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MEMORANDUM

DATE: OCTOBER 7, 2009

**TO: THE GREATER TOMPKINS COUNTY MUNICIPAL
HEALTH INSURANCE CONSORTIUM
BOARD OF DIRECTORS**

FROM: LOCEY & CAHILL, LLC

RE: 2010 FISCAL YEAR BUDGET AND RATES

As you are acutely aware, the Board of Directors of the Greater Tompkins County Municipal Health Insurance Consortium is charged with the duty of approving the Consortium's budget and premium equivalent rates for each fiscal Year. This process must be completed no later than 15th day of October in the year prior to the year in which the budget and rates are to be implemented.

The budget development process includes three major components (revenue, expenses, and liabilities). We have highlighted and reviewed each component below for your reference:

INCOME (REVENUE)

In the first year of operation, the revenue of the Consortium will be almost exclusively derived from the employer, employee, and retiree contributions associated with the premium equivalent rates. We anticipate earning a modest amount of interest income on the reserve funds in the initial year of operation.

In subsequent years, the Consortium will also derive income from other sources, such as prescription drug rebates and stop-loss reimbursements.

Below is a summary of the revenue estimates based on full participation of all of the municipalities who have voted to join the Consortium:

<i>Income</i>	
Premium	\$24,970,712.96
Interest	\$40,000.00
Other	<u>\$0.00</u>
Total Income	\$25,010,712.96

It should be noted that the population includes those members who are currently represented by the Teamsters. If those members choose not to enroll in the Consortium, it would reduce the overall premium revenue by approximately 4.31%. However, it should be noted that there would be a commensurate decrease in the Consortium's expenses associated with these same folks.

The premium revenue is derived from the premium equivalent rates that have been developed for this Consortium by Locey & Cahill, LLC. We have included in the following a summary of the premium equivalent rates for your reference and review:

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Medical Plan Rates

2010 Premium Rates

	<u>Individual</u>	<u>Family</u>
\$10.00 Greater Tompkins County Municipal Health Ins. Consortium	\$420.15	\$909.42
\$15.00 Greater Tompkins County Municipal Health Ins. Consortium	\$414.27	\$896.69
\$20.00 Greater Tompkins County Municipal Health Ins. Consortium	\$406.71	\$880.32
Indemnity Medical Plan (\$50 / \$150 Deductible)	\$433.59	\$939.79
Indemnity Medical Plan (\$100 / \$200 Deductible)	\$428.66	\$929.10
Indemnity Medical Plan (\$100 / \$250 Deductible)	\$428.66	\$925.48
Indemnity Medical Plan (\$100 / \$300 Deductible)	\$428.66	\$925.57
Indemnity Medical and Rx Plan (Comprehensive Plan)	\$331.92	\$718.44

Rx Rates (Two-Tier Co-Payment Structure)

Retail Pharmacy		Mail-Order Pharmacy		2010 Premium Rates	
<u>Generic</u>	<u>Brand Name</u>	<u>Generic</u>	<u>Brand Name</u>	<u>Individual</u>	<u>Family</u>
\$1.00	\$1.00	\$0.00	\$0.00	\$204.93	\$444.17
\$2.00	\$5.00	\$0.00	\$0.00	\$202.15	\$438.15
\$2.00	\$10.00	\$0.00	\$0.00	\$196.61	\$426.14
\$0.00	\$15.00	\$0.00	\$30.00	\$187.87	\$407.20
\$5.00	\$15.00	\$10.00	\$30.00	\$185.58	\$402.24
\$5.00	\$20.00	\$10.00	\$40.00	\$160.65	\$348.19

Rx Rates (Three Tier Co-Payment Structure)

Retail Pharmacy			Mail-Order Pharmacy			2010 Premium Rates	
<u>Tier 1 Generi c</u>	<u>Tier 2 Pref. Brand</u>	<u>Tier 3 Non-Pref. Brand</u>	<u>Tier 1 Generi c</u>	<u>Tier 2 Pref. Brand</u>	<u>Tier 3 Non-Pref. Brand</u>	<u>Individual</u>	<u>Family</u>
\$0.00	\$5.00	\$20.00	\$0.00	\$10.00	\$40.00	178.79	387.51
\$5.00	\$10.00	\$25.00	\$5.00	\$10.00	\$25.00	156.91	340.10
\$5.00	\$10.00	\$25.00	\$10.00	\$20.00	\$50.00	151.14	327.60
\$5.00	\$15.00	\$25.00	\$15.00	\$30.00	\$75.00	145.70	315.80
\$5.00	\$15.00	\$30.00	\$10.00	\$30.00	\$60.00	133.91	290.25
\$5.00	\$20.00	\$35.00	\$10.00	\$40.00	\$70.00	106.27	230.33
\$10.00	\$20.00	\$35.00	\$20.00	\$40.00	\$70.00	103.31	223.91
\$10.00	\$25.00	\$40.00	\$20.00	\$50.00	\$80.00	89.93	194.92
\$15.00	\$30.00	\$45.00	\$30.00	\$60.00	\$90.00	61.39	133.07
20%	20%	40%	15%	15%	40%	67.09	145.41
20%	30%	45%	20%	30%	45%	61.39	133.05
20%	30%	50%	20%	30%	50%	60.88	131.96

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As for the interest income, we have used a very modest estimate which assumes we are going to have an average daily balance for 2010 of approximately \$4,000,000 paying interest of approximately 1%. Given the current market conditions, we feel this is a reasonable number. If the markets improve in the next several months, we will factor those rates into our projections for the 2011 Fiscal Year and beyond.

With the above assumptions in place, we are estimating the Consortium will generate approximately \$25,010,713.00 in total income during the 2010 Fiscal Year. If those employees represented by the Teamsters do not join the Consortium on January 1, 2010, we would expect this number to be reduced to approximately \$23,952,760.00.

EXPENSES

The predominant expense associated with any self-insured medical benefits program is the dollars paid to medical providers and facilities to cover the covered services rendered to covered members (a.k.a. paid claims). In the first year of operation this number is going to be lower than what would be typically expected as the Consortium will only be responsible for those covered services rendered on or after January 1, 2010. Every medical expense incurred on or prior to December 31, 2009 will be the responsibility of the prior insurance carrier at each municipality.

Since the Consortium will only be responsible for claims incurred on or after January 1, 2010 and all participating municipalities will be paying a full premium for January, the Consortium will benefit from the natural lag in expenses in the beginning of the Consortium's operations. In the first couple of months of operations, the paid claim totals will be mitigated due to the time necessary for services to be billed, mail to be processed, claims to be adjudicated, and checks to be cashed. This lag in payments will allow the Consortium to establish its reserve funds and seed its accounts with the necessary cash flow to run this operation.

Based on our analysis of the actual paid claims associated with the County of Tompkins' and the City of Ithaca's (which represent approximately 89% of the total census, premiums, and anticipated claims) current plans, we have developed an estimate for incurred claims to be approximately \$20,700,000. The estimated paid claims total has been estimated to equal approximately \$17,600,000 and that figure is found in the budget summary below:

<i>Expenses</i>	
Paid Claims	\$17,569,409.00
Admin. Fees	\$693,168.00
NYS Graduate Medical Exp.	\$231,883.00
Specific Stop-Loss (Deductible \$225k)	\$259,938.00
Aggregate Stop-Loss (125% Att. Pt.)	\$75,000.00
Legal Fees	\$25,000.00
Consultant Fees	\$50,000.00
Audit Fees	\$5,000.00
Insurances (Directors & Officers)	\$10,000.00
Internal Coordination (Finance)	\$57,000.00
Internal Coordination (Support)	\$43,000.00
Other Expenses	<u>\$5,000.00</u>
Total Expenses	\$19,024,398.00

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All of the expense items noted above are based on our estimate of the costs associated with the Consortium's Plans based on the current population as we know it to exist. As we stated earlier, if those employees who currently participate in the Teamsters Plan do not choose to join the Consortium, this would lower our projected revenue and expenses by approximately 4.31%.

LIABILITIES AND RESERVES

Based on the above, we are anticipating a fairly large net income in the first year of the Consortium's operations. Our estimates indicate that the Consortium will end its first year of operations with approximately \$5,490,000 in net income. This money will be used to establish the required reserve accounts as mandated by Article 47 of the New York State Insurance Law.

These required reserves are defined in §4706 of the New York State Insurance Law as follows:

§4706 Reserve and surplus requirements.

- (1) A reserve for Incurred But Not Reported (IBNR) and Incurred But Not Paid (IBNP) claims set at an amount equal to at least 25% of expected incurred claims and expenses thereon for the current plan year. A qualified actuary can have this amount reduced with proper documentation to, and approval from, the Superintendent of Insurance.
- (2) A reserve for unearned premiums.
- (3) A claim stabilization reserve.
- (4) A reserve for other obligations.
- (5) A surplus account to satisfy unexpected obligations of the plan must be established for groups in excess of 2,000 covered employees and retirees. Said surplus account must be no less than an amount equal to 5% of the annualized earned premium equivalents during the current fiscal year. For groups of less than 2,000 the amount of this account must equal 7% of the annualized earned premium equivalents during the current fiscal year.

At this point in time, it is our professional opinion that the Consortium should only seek to establish those reserves as required by the aforementioned New York State Insurance Law. In future years, the Consortium Board of Directors may seek to establish additional reserve accounts depending on the financial condition of the Consortium and other factors which may effect the need for such additional financial protections.

We are seeking to have the Insurance Department approve the Incurred But Not Reported (IBNR) and Incurred But Not Paid (IBNP) claims reserve at an amount not to exceed 17% of expected incurred claims and expenses for the 2010 Fiscal Year. We have developed estimates using both the 25% and 17% factors so that the Board of Directors can see the impact this reserve would have on the overall financial picture during the 2010 Fiscal Year.

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Liabilities	25% IBNR	17% IBNR
IBNR Reserve	\$5,167,473.24	\$3,513,881.80
Rate Stabilization Reserve	\$1,223,735.45	\$1,223,735.45
Unencumbered Fund Balance	-\$900,897.75	\$752,693.68

As you may note from the above information, having the Insurance Department approve the 17% IBNR Reserve level would provide the Consortium with a positive Fund Balance at the close of the 2010 Fiscal Year. If the Insurance Department requires the 25% IBNR Reserve level, the Consortium is anticipated to be short of its reserve requirements and would either have to raise premium levels by approximately 4% or would have to assess each Municipality its proportionate share of the shortfall.

As a point of information, the City of Ithaca's current plan set-up with Excellus BlueCross BlueShield under the Premium Credit Plan A requires the City to provide financial security to Excellus for the IBNR Reserve Liability. In the 2009 and 2010 renewals from Excellus they set this security amount at less than 10% of the expected incurred claims expense for the City.

We are going to push for approval of an amount which we feel is more in line with the true risk associated with the claims incurred that would be paid should the plan cease operations.

We put forward the above recommendations and estimates for consideration and adoption by the Board of Directors of the Greater Tompkins County Municipal Health Insurance Consortium. As always, we are available to answer any questions you may have relative to the 2010 Fiscal Year Budget and Rates.

We thank you for your time and cooperation.