**Joint Meeting**

Approved 7-17-2014

**Audit and Finance Committees**

**June 19, 2014**

**1:30 p.m.**

**Old Jail Conference Room**

Present: Steve Thayer, Judy Drake, Scott Weatherby, Chuck Rankin, Laura Shawley, Jared Pittman, Glen More, Peter Salton, Mack Cook, Rick Snyder, Steve Locey

**Call to Order**

 Mr. Thayer, Chair, called the meeting to order a 1:34 p.m.

**Approval of Minutes**

 The minutes of the May 15, 2014 Audit Committee meeting were approved unanimously as presented. The minutes of the May 20, 2014 Finance Committee meeting were approved with Mr. Salton abstaining. MINUTES APPROVED.

**Financial Report**

 Quarterly Financial Report

 Mr. Locey reported the first quarter report ending March 31, 2014 was submitted to the State prior to the deadline and all of the information was in good order and showed a slight positive income.

 Preliminary Budget Projections for 2015

 Mr. Locey distributed Treasurer’s Report Data through May 31, 2014. He called attention that at the end of the period net income is being shown of almost $2 million year-to-date. The next report showed budgeted versus actual data. He pointed out that premium income is down a little (2.5%) and he will be looking into this further to see if it is a census issue, the result of a negotiated change, or combination thereof. On the expense side the Consortium is on budget with claims; medical claims are on budget and prescription drug claims were slightly over budget; however, there was a five payment month. Overall, expenses are 2% below budget.

 Based on the information provided for the first five months of 2014 Mr. Locey said preliminary numbers were run for preparing a budget forecast for the 2015-2017 years. He reviewed the following assumptions that were used in preparing those figures:

* 1. Premium revenue increased by 5.0%
	2. Interest income = last two years average;
	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 GME 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%; and
	12. Beginning balance and ending balance includes advance deposit held at Excellus BCBS as a pre-payment of claims ($798,600 as of 12-31-2012)

With regard to the Affordable Care Act and the Transitional Reinsurance Fee, Mr. Locey stated this was originally supposed to be paid in 2014, 2015, and 2016, however, the Federal government recently announced that self-insured plans only have to pay this in the first year.

 Ms. Drake called attention to projected figures for the net income in 2016 and 2017 and said they are slightly negative figures. Mr. Locey said this is correct and noted it is expected there would also be a good unencumbered balance at that point. He said one of the discussions that should take place is at what level does the Board want this to be and how and when to address this. He said the easy way to do this is through budget and rate because all of the funds included are not from one source.

 Discussion of Reserves

Mr. Locey said there should also be a discussion of the reserves and whether changes should be made to the Stop Loss deductible and an increase in the catastrophic claims reserve. He said there are reserve accounts the Consortium is statutorily required to have – the IBNR Reserve and the Surplus Account. The Catastrophic Claims Reserve was established this year and was originally established at two percent of claims and is approximately $600,000 for the year). He said the Board could choose to raise the Stop Loss deductible to reduce the premium and take on more responsibility that would be absorbed through the Catastrophic Claims Reserve. Mr. Locey said they recommend to other clients that they maintain a Rate Stabilization Reserve of 5-10%. Mr. Thayer said consideration should be given as to whether the Consortium should adopt a formal Reserve Policy.

There was discussion of the Unencumbered Fund Balance and Mr. Rankin said he would like a minimum unencumbered target balance.

Mr. Snyder questioned the showing of the prescription drug rebates as income and also again as an RX rebate credit. Mr. Locey said this will be adjusted so that it will only show up as income.

PCORIF Fees

Mr. Locey distributed information on PCORIF (Patient Centered Outcome Research Institution Fees). He said there is a process the Consortium needs to go through before July 31st to pay the federal government a $2.00 per covered life fee for the year. This fee is basically an excise tax has to be paid through 2019. It has been sent to the Consortium Treasurer and Auditor, CDLM.

It was MOVED by Mr. Cook, seconded by Mr. Salton, and unanimously adopted by members present, to authorize payment of $10,178 for PCORI fees subject to final review by the auditors. MOTION CARRIED.

Reserve Investment Strategy

Mr. Locey said he received information from PFM Management Assets LLC stating they could help the Consortium by having the Consortium invest with them out of the reserve funds and earn a higher return on those monies. This raised the question of whether the Consortium would be permitted to do this since it is an organization of municipalities and if it subject to General Municipal Law or New York State Insurance Law for financial management of the Consortium. After looking into this the following opinion was issued by John Powers of Hancock Estabrook, LLP, the Consortium’s legal counsel:

 “We have reviewed relevant sections of the insurance law and general municipal law, as well as opi9nion letters from the New York State Department of Financial Services, and have not found any support for the position that PFM Assets Management, LLC may invest the Consortium’s reserve funds under the more liberal investment rules provided for in Article 14 and 43 of the New York State Insurance Law.”

 Mr. Locey said the General Municipal Law requires a guaranteed return on investment. There is an Office of General Council information dated August 1, 2003 that he will forward to the Committee.

 Enterprise Risk Management

 Mr. Locey reported on this outstanding item from the New York State Audit and said he conducted some research on this topic and does not believe the Consortium has to comply with this. He asked if the Committee wanted to get a formal opinion from John Powers or send a letter to the New York State Department of Financial Services explaining why we don’t believe it applies to the Consortium. The Committee did not wish to take any further action on this matter at this time and asked that the information remain on file in the event that this is included in the final audit report from the State. If a comment is included in the final audit report it can be addressed at that time.

**Report on State Tax Freeze**

 Mr. Cook reported as part of the 2014 State Budget municipalities are required to comply with a tax freeze which requires local governments to who a one percent savings in 2016, 2017, and 2018 through cost sharing arrangements. The questions that have arisen relate to how this will be documented, measured, and met. According to the latest information he said the municipalities can use the Consortium as a group to comply with savings requirements and it should be large enough to meet the requirements and protect the rebates going back to residents. The look-back period was originally a year but will now be since 2008 which was the beginning of the recession and includes the origination of the Consortium.

 Mr. Cook said the savings will be measure on the aggregate of the group and not by individual municipalities. This may be an opportunity for the Consortium to be of value to local governments in an area more than just providing effective and efficient health care. Mr. Locey said the net income that has been generated and is proportionately owned by the members is an asset and could be shown as a positive outcome in addition to the difference in premium. He will continue to work on this and will report back.

**Award of Contract for Medical Claims Auditing Services**

 The Committee reviewed information relating to the responses to the Request for Proposals for Medical Claims Auditing Services. Mr. Locey would like the work completed this year so that a decision can be made in 2015 about a prescription claims auditor with the goal to have audits done every two years.

 It was MOVED by Mr. Rankin, seconded by Mr. Thayer, and unanimously adopted by voice vote by members present, to award a contract for medical claims auditing services to BMI. MOTION CARRIED.

**Recertification Process**

 Mr. Locey distributed sample information from a school consortium on a recertification process timeline. Although slightly different there are many similarities. Items that will need to be considered include:

* + Who will send out letters; will it be each municipality, Excellus? It can still be on Consortium letterhead even if sent out by Excellus. If it will be done by each municipality on their letterhead template letters will need to be developed and provided to municipalities;
	+ An upfront notification to employees should be provided with an opportunity to provide information that would include an amnesty-type period;
	+ An appeals process; and
	+ Reporting process for informing the Board of Directors;

Mr. Locey said the Committee had indicated it wanted to have the grace period ending at the end of February, 2015 (information should be distributed before the holidays), and the deadline for termination from a policy would be May 1, 2015.

 Mr. Salton said each employer should be able to do this and would prefer to not have Excellus do this.

 Ms. Drake said this was raised during recent meetings that she and Beth Miller had with each of the health insurance clerks in municipalities. They heard from them that they want a letter from the Consortium saying that this is Consortium-driven. They also questioned how the information would come back to the Consortium from the municipality. At the end of the process the Consortium will also want to know about the information municipalities found including how many people were on who shouldn’t have been on to qualify whether this process was worthwhile to do. Mr. Locey said Excellus will be able to provide information about how many were added to or removed from policies but municipalities will know how many were the result of this process. She noted no one objected to individuals being terminated at the end of the process if information was not provided.

 Mr. Locey will work on developing a draft timeline and process letters.

Merging of Audit Committee and Finance Committee

 The Committee agreed to merge the Audit Committee and Finance Committee into the “Audit and Finance Committee” with seven members having staggered terms. The Chief Elected Official and a labor representative shall have a seat and five additional members shall be appointed. The following individuals agreed to serve: Glenn Morey, Laura Shawley, Peter Salton, Mack Cook, and Chuck Rankin. The Committee established a meeting schedule of the third Thursday of each month at 1:30 p.m. in the Old Jail Conference Room. Ms. Pottorff will draft a resolution for consideration by the Board of Directors that will be circulated to members prior to inclusion in the Board agenda packet.

**Pro-Rated Monthly Premiums**

 Mr. Snyder raised an issue about pro-rated monthly premiums. He said there have been times where there are arbitrary cut-offs where an employee is on or off of a policy for an entire month. He said he has not heard any complaints about this; however, Lisa Christian in the Finance Office has had questions. Ms. Drake said if someone starts mid-month a question has been raised as to whether they are billed for a premium for the entire month. She said municipalities appear to treat this differently and there are some municipalities that have employees that leave mid-month and they remain on the policy through the end of the month. Excellus had concerns about this because it extends the Consortium’s liability for the remainder of the month. This has raised issues on whether premiums should be pro-rated or charged for a full month. There may be a need to establish a policy that is consistent for all members.

 Ms. Drake will draft a survey that will be discussed at the August meeting.

**Adjournment**

 The meeting adjourned at 3:14 p.m.