

Greater Tompkins County Municipal Health Insurance Consortium
Finance Committee

Wednesday, July 23, 2013 - 9 a.m. (RESCHEDULED)

Old Jail Conference Room

Agenda

1. Call to Order
2. Approve Minutes of June 18, 2013 meeting
3. Update Budget Information
4. Premium Equivalent Rate Setting
5. Adjournment

Minutes
Greater Tompkins County Municipal Health Insurance Consortium
Finance Committee
June 18, 2013 – 9 a.m.
Old Jail Conference Room

Draft

Present: Don Barber, Liz Karns, Mack Cook, Jared Pittman, Glen Morey
Staff and guests: Steve Locey, Rick Snyder, David Squires, Michelle Pottorff

Call to Order

Mr. Baber called the meeting to order at 9:05 a.m.

Approval of Minutes of May 21, 2013

It was MOVED by Ms. Karns, seconded by Mr. Morey, and unanimously adopted by voice vote to approve the minutes of May 21, 2013.

Mr. Barber referred to discussion that took place at the last meeting and asked who would be following-up with the municipalities that are using ancillary benefits. Mr. Locey said he would assume this responsibility.

Budget Review

Mr. Locey distributed preliminary budget results through April 30, 2013. The Consortium is approximately 7.71% above budget on medical plan premiums; this is predominantly because the budget was set before it was confirmed that the City of Cortland and Town of Lansing were joining. Total year-to-date income is 17.80% above budget. On the expense side of the budget the medical claims were 4.18% under budget; however in May they were slightly over budget. Mr. Locey said he will look into Medical Admin (Excellus) Fees as they are 16.53% higher than budgeted; however, Mr. Squires explained the June fee was paid in May. He reviewed the other expense lines, noting that the consultant fees were above budget due to the contract with the Bonadio Group and Audit Fees were significantly above budget due to the New York State Department of Financial Services Audit. Total expenses were 6.26% below budget which was predominantly claims. The net income year-to-date was \$2.8 million and the ending balance was \$9.4 million.

Mr. Locey distributed a 2011-2013 Paid Claims Development Model and noted that the Consortium is averaging \$1.5 million per month in claims. He called attention to the last three months with total claim payments in the amounts of \$2.1 million, \$1.68 million, and \$2.2 million. Some of this has to do with the City of Cortland claims becoming mature but they are up from where they were expected to be. Overall, expenses are \$1.66 below budget and the net income is \$3 million year-to-date which is quite higher than was anticipated. This leaves an ending balance of \$9.6 million which does not include the advance deposit at the Blues. The current level of the advance deposit was \$798,600; with the addition of the City of Cortland and Town of Lansing they are saying it needs to be \$908,100 which is a difference of \$109,000 but have not yet invoiced the Consortium for this amount.

Mr. Locey said in developing the budget they typically begin with the expense side of the budget to develop paid claims expectations and fixed costs. He distributed 2013 Paid Claims Budget versus Actual Results and stated the Consortium is 2.1% under budget in terms of total budgeted versus actual results. In May, however, the Consortium is \$418,000 above budget. Based on this he would like to be conservative while budgeting until a couple more months of mature claims are received with the City of Cortland and Town of Lansing built in. He said the

cumulative variance as of May 2013 is \$1,256,567. One of the things that should be talked about in terms of plans for going into 2014 is if the Consortium wants to begin reimbursing the initial assessment municipalities made and at what level.

Mr. Locey said prescription drug expenses are much more predictable than medical expenses; one reason is because many people are on maintenance medications. He also said specialty drugs are beginning to influence costs more. Ms. Karns asked if ProAct provides a report on specialty drugs. Mr. Locey said the Consortium does receive a report and he can share that. Ms. Karns said if it turns out that there is a group that has an increasing use of specialty drugs it is because of prescriber habits and this is something ProAct should be working on. Mr. Locey said the average generic prescription costs \$15; brand name drug is \$90-100 per month; and the average specialty drug is over \$1,700 per month.

Mr. Locey distributed 2013 budgeted versus actual results. At the present time the Consortium is 12.98% below budget on prescription drug expenses and 2.27% below budget overall. Upon a suggestion of Mr. Squires, Mr. Locey said he will check on the status of a pharmaceutical rebate from Medco.

Mr Barber said the Consortium had budgeted fully for the City of Cortland and the Town of Lansing noted it has now gone over in the paid claims. Mr. Locey said they are watching this and would recommend being conservative in next year's budgeting. He believes this the result of a couple of large losses and noted there may be some Stop Loss payments that may be received yet.

Mr. Locey distributed information showing trending data and said there are historical periods of times where claims were elevated; he also noted that in May in almost every period there is a spike. At this time the Consortium is a little over 5% inflationary trend just in terms of medical and prescription drug claims collectively. Mr. Squires asked how the 5% compares. Mr. Locey said this is average for most of their municipal groups in terms of average on inflationary trends on claims. In terms of a basis of comparison for health insurance premiums, the national average was 9% this year.

In looking at where the Consortium has been historically and where it is headed Mr. Locey reviewed the following assumptions for 2014 to 2016 fiscal years:

1. Premium revenue increased by 9.5%
2. Interest income – 1% of beginning balance
3. Prescription Drug Rebates - \$250,000
4. Paid Claims trend – 8.85%
5. Administrative Fees per agreement with Excellus BCBS then increased by 3% per annum
6. NYS Graduate Medical Expense increased by 5%
7. Specific Stop-Loss Insurance increased by 20%
8. Aggregate Stop Loss Insurance increased by 5%
9. Surety Bond Fee/Loan interest estimated at 3% of principle balance
10. All other fees increased by 3%
11. Capitalization repayment includes annual interest of 3%
12. Beginning balance and ending balance includes Advance Deposit held at Excellus BCBS as a pre-payment of claims (\$798,000 as of 12-31-2012)

Mr. Locey spoke of catastrophic claims and said the Consortium will have them but there is no way to know when and they are typically not carved out of the claims expense. There

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was discussion of the Stop Loss insurance and Mr. Squires said he predicts the cost at a minimum will double. Mr. Locey said there is the option to raise the deductible but he doesn't expect it ever to go back to where it was. The Consortium currently uses Highmark but there are other carriers in the market. He also noted that some of the higher losses in the Consortium seem to be higher than what they see in other areas. **Upon a suggestion by Ms. Karns that this be an area included in audit discussions, Mr. Locey will bring a report on Stop Loss tracking report back at the next meeting.**

During a review of the preliminary budget projections, Mr. Barber asked that Mr. Locey follow-up with Excellus to see what the Admin. Fees are budgeted much higher. Mr. Locey will include a separate line for State Audit expenses.

Mr. Locey said in terms of a revised budget the net income is higher than anticipated and will give an ending balance of approximately \$10 million, leaving an unencumbered balance of over \$4 million. At this point the Consortium may have the ability to pay out the initial assessment. He said with that and a 9.5% increase in premium they are anticipating a surplus of \$1.5 million for the year which would still provide the Consortium with an unencumbered balance of approximately \$6 million. Mr. Barber said there should be discussion of what other reserves the Consortium should have. Mr. Locey suggested the Consortium should have a catastrophic reserve for those times when claims are exacerbated. Mr. Barber said if the Consortium were to increase its retention with the Stop Loss there should also be an anticipated increase in claims costs. Mr. Locey agreed because it would be less exposure for the insurance company and a lower premium cost. Mr. Barber said in order to make that calculation the Consortium should have a history; Mr. Locey agreed and will build in a number. For 2014 he hopes to keep the rate increase down to 8 to 8.5%, pay back the Capitalization investment, and start with a small catastrophic claims reserve (approximately \$500,000).

Mr. Barber said when there is discussion with the Board and members about premiums there needs to also be discussion about a reserving policy and why the small risk pool warrants being fairly conservative. He stressed it is important when talking about the Premium Equivalent Rate that it is much easier in the long-run to increase premiums than to assess members. **Mr. Locey will provide members with definitions of all reserving categories and logistics and procedures for using them.**

Mr. Locey said the next time the Committee meets he would like to go through the medical plan premium, show the Committee all of the rating categories by census count and show how the premium equivalent rates will tie into the numbers for next year based on the differentials and people in each category and group. **Ms. Karns asked that this information be provided ahead of the meeting.** He said the Premium Equivalent Rate has nothing to do with the amount the plan costs the Consortium but is a way for the Consortium to bill and receive revenue.

At the next meeting the Committee will discuss Premium Equivalent Rates development. Mr. Barber suggested members review the assumptions presented by Mr. Locey in 2014 budget development. Mr. Locey will build in a Catastrophic Claims Reserve of 2% of paid claims (approximately \$500,000). Mr. Locey will contact the Stop Loss carrier to obtain a preliminary renewal estimate. Ms. Karns suggested Mr. Locey check with the Teamsters about options for the ancillary benefits. Mr. Locey will send her the Medco utilization report to review in response to her questions concerning pharmaceutical rebates. Mr. Locey will develop proposals for paying back the Capitalization investment.

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Meeting Schedule

The Committee agreed to meet the 3rd Tuesday of each month at 9:00 a.m.

Adjournment

The meeting adjourned at 10:30 a.m.