



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."

2017 Greater Tompkins County Municipal Health Insurance Consortium Annual Report

May 2018

The Greater Tompkins County Municipal Health Insurance Consortium (the Consortium) closed out 2017 in a strong financial position. Throughout our seven years of operation, we strove to provide security for our subscribers and premium stability for our municipal members. The Consortium's Board of Directors, claims administrators (Excellus and ProAct), and consultants work together to create a lean organization and provide quality services.

There is not a more efficient model for health insurance in New York State. Since its inception, the Consortium has operated at 93% efficiency, meaning that 93% of expenses are directed to pay subscriber claims. State agencies are touting our success as a model for local governments to save taxpayers money through shared services mechanisms. And municipalities within our seven-county region are taking notice by applying to join.

With our medical claims administrator, Excellus, we are working collaboratively on processes, such as online enrollment, to improve service quality and reduce inefficiencies in the system. Likewise, ProAct, our Prescription Benefits Manager, is also a great partner. ProAct facilitated the 2017 introduction of money-saving CanaRx to our subscribers. And they continue to offer complete pass-through of prescription rebates from manufacturers of certain preferred brand name drugs within the ProAct formulary.

The Consortium is a self-funded and self-insured Article 47 municipal cooperative which writes medical and prescription drug health insurance benefit plans, collects premiums, and pays medical and pharmaceutical claims for its covered members. The Consortium began its operations in 2011 with thirteen municipal partners. With the 2017 addition of the Town of Newfield (Tompkins), Town of Homer (Cortland), and County Towns of Owasco (Cayuga), the Consortium now has thirty-one (31) municipal partners and five labor Directors; covering approximately 2,400 employee and retiree contracts with more than 5,100 covered lives.

Operations Highlights:

- In 2017, the Consortium collected \$40.8 million in premiums and paid \$38.4 million in total expenses, resulting in \$2.5 million net income (\$3.8 million over budget). This budget surplus comes from \$1 million over budget in prescription rebates and \$2.5 million under budget in combined medical and pharmaceutical claims.
- With a strong fund balance from this additional net income, the Board approved a relatively small 4% premium rate increase for 2018 (compared to 10% rate increases in the private health insurance sector). In addition, we increased the Catastrophic Claims reserve from \$1.05 million to \$1.35 million.
- The Consortium continues to be the model for operational efficiency, with claims costs at 93% of total expenses.
- Three towns joined the Consortium in 2017: Homer, Newfield, and Owasco.

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- The Consortium received a waiver from the NYS Department of Financial Services for the mandated purchase of Aggregate Stop-Loss Insurance. This will save the Consortium approximately \$80,000 in 2018.
- For the fourth year, the Consortium offered flu clinics at six worksite locations. 1,444 of our subscribers (28%) received vaccines, 10% more than in 2016.
- The Consortium developed a working arrangement with CanaRx for a \$0 copay of certain 90-day maintenance brand name medicines.
- The Consortium held its fourth educational retreat on Subscriber Choices and Impact. Video of this presentation is available on the website.

Committees:

The Consortium's Board of Directors is supported by standing and special committees that perform in-depth research and deliberation of opportunities for and concerns to the Consortium. These committees propose policies, products, and process improvements to benefit the operations, services, and financial position of the Consortium.

- The Audit and Finance Committee is chaired by CFO Steve Thayer. In 2017, in addition to its annual task of developing the next year's budget and premium rates, this committee negotiated, for both Excellus and ProAct, contract extensions and completed the claims audit process. The committee also spent several hours discussing our Stop-Loss insurance policy terms. This committee collaborates closely with Steve Locey, Benefit Plan Consultant, and Rick Snyder, Treasurer, to monitor the budget and spending trends and maintain adequate reserves.
- The Owning Your Own Health Committee is chaired by Ted Schiele. This committee assisted ProAct in creating worksite flu clinics, and their hard work resulted in a 10% increase in subscriber utilization of flu vaccines in 2017. They also developed a proposal for adding a Wellness Consultant to the Consortium's support team, and the search process has begun.
- The Joint Committee on Plan Structure and Design is chaired by Board of Director's member Olivia Hershey. This committee reviews claims utilization data and makes recommendations for changes to benefit plans. In 2017, the Gold Plan's benefit structure was reviewed due to changes in federal law, and the Joint Committee recommended changes to keep the Gold Plan into compliance with government's High Deductible criteria. The Joint Committee researched telemedicine opportunities and decided to not recommend adding this service to the Consortium at this time. The committee found that telemedicine products are still evolving. Finally, the Joint Committee conducted an in-depth review of both Excellus and ProAct websites and member services.
- The Governance Structure Committee was chaired by Board of Director's member John Fracchia. This special committee was created in 2017 by the Board of Directors to help them evaluate and guide discussions about our current governance model. With a significant increase in municipal member partners from 13 at inception to 28 now, the Governance Structure Committee engaged the Board in discussions about several different models for governance. No change was recommended at this time.
- The Website Committee is chaired by Ted Schiele. This special committee was created in 2017 to evaluate our website. The committee suggested that the website be de-coupled from the Tompkins County website due to growth beyond that county. They secured a new domain name, <http://healthconsortium.net>, and are now focusing on website design. The goal is to introduce the new website in 2018.

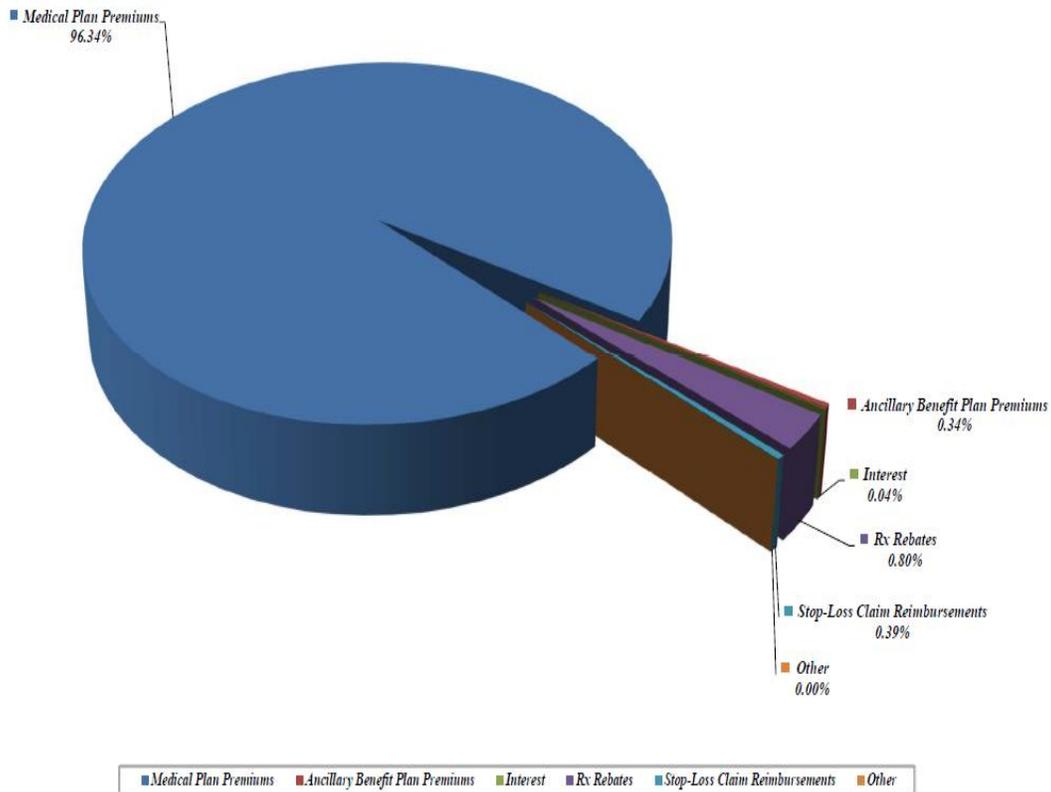
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Financial Highlights:

Revenue Overview

| | 2017 | 2016 | 2015 |
|-----------------------|----------------------|----------------------|----------------------|
| Premiums | \$ 40,774,492 | \$ 38,519,955 | \$ 37,587,353 |
| Other revenues | 145,643 | 131,974 | 128,523 |
| Interest earnings | 17,702 | 16,533 | 13,526 |
| Total Revenues | \$ 40,937,837 | \$ 38,668,462 | \$ 37,729,402 |

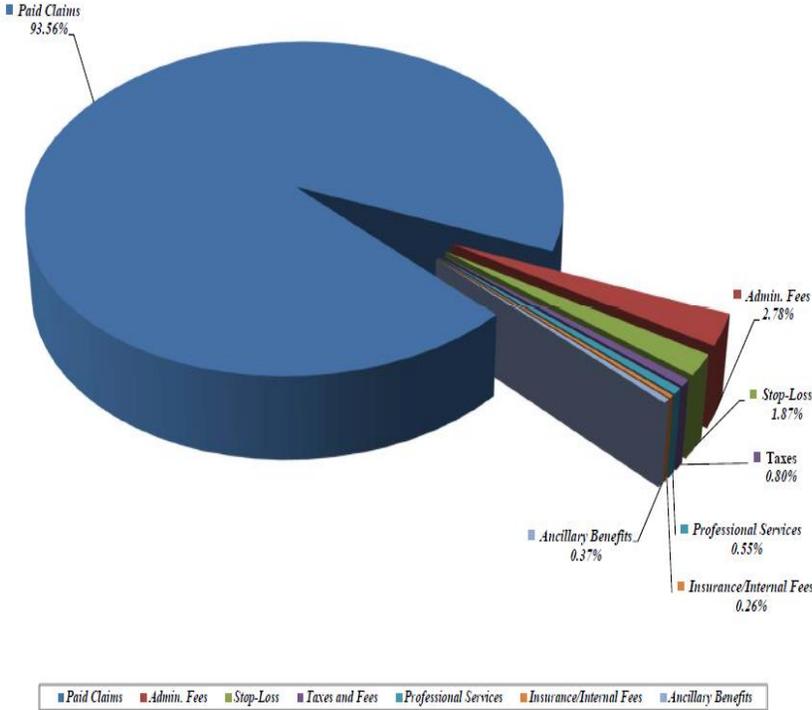
Greater Tompkins County Municipal Health Ins. Consortium
2017 Income Distribution
January 1, 2017 to December 31, 2017



Expense Overview -

| | 2017 | 2016 | 2015 |
|---|----------------------|----------------------|----------------------|
| Claims expense | \$ 35,828,612 | \$ 34,999,888 | \$ 28,750,405 |
| Administrative fees (3 rd party) | 1,105,738 | 1,046,447 | 1,003,466 |
| Other expenses | 691,524 | 657,464 | 610,589 |
| Reinsurance expenses, net of recoveries | 771,527 | 692,329 | 706,517 |
| Total Expenses | \$ 38,397,401 | \$ 37,396,128 | \$ 31,070,977 |

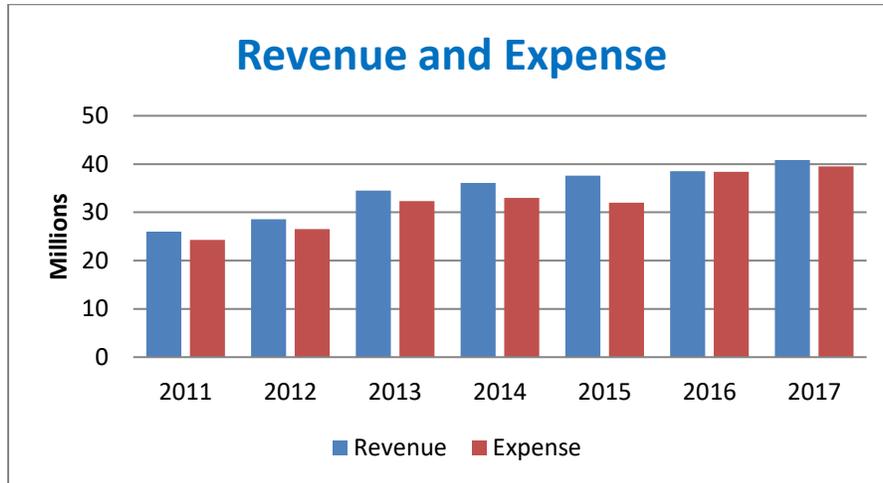
Greater Tompkins County Municipal Health Ins. Consortium
 2017 Expense Distribution
 January 1, 2017 to December 31, 2017



The expense summation above shows a very efficient structure with 93% of expenses going to pay claims in 2017.

Net position:

For the year ending December 31, 2017, the Plan’s net position has increased by \$2,322,672 to a new total of \$21,323,957. These graphics display annual total revenue and expense. The years where revenues exceed expense, the Consortium increases its net position.



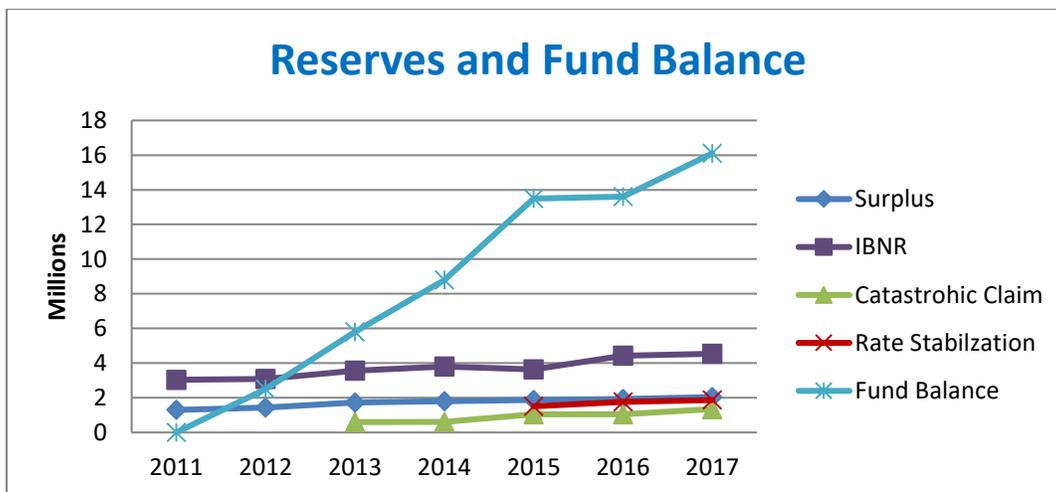
Reserves:

The Consortium establishes adequate reserves to provide security for subscribers and municipal members for the foreseeable future. The Consortium has statutory Surplus and Incurred But Not Reported Reserves (IBNR) of \$2,038,725 and \$4,540,654 respectively. The Consortium also has elective Catastrophic Claims (\$1.35 million) and Rate Stabilization (\$1.8 million) Reserves.

In 2013, the Board of Directors established a Catastrophic Claims Reserve of \$600,000. This reserve was established to provide resources for the risk of an abnormal number of high-cost claims at the time when the specific stop-loss insurance deductible was increased from \$250,000 to \$300,000 per specific claim. Since 2013, the specific stop-loss deductible has been gradually increased to mitigate stop-loss premium growth (see “Specific Stop-Loss Insurance” below). The Board has simultaneously increased the Catastrophic Claims Reserve from excess funds. For 2017, the Board increased the stop-loss deductible to \$450,000 and the Catastrophic Claims Reserve to \$1,350,000.

Because of our positive financial position, the Board of Directors has further strengthened the Consortium’s long-range financial picture by establishing a “Rate Stabilization Reserve” set at 5% of the expected claims cost for the year. This reserve is available to protect the cash flow position of the Consortium should we have a year when claims cost exceed the budget prediction. The 2017 Rate Stabilization Reserve equals \$ 1,868,819.

This graphic displays the Consortium’s Reserves and Fund Balance (funds available that are not committed to a Reserve).



Economic Factors Affecting the Future:

Specific Stop-Loss Insurance

New York State Law, Article 47, requires the Consortium to purchase insurance so that all claims, no matter the amount, will be paid. This insurance is called Stop-Loss and covers all claim expense above the agreed deductible. Prior to the start of the 2017 Fiscal Year, the Consortium renewed its specific stop-loss insurance and increased the deductible level to \$450,000. This increase in the deductible level is intended to manage the premium increase at a reasonable level. Recognizing the increased risk of this decision, the Board chose to increase the Catastrophic Claims Reserve to \$1,350,000 during the 2017 Fiscal Year.

During deliberations of the Audit and Finance Committee regarding the stop-loss insurance deductible amount for 2018, the Committee reviewed the complete history of large-loss claims (over \$100,000) since inception and determined that increasing the deductible to \$600,000 was an acceptable risk. This will result in a lower Stop-Loss Insurance premium for 2018 than was budgeted. The Audit and Finance Committee further determined the Catastrophic Claims Reserve of \$2,000,000 was adequate for the 2018 Fiscal Year. This is an area which will be reviewed by the Board of Directors on an annual basis to ensure a tolerable balance is achieved between risk and the cost of stop-loss insurance.

Aggregate Stop-Loss Insurance

We are very pleased to report that the New York State Department of Financial Services has granted the Consortium our requested waiver for the requirement to purchase Aggregate Stop-Loss insurance. The Department of Financial Services agreed that the waiver does not create a substantive risk to the Consortium or its members because the Consortium maintains adequate reserves and fund balances which protect our financial integrity. This action reduced the Consortium's expenses by nearly \$80,000 per annum, beginning in 2018.

Incurred But Not Reported (IBNR) Claims Liability Reserve

The Consortium continues to see a decrease in the IBNR estimate as determined by the Consortium's actuaries, Armory Associates, LLC. At the close of the 2011 Fiscal Year, the Consortium's calculated IBNR was 10.15% of paid claims. The IBNR calculation for 2017 was 7.69%. While this does not directly impact the mandated 12% of actual paid claims reserve required by the NYS Department of Financial Services, it does provide creditable data demonstrating that the IBNR Reserve at 12% level is very conservative and amply protects the Consortium for its claims liability.

Patient Protection and Affordable Care Act

The Affordable Care Act's (ACA's) Patient Centered Outcomes Research Institute (PCORI) Fee has now ended and will not impact the Consortium's financial performance going forward. However, it did cost the Consortium a total of \$674,596.00 in premium dollars.

The Board of Directors is keeping a close eye on the effects of the potential dismantling of some or all of the Patient Protection and Affordable Care Act. The fees and taxes paid in the 2014 to 2016 Fiscal Years equaled 0.63% of the more than \$112 million in premiums that was collected by the Consortium. Although these fees have declined substantially with the sunset of the Transitional Reinsurance Program, the Board wants to be sure to be in an excellent position to deal with any changes that could negatively impact the finances of the Consortium.

Escalating Cost of Prescription Medications

Another area which has drawn the attention of the Consortium's Board of Directors is the significant increase in the cost of prescription medications on a per-fill basis. The cost per fill for 2016 was 17% greater than 2015. These increases are being seen across all tiers of medications with significant growth in specialty pharmaceuticals purchased by covered members. The cost per fill of specialty medications increased 29% between 2015 and 2016. The Board was informed that much of this increase was in claims for hepatitis

medicines which can only be given once and will not recur. However, the paid claims trend associated with the pharmaceutical benefits paid by the plan continue to experience significant growth.

In 2017, the Board of Directors did approve CanaRx as a pharmacy for our subscribers to use for 90-day maintenance medications that are on the CanaRx formulary (managed in conjunction with ProAct). Subscribers contract directly with CanaRx for their prescriptions, which are made in and shipped from Canada, the United Kingdom, New Zealand, and Australia. These pharmaceuticals have \$0 copay for the subscriber and in aggregate save the Consortium 35% over U.S. made drugs. The Board of Directors will continue to work with ProAct and our other advisors to find actions that mitigate the growth of cost increases for pharmaceuticals.

Monitoring Claims Adjudication

The Board annually contracts with a third party to audit the hospital, medical, and surgical claims adjudication practices of Excellus and the pharmaceutical claims practices of ProAct on alternating years. This effort ensures that all claims are being adjudicated according to our plan documents and with proper medical and clinical oversight.

Communication and Informing

The Consortium publishes a quarterly newsletter that is distributed to employees and retirees with the latest information about Consortium activities and milestones as well as helpful hints on proactively accessing the health care system. You can find these newsletters archived on the Consortium's website: www.healthconsortium.net.

The Board holds an annual education retreat each May to help subscriber and members become more informed about the business we are managing. You can find videos of the previous four retreats on our website.

Finally, as previously mentioned, a subcommittee of the Board is working on our website redesign to make it more user- and mobile device-friendly.

Preventive Health Care

The Consortium's vision is to create a culture of preventative health care. To that end, the Board annually conducts on-site flu clinics and has established a biometric screening wellness program with our "metal" plans. According to Excellus, the percentage of Consortium subscribers that receive flu vaccines far exceeds other groups in our area. Also, over 80% of our subscribers have a Primary Care Physician which is critical for one to proactively manage one's health. Healthy subscribers have lower claims cost. Preventative health care is the next frontier for containing claims expenses.

Statement of Position

Greater Tompkins County Municipal Health Insurance Consortium
Statements of Net Position - December 31, 2017

| | 2017 | 2016 |
|---|-------------------|-------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$18,905,139 | \$17,270,389 |
| Accounts receivable - stop loss and drug rebates | 406,929 | 166,253 |
| Premiums receivable | 472,607 | 45,226 |
| Prepaid expenses | -0- | 64,491 |
| Total Current Assets | <u>19,784,675</u> | <u>17,546,359</u> |
| OTHER ASSETS | | |
| Noncurrent Assets: | | |
| Premium claims deposit | 526,300 | 527,500 |
| Restricted cash and cash equivalents | 6,220,147 | 6,217,037 |
| Total Other Assets | <u>6,746,447</u> | <u>6,744,537</u> |
| Total Assets | <u>26,531,122</u> | <u>24,290,896</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Incurred claims liability | 4,540,654 | 4,430,732 |
| Accounts payable | 494,991 | 497,510 |
| Unearned revenues | 161,520 | 361,369 |
| Total Current Liabilities | <u>5,207,165</u> | <u>5,289,611</u> |
| Total Liabilities | <u>5,207,165</u> | <u>5,289,611</u> |
| NET POSITION | | |
| Restricted | | |
| Restricted for contingency reserve - Section 4706(a)(5) | 2,038,725 | 1,925,998 |
| Subtotal | <u>2,038,725</u> | <u>1,925,998</u> |
| Board Designated Catastrophic claims reserve | 1,050,000 | 1,050,000 |
| Rate Stabilization Reserve | 1,868,819 | 1,758,496 |
| Subtotal | <u>3,218,819</u> | <u>2,808,496</u> |
| Unrestricted | 16,066,413 | 14,266,791 |
| Net Position | <u>21,323,957</u> | <u>19,001,285</u> |

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Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2017

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Operating Revenues: | | |
| Premiums | \$40,774,492 | \$38,519,955 |
| Aggregate write-ins for other revenues | 145,643 | 137,065 |
| Total Operating Revenues | 40,920,135 | 38,657,020 |
| Operating Expenses: | | |
| Claims expense | 35,828,612 | 34,999,888 |
| Reinsurance expenses, net | 771,527 | 692,329 |
| Administrative fees | 1,105,738 | 1,046,447 |
| Aggregate write-ins for other expenses | 538,103 | 523,450 |
| Total Operating Expenses | 38,243,980 | 37,262,114 |
| Excess of Operating Revenues | | |
| Non-operating Revenue (Expense): | | |
| Interest earnings | 17,702 | 16,533 |
| Other (expenses) revenues | (135,719) | (117,481) |
| Change in Net Position | 2,540,436 | 1,272,334 |
| Net Position, January 1, | 19,001,285 | 17,827,965 |
| Adjustment for incurred but not reported claims | (217,764) | (99,014) |
| Net Position, December 31, | \$21,323,957 | \$19,001,285 |

Accomplished Goals for 2017:

- Produced quarterly newsletters
- Produced and delivered 4th annual education retreat entitled “Subscriber Choices and Impact”
- Developed benefit changes for the “Gold plans” to maintain it as a High Deductible Plan
- Transitioned eight new municipal partners into Consortium
- Signed contract extensions with ProAct as prescription benefits manager and Excellus as medical claims administrator
- Implemented CanaRx pharmaceutical service for certain brand name maintenance medicines
- Received a waiver from the Department of Financial Services for Aggregate Stop-Loss Insurance requirement, saving the Consortium approximately \$80,000/year

Goals for 2018:

- Respond to recommendations from the Department of Financial Services second audit
- Produce and deliver 5th annual education retreat entitled “Our Health Care Trends”
- Implement Online Enrollment process
- Develop remote meeting access for Board of Directors and committee members
- Implement investment policy to maximize returns
- Continue to seek ways to manage stop-loss premium costs
- Expand wellness culture of subscribers and employers
- Perform strategic planning to address rapid growth
- Develop new website

2017 Board of Directors

- | | |
|--|---|
| 1. Judith Drake, Chair | Town of Ithaca |
| 2. Rordan Hart, Vice Chair | Village of Trumansburg |
| 3. Steven Thayer, Chief Fiscal Officer | City of Ithaca |
| 4. Charles Rankin, Secretary | Village of Groton |
| 5. Amy Guererri | Tompkins County |
| 6. Mack Cook | City of Cortland |
| 7. Alex Patterson | Town of Aurelius |
| 8. John Fracchia | Town of Caroline |
| 9. LuAnn King | Town of Cincinnatus |
| 10. Laura Shawley | Town of Danby |
| 11. Kathrin Servoss | Town of Dryden |
| 12. Ann Rider | Town of Enfield |
| 13. Don Scheffler | Town of Groton |
| 14. Charmagne Rungay | Town of Lansing |
| 15. Thomas Adams | Town of Marathon |
| 16. Alex Patterson | Town of Montezuma |
| 17. Gary Hatfield | Town of Moravia |
| 18. Jim Doring | Town of Preble |
| 19. Gary Mutchler | Town of Scipio |
| 20. David Schenck | Town of Springport |
| 21. Tom Brown | Town of Truxton |
| 22. Richard Goldman | Town of Ulysses |
| 23. Eric Snow | Town of Virgil |
| 24. Alvin Doty, Jr. | Town of Willet |
| 25. Peter Salton | Village of Cayuga Heights |
| 26. Michael Murphy | Village of Dryden |
| 27. Kristen Case | Village of Homer |
| 28. Bud Shattuck | Village of Union Springs |
| 29. Olivia Hersey | Chair, Joint Comm. on Plan Structure and Design |
| 30. Jim Bower | 2 nd Labor Representative |
| 31. Zach Nelson | 3 rd Labor Representative |
| 32. Doug Perine | 4 th Labor Representative |
| 33. Tim Farrell | 5 th Labor Representative |

Consortium website: www.healthconsortium.net

Executive Director: Don Barber, edconsortium@tompkins-co.org

Consortium e-mail: consortium@tompkins-co.org

Respectfully submitted:

Judy Drake
Chair of Board of Directors

Don Barber
Executive Director