough reserves that they will receive an assessment and this is something he would like to avoid.

Mr. Locey will have an amended quarterly report into the Department by the end of next week with the actuarial report. He will e-mail the Excel file tomorrow to members that was used to build the second quarter report with revisions. It was also agreed Mr. Locey will send Mr. Mickelson the first two quarter reports so he can review and assure that information being reported is consistent. Mr. Locey said if the surplus calculation is being changed there will also have to be a re-filing of the year-end report that will included the Audit report being revised to reflect this information. The Audit will be pulled from the website and reposted when revised. Mr. Locey will re-circulate the annual report to ensure everyone is in agreement with its content.

### **Adjournment**

The meeting adjourned at 3:03 p.m.