DFR Testimony on Public School Employee Benefits

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DEPARTMENT OF FINANCIAL REGULATION

***Previous VEHI Points*:**
DFR Regulatory Concerns with 3:3 Board Composition

- Odd numbered boards perform better than even numbered boards: decision making, return on investment, operationally and total value
- Importance that VEHI or any Intermunicipal Trust be controlled by representatives that "own" the risk (otherwise incentives are misaligned)
- Corporate governance concerns for an organization that will clearly be deadlock prone
- Decisions on plan design and rate adequacy should not be negotiated but driven by value and solvency considerations
- Even numbered boards are uncommon among other DFR regulated entities

Additional VEHI Points:
DFR Regulatory Concerns with 3:3 Board Composition

Solvency Concerns: First and foremost, between 2009 and 2012, when the VEHI board was composed of three union representatives and three school district representatives, it approved rates resulting in an approximate $30 million loss in surplus (nearly 50% of its surplus at that time). Those decisions would have left VEHI insolvent within three years. Now, after five years of DFR oversight, VEHI is on a strong financial footing.

Prior Board Engagement: Part of the problem pre-2012 was an apparent lack of engagement from the board. From 1996 through 2012, the average VEHI board meeting was 64 minutes. However, from 2013 through the present, the average board meeting lasted 2 hours and 16 minutes, and board meetings are held with far greater frequency.

In fact, during the 16 years the board was equally composed, it met for a grand total of 42 hours, and during the 5 ½ years of employer majority composition, the board has already met for over 86 hours. This serves to highlight the increased regulatory rigor and the more intense decision-making required of the VEHI board today.

Additional VEHI Points:
DFR Regulatory Concerns with 3:3 Board Composition

Lack of Financial Monitoring: A comprehensive review of VEHI's board minutes from 1996 to present indicate little, if any, attention was paid to the financial condition of the organization prior to its fully-fledged regulation by DFR. The board had limited and very infrequent discussion of its surplus and the minutes do not reflect any monitoring of its ongoing financial position by reviewing or discussing quarterly or audited financial statements. Financial monitoring is now an integral part of the VEHI board's oversight.

Solvency Concerns: between 2009 and 2012, VEHI lost approximately $30 million in surplus. Further, prior to 2012, it is DFR's understanding that VEHI generally failed to account for its own administrative expenses when developing rates, resulting in inadequate rates on day one of the plan year. With approximately $2 million of annual administrative expenses, this is not an insignificant number.

VEHI Growth and Complexity: VEHI is a much more complex organization today than it was prior to 2012, and health care a much more complicated industry. For example, VEHI's premiums total approximately $250 million today compared to approximately $75 million in 2000 – an increase of over 300%.

- A regulated entity cannot function effectively in this space with a board that is so clearly at risk of deadlock.

2017 VEHI Rate Approval Process with DFR

July	BCBSVT uses VEHI claims experience and trend to develop *pro forma* renewal rates
August	***VEHI board develops and approves billed renewal rates***
9/6/17	Pre-filing meeting VEHI, BCBSVT, DFR, and DFR's actuary
9/29/17	Rate filing received from BCBSVT at DFR
	School districts are notified of "filed rates" subject to approval at DFR for budgeting purposes
October	Actuarial Review
11/02/2017	First round objections issued from DFR's actuary
11/20/2017	First round objections responses arrive
11/22/2017	Second round objection – request for utilization and cost trend development
11/29/2017	Second round responses arrive
12/07/2017	Third round objection clarification requests issued
12/20/2017	Third round objection responses arrive
	VEHI board may adjust rates or reserve funding based on actuarial review
01/17/2018	Rates approved by DFR
	If rates are deemed excessive, inadequate, or unfairly discriminatory, and adjusted, VEHI board may have to adopt new rates
January	Towns must have rates for the whole of FY 2019 by early to mid-January so that they can incorporate the rates into budgets printed for town meeting day. This mid-January deadline also supports the local collective bargaining process.
February	Debrief meeting to identify future issues - VEHI, BCBSVT, DFR, and DFR's actuary
Ongoing	Negotiation of cost-sharing arrangements, HRA, HSA contributions
3/7/18	Town Meeting Day – budget approval including negotiated cost-sharing
7/1/18	Rates go into effect

* Indicates time-sensitive decision that must be made and finalized by VEHI board.

The VEHI Board has deviated from the BCBS Pro Forma Rate 18 of the last 19 years

Slow/no decision making on these items will have a stark impact on the finances of the organization and for those receiving healthcare

Plan Year	BCBS *Pro Forma*	VEHI Filed Rate	Variance
2001	22.9	23	0.10
2002	13	14.2	1.20
2003	12.9	9	-3.90
2004	18.4	19	0.60
2005	12.7	9.8	-2.90
2006	16.7	12	-4.70
2007	9.9	8	-1.90
2008	9.3	7.5	-1.80
2009	5.8	5	-0.80
2010	1.1	0	-1.10
2011	4.2	3	-1.20
2012	4.9	3	-1.90
2013	4.4	3.5	-0.90
2014	12.8	10	-2.80
2015	4.5	4.5	0.00
2016	5.7	4.5	-1.20
2017	8	7.9	-0.10
2018	-1.4	0	1.40
2019	16.8	10.2	-6.60

Captive Insurance Industry “The Gold Standard”

Number 1 Worldwide by Premium
Appx. $35 Billion

Home to 18 of Dow 30 and 48 of Fortune 100

Nearly 600 Active Captive Insurance Companies

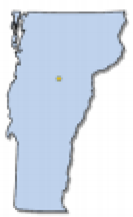
Awarded Top U.S. Domicile of the Year
Four of the Last Five Years

Awarded Non-EU Domicile in 2016

Most Efficient Examinations by Premium

Traditional Insurance Industry

R Street Institute
State Regulation Report Card

Vermont	2016 Grade	2017 Grade
	A+	A+
	Score	Rank
	86.2	1
Strengths:	Low politicization, ahead on financial exams, competitive auto market, competitive homeowners market, small residual markets, broad underwriting freedom.	
Weaknesses:	High tax and fee burden.	

Ranked # 1 Nationally for Four Straight Years

Vermont: Competitive and low cost insurance market:

- 5th lowest auto insurance
- 11th lowest homeowners insurance
- The second most competitive market commercial insurance
- $30 million reduction in workers' compensation last two years