



# **ULSTER COUNTY HEALTH INSURANCE AUDIT**

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**Office of the  
Ulster County Comptroller  
March S. Gallagher**





# ULSTER COUNTY OFFICE OF THE COMPTROLLER

## Ulster County Health Insurance Audit

comptroller.ulstercountyny.gov

Released February 2025

### Executive Summary

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#### **Why this audit is important**

Health Insurance expenditures were 7.3% of Ulster County's 2024 adopted operating budget. Regular audits of Ulster County's self-funded health insurance plan are necessary for ensuring fairness to employees, cost-effectiveness, and compliance. To address fairness, this audit reviewed the amounts that County employees are paying for coverage by analyzing historical costs, premium equivalents, and contracts. This is critical as employee retention becomes more of a challenge for many of Ulster County's departments. Historically, employee benefits such as health insurance have been a key factor in attracting individuals to County employment over potentially higher pay in the private sector. To address cost effectiveness, this audit evaluates the payment of stop loss premiums and the utilization of the stop-loss claims process to minimize financial risk. The audit also determines whether regular analyses are conducted to determine if self-insurance is more cost-effective compared to other insurance options for both the County and its employees. To address compliance, this audit assessed whether vendors delivering health, dental, and vision insurance services meet all contractual obligations, safeguarding both County operations and taxpayer interests.

#### **What we found**

1. The County did not appropriately account for the Health Benefits Self-Insurance Fund.
2. Ulster County Employees have overpaid for health insurance, as premium rates have been set without consideration of prior years' experience and accumulated reserves. Health insurance is significantly more expensive for most employees of Ulster County compared to competitor municipalities, as most County employees pay between 10% and 20% of the arbitrarily determined premium equivalent.
3. Interest revenues were not allocated to the Self-Insurance fund.
4. There has been no adjustment to the amount offered by the County to employees for a health insurance buyout in 20 years. Additionally, there is not uniformity in the health insurance buyout amount across bargaining units.
5. There is a lack of adequate procurement procedures for negotiating insurance contracts and agreements, resulting in agreements such as the "Municipal Healthcare Financing Collective" which may not have been the most cost-effective choice for Ulster County.

#### **What we recommend**

1. The County should review its financial management policies and ensure compliance with those policies, to guarantee proper accounting for the health benefit fund.
2. The County should consider plans for adjustments to premiums to ensure that employee contribution rates are closer to actual costs. Excess amounts collected should be refunded to employees, applied to reduce future premiums, or increase future coverage in the benefit plans. To address retention issues, the County should review the employee benefits of peer organizations and consider implementing a total dollar amount cap on the total amount that employees are required to contribute for health insurance.
3. Interest revenues should be allocated to the self-insurance fund monthly, based on the applicable rates and the average cash held by the fund.
4. We recommend that the County review the different amounts offered for health insurance buyouts to each bargaining unit compared to peer organizations.
5. The County should develop and implement formal procurement procedures specifically for the negotiation of insurance policies and premiums. These procedures should include requirements for competitive bidding, thorough evaluation of coverage options, and periodic reviews of insurance contracts to ensure they meet the organization's needs. The County should follow the appropriate contract management procedures, including having vendor records in the County's Financial System, and contract approval by the Legislature.

## Objectives

The objectives of our audit were:

- To determine if County employees are paying the appropriate amount for health insurance coverage based on historical costs, premium equivalents, and contractual requirements.
- To determine the effectiveness of the County’s stop loss claim process.
- To determine if an appropriate analysis is conducted on an annual or other basis to assess whether self-insurance is more cost effective for both the County and the County employees compared to other available health, dental, and vision insurance options.
- To determine whether the vendors utilized for the County health, dental and vision insurance programs fulfill contractual terms and conditions.

## Scope

- Our audit period covers the plan year beginning 1/1/2017 to the plan year ending 12/31/2022.
- This audit was conducted in accordance with the audit authority of the County Comptroller as set forth in Article IX § C-57 of the Ulster County Charter.

## Background

### Self-Funded Insurance Plan

Self-funding is a financing mechanism in which an employer directly funds health care claims as opposed to contracting with an insurance company to purchase premium based coverage. In most cases, self-funded employee benefit plans are managed by an independent Third-Party Administrator (“TPA”) who is typically responsible for the day-to-day operations of the plan, including the coordination of benefits and claims processing. Ulster County has an “Administrative Services Only” agreement with the TPA under which the County assumes responsibility for all the risk of the plan.

Over the audit period, the County had an average of 1,205 contracts covering 2,685 members monthly. The County currently offers 3 plans to employees and enrollment occurs in October of each year.

The County offers two different Preferred Provider Organization (“PPO”) Plans, which contract with medical professionals to create a “network” of participating providers. The County’s PPO20 plan has a slighter higher premium cost with lower copays compared to the County’s newer PPO25 plan which offers a lower premium equivalent but carries higher copays.

The Point of Service (“POS”) Plan, offers coverage at a reduced “premium equivalent” rate, but out-of-network costs will be higher due to an increased deductible for services that are not provided in-network. Services provided for claims processed out of network are 80% covered by insurance, passing the additional cost on to the participant.

### NYSHIP

As a local government situated within New York State, Ulster County is eligible to participate in the New York State Health Insurance Program (NYSHIP). Below are the rates offered by NYSHIP and Ulster County from 2017 through 2024, with the lowest total cost plan highlighted in green:

Total Annual Family Plan Premium Comparison				
	NYSHIP Rate	Ulster County Rates *		
Year	Empire Plan	POS 20 (POS)	PPO 20 (PPO)	PPO 25 (EPO)
2017	25,927.68	26,424.00	40,219.20	N/A
2018	28,177.80	28,178.40	42,926.40	N/A
2019	28,953.24	27,973.80	42,512.40	24,959.40
2020	28,650.96	31,692.60	45,358.20	28,654.20
2021	29,426.88	32,718.60	46,588.20	29,546.40
2022	33,164.88	33,709.20	47,962.80	30,448.80
2023	37,590.24	33,709.20	47,962.80	30,448.80
2024	40,405.08	33,709.20	47,962.80	30,448.80

\* The PPO 25 Plan was first offered by the County in 2020. In 2019, the County offered an "EPO" plan for one year.

Ulster County offers a wider variety of coverage options than NYSHIP, with employee + spouse, employee + 1 child, and employee + multiple children. As a result, our comparison only shows comparable plan types – Employee and Family.

Total Annual Individual Plan Premium Comparison				
	NYSHIP Rate	Ulster County Rates *		
Year	Empire Plan	POS 20 (POS)	PPO 20 (PPO)	PPO 25 (EPO)
2017	11,332.68	9,979.20	14,812.80	N/A
2018	12,179.76	10,640.40	15,811.20	N/A
2019	12,514.20	9,851.40	14,889.00	8,061.00
2020	12,381.84	10,909.20	15,621.60	9,861.60
2021	12,898.44	10,564.80	15,039.00	9,541.80
2022	14,353.44	10,885.20	15,483.00	9,833.40
2023	15,920.40	10,885.20	15,483.00	9,833.40
2024	17,347.92	10,885.20	15,483.00	9,833.40

\* The PPO 25 Plan was first offered by the County in 2020. In 2019, the County offered an "EPO" plan for one year.

Looking at a rough estimate of the entire plan compared to NYSHIP we see that there has been a financial benefit to the County by choosing self-insurance over NYSHIP:

Year	Total Plan Expenses Paid Per Alera	Number of Single Contracts In December	Number of Family Contracts In December	Total Contracts	NYSHIP Family Annual Rate	NYSHIP Single Annual Rate	Estimated NYSHIP Single Total Cost	Estimated NYSHIP Family Total Cost	Estimated NYSHIP Cost	Self Insurance Benefit to County
2018	\$ 24,614,665	463	755	1,218	\$ 28,177.80	\$ 11,332.68	\$ 5,247,031	\$ 21,274,239	\$ 26,521,270	\$ 1,906,605
2019	\$ 24,695,934	477	747	1,224	\$ 28,953.24	\$ 12,179.76	\$ 5,809,746	\$ 21,628,070	\$ 27,437,816	\$ 2,741,882
2020	\$ 23,459,863	492	722	1,214	\$ 28,650.96	\$ 12,514.20	\$ 6,156,986	\$ 20,685,993	\$ 26,842,979	\$ 3,383,116
2021	\$ 24,091,335	497	690	1,187	\$ 29,426.88	\$ 12,381.84	\$ 6,153,774	\$ 20,304,547	\$ 26,458,321	\$ 2,366,986
2022	\$ 22,682,929	500	678	1,178	\$ 33,164.88	\$ 12,898.44	\$ 6,449,220	\$ 22,485,789	\$ 28,935,009	\$ 6,252,080

Over the five-year period from 2018 through 2022, Ulster County saved over \$16.6 million by being self-insured when compared to NYSHIP offered rates.

**Broker (Alera Group, Inc.)**

Ulster County has a contract with Alera Group (formerly Relph Benefit Advisors), to provide broker and consulting services for the County’s self-funded plan. As the County’s broker, Alera Group is responsible<sup>1</sup> for several administrative duties, including assisting Empire Blue Cross Blue Shield (“Anthem”) with the preparation of the plan document that “serves as the foundation for plan operations.” Alera Group also assists the County in choosing a TPA by shopping the market for insurance providers to find the best possible value for the County as a whole. Alera group acts as the de facto manager of Ulster County’s self-insurance plan, bringing binding contracts and agreements with the other players in the County’s health insurance plan directly to the County’s personnel department for execution. All these secondary agreements bypass the County Legislature, and historically the payments to these vendors have been obscured in the County’s financial system. Ulster County pays Alera Group \$210,000 annually for their consulting services.

Alera Group is contracted to assist Ulster County with establishing Premium Equivalents and Contribution Rates. The County first projects overall health insurance costs with the assistance of its broker, then employee participants’ contributions are determined for the year, which are applied as “premium equivalents.” This amount provides a basis to calculate the portion paid by all members of the Plan. Employment contracts stipulate what share of this “premium equivalent” will be attributed to the covered employee and what share is owed by the County. Actual employee participant contribution percentages may vary because “premium equivalents” are based on estimated costs. Employee Contribution rates for covered employees range from 0-20% based on applicable employment contracts.

According to data provided by Alera Group as shown in the table below, the County over-estimated costs by \$9.96 million dollars during the five-year audit period.

Year	Paid Claims	Recoveries Paid	Rx Rebates Paid	Admin & Taxes	Net Plan Expense	Net Budget	Gain / Loss
2018	23,166,823	0	(236,260)	1,684,102	24,614,665	25,784,911	1,170,246
2019	24,008,864	(355,120)	(739,480)	1,781,669	24,695,933	25,250,610	554,677
2020	24,200,207	(1,085,612)	(1,476,590)	1,821,858	23,459,863	26,824,956	3,365,093
2021	23,714,189	(304,161)	(1,121,239)	1,802,546	24,091,335	26,591,846	2,500,511
2022	21,834,161	(15,758)	(1,016,647)	1,881,173	22,682,929	25,053,616	2,370,687
Total	\$ 116,924,244	\$ (1,760,651)	\$ (4,590,216)	\$ 8,971,348	\$ 119,544,725	\$ 129,505,939.00	\$ 9,961,214

Recoveries are received for stop loss claims. Prescription drug (Rx) rebates are incentives received by the County from drug manufacturers for the sale of certain drugs.

[1] Empire Blue Cross Blue Shield became Anthem Blue Cross Blue Shield on January 1, 2024.

### **Third Party Administrator (Empire/Anthem Blue Cross Blue Shield)**

The County paid Anthem \$739,293 in 2022 to provide TPA services and continues to contract with this provider for employee medical benefit administration. As Ulster County's TPA, Anthem is responsible for most of the Plan's functions, including the processing of claims, preapprovals, denials, and related activities. Primary duties also include assisting with claims management, plan enrollment, offering support with reporting requirements, and plan document coordination. Anthem provides this service on a per employee basis, and the service is billed to the County monthly. The enrolled employees of the Self-funded plan pay a "premium equivalent," which encompasses "the cost per covered employee, or the amount the [employer] would expect to reflect the cost of claims paid, administrative costs, and stop-loss premiums" distributed among covered individuals. In theory, these fees allow the County to "rent" the Anthem network, as Anthem is responsible for negotiating the payment price for services that are paid directly by the County. In 2022, Ulster County funded Empire a total of \$18,330,988 to pay medical claims on behalf of members.

### **Healthcare Claims Auditing (J. Graham Inc.)**

The County paid this health insurance expert \$21,000 in 2022 to thoroughly review a sample of at least 300 claims for items such as duplicate claims, eligibility confirmation, coordination of benefits and other third-party liabilities, etc. In 2022 this vendor found the County savings of \$90,250 due to errors made by Empire/Anthem.

### **Stop Loss (Berkley Life and Health Insurance Company)**

Ulster County paid \$828,821 in premiums for stop-loss insurance coverage during the 2022 calendar year. Designed to guard against catastrophic claims, this type of coverage is a "form of reinsurance for self-funded employers that limits the amount the employers will have to pay for each person's health care (individual limit) or for the total expenses of the employer (group limit)." Stop-loss insurance claims can be made when medical claims exceed certain limits, providing back-up coverage for the County. Between January 2018 and December 2022, the County paid a total of \$3.8 million in stop loss premiums and collected \$1.8 million in stop loss reimbursements.

### **Stop Loss (Municipal Healthcare Financing Collective Protected Cell)**

Formed on January 1, 2020, Ulster County is one of three members of this reinsurance company, and by far the largest. The Company reinsures medical stop loss coverage to the three counties through a fronting agreement with Berkley Life and Health Insurance Company. It was initially promoted by Relph Benefit Advisors (Now Alera Group, Inc.), and Alera continues to promote the Company.

According to reporting we have received from them, Ulster County had 60% of the 1,957 total employees covered by the Company in 2022. The Company was formed in the State of Vermont and entered into a participation agreement with Green Mountain Sponsored Captive Insurance Company (GMSC) on the date of inception for purposes of forming a protected cell, separate from GMSC and managed by another Vermont based company known as Strategic Risk Solutions, LTD (SRS). SRS is a related party to GMSC through common ownership. Ulster County made capital contributions (invoiced as "collateral contributions") of \$235,393 to the Company through the audit period, of which \$66,086 was contributed in 2022. These capital contributions appear to be more of an investment in the Company than an expense of the plan. It is not clear if anything could be recovered by the County should the decision to withdraw from the Company be made.

A review of the MHCF's audited financial statements revealed that \$90,000 for an annual management fee was split between GMSC and SRS. It is not currently clear how this expense is allocated among the three members of the Company. In the most recent "collateral contribution" invoice that the County received from the Company, a \$5,000 "NYSAC fee" was charged to Ulster County. According to an Alera representative, this new fee was paid "under the umbrella of MHFC and NYSAC's role." MFHC re-issued the invoice including the NYSAC fee in the larger capital contribution and attributed the error to new staff.

In theory, as the Company's membership grows, it should reduce stop loss premiums for its members. In practice, only three Counties have signed onto the agreement, and stop loss premiums increased approximately 13% since the County began working with the Captive. It does not appear that Ulster County has realized any benefit from membership to the MHFC.



## Findings & Recommendations

### 1. Failure to appropriately account for the Self-Insurance Fund

The County's general ledger currently does not reflect the amounts shown on the 2022 or 2023 audited financial statements for the Self-Insurance Internal Service Fund. The County's self-funded health insurance plan has not been appropriately accounted for historically. The County's 2022 audited financial statements presented the self-funded health insurance fund as a separate internal service fund for the first time. In prior years the net position for the fund had been reported as a liability in County's Trust and Agency Fund, then in the County's General Fund. The balance of this liability has consistently grown over the years as contributions to the plan exceeded actual plan expenses. Further, prior to 2022, the County never recognized the actuarially prepared "Incurred but Not Reported" (IBNR) liability that has historically been prepared by Alera Group.

Ulster County's audited financial statements showed net position of \$7,105,422 for the fund as of December 31, 2022. The 2023 financial statements report net position of the fund at \$6,931,694. After interest income allocation discussed in finding number two, we project the true net position of the fund at the end of 2023 to be between \$7.1 million and \$7.5 million. Had the County's health insurance broker known of the existing surplus the actuary could have utilized a portion of this surplus in the calculation of the premium equivalent and this may have resulted in lesser premium amounts, additional coverage, or lower copays.

Ulster County's external auditors stated the following in their "Report to Those Charged with Governance" on this matter:

An Internal Service Fund, by definition, operates on a cost-recovery basis. Accordingly, the use of an internal service fund is only appropriate if the government intends to recover the full cost of providing services. A surplus or deficit in any given year, or over a reasonable period, is not a problem, but a significant and growing surplus or deficit over time is incompatible with the cost reimbursement character of an Internal Service Fund. Further, it is common for governments that use internal service funds for risk financing activities to set premiums based on a method specifically designed to match, or "smooth out", revenues and expenses over time. Management should be regularly monitoring the fund to ensure that costs are being properly recovered and a large net position is not maintained for long periods of time.

## **Recommendations:**

The County should seek training on best practices for managing self-funded health insurance plans and consider seeking a new consultant through the appropriate procurement process to assist with plan management. The County's financial management team should seek training on best practices for accounting for internal service funds. The County should establish clear guidelines for the allocation and use of surplus funds to ensure the long-term financial health of the plan.

The County should revise its financial management policies for the self-funded health insurance plan to ensure that any surplus is recorded in the general ledger and incorporated into the calculation of premium equivalents. The County has no control over the expenses of the fund, so it logically follows that the premium equivalents which represent the revenues of the fund should be reduced, benefit plans should be enhanced, or participants in the plan should be refunded for prior year's overpayments.

## **2. Health insurance premium rates have been set without consideration of prior years' accumulated net position.**

Annual budgets have been overestimated, creating an excessive accumulation of reserve for the self-insured plan.

Ulster County employees have been overcharged for health insurance. Depending on the plan type selected, and the rate applicable to the individual employee, some employees may have contributed more towards their health benefits than they should have.

Premium Equivalents are arbitrarily determined by Alera Group using estimated trend rates, and historically the estimated budgeted costs have been significantly higher than actual costs. Excess contributions collected are not applied against future year costs or returned to employees which results in an over contribution towards healthcare costs for most County employees. Further, when compared to peer organizations such as the City of Kingston, Ulster County Employees pay significantly more for health insurance benefits. The City of Kingston caps the contribution that a Civil Service Employees Association union member pays for health insurance in 2024 and 2025 at \$2,750 for an individual and \$3,350 for a family plan. A County employee choosing the most inexpensive family plan in 2024 will pay \$6,090 in annual premium, or \$2,740 more than they would if employed by the City of Kingston or another local government that caps premium contributions.

The various labor agreements signed by employees stipulate an employee's required contribution towards health benefit costs. Depending on an employee's classification, this percentage can range anywhere from a 0 – 20% of the applicable health insurance premium. If the calculated premium equivalents generate large plan surplus annually, it indicates the premium equivalent is too high, and therefore the employee is paying a higher percentage than they would of an accurately predicted lower premium.

## **Recommendations:**

The County should consider plans for adjustments to ensure that employee contribution rates are closer to actual costs. Excess amounts should be refunded to employees, enhance benefit plans, or be applied to reduce future premiums.

The County should account for prior year gains and losses when determining current premium equivalents to ensure that amounts collected closely align with actual health benefit plan costs. The County should adopt a policy regarding what an appropriate amount of gain/loss should be over the life of the fund and develop a mechanism for spending down contributions collected in excess of costs. Further, when union negotiations occur, Ulster County should consider implementing a cap on the cost of employee health insurance to address employee retention issues.

**3. Interest revenues are not allocated to the medical self-insurance fund.**

Cash balances reported for the internal service fund at year end were \$8,654,513 for 2022 and \$8,290,214 for 2023. In both years, the department of finance neglected to allocate interest revenues earned from cash held in financial institutions to the fund. We estimate the understatement of interest revenues to be between \$138,000 and \$535,000, and the true position of the fund to be between \$8.4 million and \$8.8 million.

By neglecting to record interest and accurately reflect the activity of the internal service fund, the fund's net position has been understated by two years of interest revenue. By not accurately reporting surplus balances, the County has been overlooking the overall net position of the self-funded insurance fund. This net position could help cushion against future claims volatility, reduce the need for increases to premium equivalent rates, and provide greater financial stability for the health insurance plan.

Interest revenues in some other County funds were overstated, while none were recorded for medical self-insurance fund due to improper accounting. Specifically, the absence of general ledger accounts for cash prevented the County from determining cash balances and allocating interest earnings to the fund.

**Recommendations:**

The County should allocate interest earnings to the fund and record a prior period adjustment in 2024 to the net position of the fund to allocate the interest earnings from 2022 and 2023.

The County should establish general ledger accounts with sufficient subaccount detail to accurately track the performance of the self-insurance fund.

**4. There has been no adjustment to the amount offered by the County to employees for a health insurance buyout in 20 years.**

The County has not made any changes to its health insurance buyout offerings in over 20 years. The buyout premiums are determined by the labor contract or collective bargaining unit and range between \$1,000 and \$2,000 annually per employee. The Ulster County Civil Service Employees Association (CSEA) contract offers eligible employees a \$1,000 buyout while all other bargaining units of the County and Management could receive a \$2,000 buyout. Dutchess County offers \$1,250 for single and \$2,500 for family plans, while Orange County offers all employees \$4,000.

Year	No. of Employees that took \$1,000	No. of Employees that took \$2,000	Total Buyouts Paid
2018	108	47	\$ 176,823
2019	107	46	\$ 166,269
2020	106	43	\$ 175,836
2021	108	41	\$ 181,333
2022	106	55	\$ 184,001
2023	109	63	\$ 202,582
2024	114	64	\$ 213,921

The chart above is a summary of the employees who have taken a buyout and the total amounts paid.

Using data provided by Alera Group, we can see that the average per contract per month cost between 2018 and 2022 was \$1,645 per month and \$738 per month per member.

Year	Incurred Date Total Expense	Paid Date Total Expense	Contracts	Members	Incurred Costs Per Member Per Month	Incurred Costs Per Contract Per Month
2018	\$ 24,039,081	\$ 21,518,211	14,548	33,193	\$ 724	\$ 1,652
2019	\$ 25,407,858	\$ 24,695,934	14,643	33,154	\$ 766	\$ 1,735
2020	\$ 23,046,533	\$ 23,459,863	14,646	32,556	\$ 708	\$ 1,574
2021	\$ 23,853,470	\$ 24,091,335	14,297	31,298	\$ 762	\$ 1,668
2022	\$ 22,607,777	\$ 22,682,929	14,177	30,918	\$ 731	\$ 1,595
Average	\$ 23,790,944	\$ 23,289,655	14,462	32,224	\$ 738	\$ 1,645



On an annualized basis this figure is approximately \$9,000 per member and \$20,000 per contract in total costs.

**Recommendations:**

The County should conduct an analysis of the benefits and costs associated with increasing the amount offered for a buyout. A higher buyout amount could encourage more employees to leave the County plan, potentially reducing the risk of high-cost claims. While the cost of offering insurance to County employees is variable and subject to dramatic swings, the cost of offering a buyout is fixed and predictable. Fewer participants in the plan also would mean reduced stop loss premiums in addition to other administrative costs.

The County should consider offering a higher and more uniform buyout amount across collective bargaining units as this could improve employee satisfaction and retention among those who have access to alternative coverage.

**5. Ulster County does not follow standard procurement or contract approval processes for insurance contracts**

The County uses Alera to negotiate stop loss policies and premiums, which bypasses the procurement process for service contracts. The County should be conducting a competitive bidding process that is a transparent evaluation of vendors. Having the health insurance broker do an internal analysis may not ensure fair and equitable selection of insurance providers.

The County does not have standardized procurement procedures in place for negotiating insurance policies and premiums. As a result, medical, stop loss, dental, and vision insurance contracts have been renewed without competitive bidding or transparent evaluation of alternative coverage options, leading to potential overpayments and the possibility of suboptimal coverage.

Ulster County could be missing out on a better policy or reduced premiums through a different stop loss insurance methodology or provider. Stop loss premiums increased 49.5% for family contracts and 54.9% for single contract between 2018 and 2022, while deductibles have also increased considerably. The County risks overpaying for insurance premiums, receiving inadequate coverage, or engaging in contracts that may not be in the best interest of the County. This practice can lead to financial inefficiencies and a lack of transparency that could undermine employee and public trust in the County's management of the self-funded insurance policy.

The insurance contracts of Ulster County allow for the broker to be the point of contact to negotiate various aspects of the health insurance plan and policy premiums. This arrangement has led to a deviation from standard procurement procedures, resulting in over-reliance on the insurance broker's recommendations without sufficient oversight. While this reliance may stem from a lack of specialized expertise among County staff to effectively negotiate and assess insurance policies, bypassing the established procurement process limits transparency, competition, and the opportunity to secure potentially better options for the County.

**Recommendations:**

The County's contract with the insurance broker should clearly state roles in secondary insurance options and at minimum require the broker to adhere to the same or similar procurement procedures for negotiating insurance policies and premiums that the County would have to follow if it were to seek those services themselves. The County should develop and implement formal procurement procedures specifically for the negotiation of insurance policies and premiums. These procedures should include requirements for competitive bidding, thorough evaluation of coverage options, and periodic reviews of insurance contracts to ensure they meet the organization's needs.

Reduce the County's reliance on the insurance broker by increasing oversight and involvement of the County's procurement team in the vendor selection process. Provide additional training on the importance of procurement policies and establish clear guidelines for the role of brokers in the procurement process to ensure their recommendations are balanced with the County's best interests. Strengthening both oversight and staff expertise could help ensure that insurance agreements are both cost-effective and aligned with the County's best interests.

## Conclusion

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Our audit of Ulster County's Health Benefits Self-Insurance Fund revealed significant areas of concern requiring immediate attention. The County's Department of Finance has failed to appropriately account for the fund and allocate associated interest revenues, leaving the true equity of the fund up for interpretation. Employees have been overcharged for health insurance due to premium rates that disregard prior years' experience and accumulated reserves, resulting in higher costs to employees when compared to peer municipalities. The County has not adjusted health insurance buyout offers in two decades, failing to reflect changing economic conditions. Lastly, the absence of robust procurement procedures has led to questionable agreements, such as participation in the "Municipal Healthcare Financing Collective," raising concerns about financial prudence and due diligence. To restore trust, ensure equitable treatment of employees, and promote financial sustainability, the County must address these deficiencies promptly through improved accounting practices, fair premium rate-setting, regular buyout adjustments, and strengthened procurement procedures.

### \*\*Management's Response

Management's response to our recommendations will be included at the end of our report. If there are factual errors or incorrect information we will notate these items in the last paragraph of our report.



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*Administrator, Civil Service & Personnel*

To: March Gallagher, Ulster County Comptroller

From: Dawn Spader, Personnel Director

Jamie Capuano, Deputy County Executive

Kevin Roach, Benefits Administrator

CC: Thomas Burgess, Alera Group

Re: Health Insurance Audit

Date: January 17, 2025

**MANAGEMENT RESPONSE**

On December 26, 2024, Comptroller Gallagher provided a draft Health Insurance Audit for management review and comment. The audit period covered plan years beginning January 1, 2017, through December 31, 2022, prior to the current administration.

As noted in the audit, not only does the County's self-insurance plan result in significant savings to taxpayers compared to the NYS Health Insurance Plan (costing \$16.6 million less than NYSHIP in the 2018-2022 period); the County plan also offers employees a wider variety of coverage options. Under the NYSHIP plan, employees would only have the option to enroll in an individual or a family plan regardless of the number of family members. As a self-insured plan, County employees have additional options to enroll in plans that meet their needs, such as an individual, individual plus child, individual plus spouse, individual plus children, and a full family plan.

We would like to acknowledge the dedication and hard work of the Alera Group and Personnel Department staff for their due diligence in ensuring that our County outperforms the NYSHIP plan while also offering our employees options that are more catered to their needs.

Please see management's response to specific draft audit findings and recommendations, below.

**Self-Insurance Fund Accounting** See Note 1

The draft audit claims that there was a failure to appropriately account for the Self-Insurance Fund. The County has in fact appropriately accounted for the health insurance program in its finances; however, that accounting was not sufficiently transparent in the County Budget in the past. As the Comptroller is aware, County Executive Metzger established an internal service fund in the 2025 Executive Budget, which was adopted by the Legislature in December, to remedy the lack of transparency in accounting for health insurance expenditures. As a separate fund, the County will review the overall performance of the fund and take appropriate actions to reduce contribution rates in years with lower claims, and adjust accordingly in years where claims spike. The Draft Audit should recognize that the internal revenue fund was created in the 2025 Budget rather than make a recommendation that has already been implemented.

**Health Insurance Premium Rates** See Note 2

The audit states that rates have been set without consideration of the prior-years net position. This is not accurate. Employee rates have been held flat since 2022 in light of recent reduced claims data, shifting the risk to the County. For example, as of November 2024, claims were running 17% above budget, while rates were held flat.

Running Total							
Calendar Year	Paid Claims	Recoveries Paid	Rx Rebates Paid	Admin & Taxes	Total Expense	Budget	Gain / Loss
2018	23,166,823	0	(236,260)	1,684,102	24,614,665	25,784,911	1,170,246
2019	24,008,864	(355,120)	(739,480)	1,781,669	24,695,934	25,250,610	554,676
2020	24,200,207	(1,085,612)	(1,476,590)	1,821,858	23,459,863	26,824,956	3,365,093
2021	23,714,189	(304,161)	(1,121,239)	1,802,546	24,091,335	26,591,846	2,500,511
2022	21,834,161	(15,758)	(1,016,647)	1,881,173	22,682,929	25,053,616	2,370,687
2023	22,348,872	0	(1,086,825)	1,957,414	23,219,461	24,799,962	1,580,500
2024*	27,269,815	(547,293)	(826,447)	1,929,788	27,825,864	23,873,124	(3,952,740)
Subtotal	166,542,932	(2,307,944)	(6,503,488)	12,858,551	170,590,052	176,189,598	5,599,546

\*Claims as of November 2024.

For reasons that are unclear, the Comptroller’s report on p. 7 draws a comparison with the City of Kingston health insurance plan and contractually negotiated caps on employee contributions. The County’s workforce is close to five times the size of the City’s and the County has an entirely different plan. The City is enrolled in NYSHIP and does not offer employees the range of plan options that are available to County employees. Absent a thorough review of the City of Kingston’s loss history, coupled with their health insurance trend data, it would not be appropriate to refer to the City as a “peer organization.”

The statement on the same page that premium equivalents are ‘arbitrarily’ set by the Alera Group is unsubstantiated and incorrect. No effort was made by the Comptroller’s Office to contact the Alera Group to understand the process for determining premium equivalents. Equivalent premium rate setting relies on common underwriting principles and actuarial expectations that expressly take into consideration the most

recent claims experience and industry trend factors. The County, in concert with the Alera Group, reviews all available claims data in conjunction with applicable trend data to determine the health plan budget and rates. As noted in the Alera Group's response, the County has actively managed the health insurance program and has successfully avoided exponential growth in premium rates through rigorous review of current plan data, trend data, and programs aimed at reducing costs while avoiding disruption to employees.

### **Interest revenues**

The County agrees with the Comptroller's finding regarding interest payments and the recommendation to complete a prior period adjustment payment for 2024.

### **Health Insurance Buyout Option**

As cited in the Comptroller's audit, the amount of the health insurance buy-out option is a contractually negotiated item for union employees. The County reviews the health insurance buy-out option in the context of union negotiations. The County agrees with the Comptroller's recommendation to continue to review changes to the health insurance buy-out option through the negotiation process.

### **Insurance Contract Procurement**    **See Note 3**

The Alera Group was selected through a Request for Proposal process in 2022. The County, through the Alera Group, routinely goes to market to compare rates and coverage options available on the health insurance marketplace. This process is conducted by the Alera Group and involves a highly specialized and deep analysis of claims and trend data. In addition, this analysis includes a disruption report to determine the impacts on employees. In order to generate disruption reports, the Alera Group must work within the health insurance marketplace to review all coverage options, including individual medications, hospital and network coverage, primary care, urgent care and emergency care to determine if changes to the plan would result in a disruption to individual employees. Reviewing health insurance programs is not the same as commodity bidding and cannot be treated in the same way.

As a matter of fact, Article 5 of New York General Municipal Law governs the procurement of medical, surgical and hospital services or insurance for officers, employees and retired officers and employees of public corporations and their families. "Public corporations" is defined under Article 5 to include a municipal corporation. More specifically, Section 92-a (6)(a) of Article 5 states that a municipal corporation may enter into agreements with qualified contract administrators or other service providers to receive, investigate, make recommendations on, audit, approve or make payment of claims for medical, surgical and hospital benefits. This section also states that any such agreement with a qualified contract administrator or service provider must be entered into pursuant to competitive bidding, or request for proposals in accordance with the procurement policies and procedures of the municipal corporation. As stated above, the Alera Group was selected through a request for proposals done through the County's Purchasing Department and as such did not bypass the procurement process.

Dawn Spader

Personnel Director

## Comptroller's Response to Management Comment

Management's response to our recommendations is included at the end of the report. While we appreciate their feedback, it included inaccuracies and misunderstanding, which we clarify in our response below.

### **Note 1:**

The most concerning aspect of Management's response to this finding is the failure to differentiate between budgeting and accounting, as well as their misunderstanding of the reason for the establishment of the fund. While we appreciated that County Executive Metzger included the activity of the Fund in the 2025 Executive Budget, it is important to note that the fund was in fact reported in the County's audited financial statements beginning in 2022. These statements are presented to the County's creditors, the New York State Comptroller, and the public. Management's assertion that the County Executive "established the fund in the 2025 Executive Budget" contradicts their own financial reporting.

The following statement by Management is incorrect: "The County has in fact appropriately accounted for the health insurance program in its finances; however, that accounting was not sufficiently transparent in the County Budget in the past." The fund was first reported by the County in our 2022 audited financial statements after concerns were raised to the County's external auditors by the Ulster County Comptroller's Office. Governmental Accounting Standards Board Statement No. 34 requires that an internal service fund such as the County's Health Insurance fund be presented separately from the other activities of the County.

The County's financial statements excluded the activity of the fund prior to 2022. The actuarially prepared incurred but not reported (IBNR) liability went unrecorded in all financial statements of the County prior to 2022. Currently, all cash activity for the fund continues to be recorded in a single Fiduciary Fund general ledger account, leaving it to the County's external auditors and consultants to unwind, adjust, and properly report. This process leads the County to ultimately make errors, such as the failure to allocate interest income to the cash held by the fund. Interestingly, Management agrees with our audit finding pertaining to interest income- an issue that stems directly from this broader accounting concern.

The County paid consultants to assist with financial reporting to New York State in 2022 which reported the fund separately. In 2023 the County independently prepared a report to New York State that incorrectly reported no activity in the self-insurance fund. This error was ultimately corrected in the County's 2023 audited financial statements due to the work of the County's external auditors. As of January 28, 2025, the County still does not maintain separate accounting records for the Internal Service Fund, instead relying on consultants and external auditors to assist with the recordkeeping. Until the County begins to keep records for the fund, accurate reporting to New York State by the May 1<sup>st</sup> deadline will be impossible.

We continue to recommend that the County seek training on best practices for accounting for internal service funds and ensure that any surplus is properly recorded in the general ledger. Maintaining fund accuracy and completeness requires a collaborative effort between the Personnel Department and the Department of Finance. Without relevant and timely information, informed decision-making is impossible.

**Note 2:**

Management's response disputes our finding, stating it is "not accurate" that "rates have been set without consideration of the prior year's net position." However, as shown in the first finding, Management was unaware of the fund's net position balance due to the lack of appropriate accounting records. The net position of the fund was first made available upon the release of the 2022 financial statement audit which was released in January 2024, and the 2023 audit updated the balance of the net position when released in September 2024. Given this timeline, it follows that rates would have been set without consideration of the net position of the fund, as the balance was not readily available during budget preparation.

Similarly, the 2024 net position of the fund remains unknown because the County's financial system lacks the appropriate accounting documentation to determine or reasonably estimate the balance as of year-end. Therefore, the 2025 medical self-insurance budget must have been prepared without consideration of the prior years' net position.

To clarify a point that Management found unclear, we included a discussion of the City of Kingston's contractually negotiated rate caps as a potential alternative to the County's costly health insurance plan. High health insurance deductions often represent one of the largest expenses for County employees, and even more impactful for lower paid employees. Exploring how peer organizations manage these costs has value for both Management and the collective bargaining units of the County as they negotiate labor contracts that expired at the end of 2024.

Contrary to Management's response, we met multiple times with representatives from the Alera group during our audit, which included discussions on the establishment of premium equivalents. After review of materials provided by Alera and discussing their methodology, we determined that the actuarial process to set premium equivalent rates overlooked several important factors, which led us to describe the process as arbitrary.

As previously stated, Management could not have accounted for the fund's net position due to inadequate recordkeeping. As a result, the net position of the fund has grown consistently over the years, leading to a required prior period adjustment of over \$7.1 million in 2022. If the premium equivalent calculations had been utilizing this information in their process, the net position would not have accumulated to over 30% of the annual fund expenses. Rather, rates could have been adjusted to better reflect the cost reimbursement character of the fund, benefits could have been enhanced, or refunds to plan participants could have been considered.

**Note 3:**

In their response, Management states that Alera Group is competitively bid and complies with General Municipal Law § 92-a. General Municipal Law § 92-a applies to a “duly qualified contract administrator or other service provider to receive, investigate, make recommendations on, audit, approve or make payment of claims for such benefits”. Alera Group does not audit, approve or make payments of claims or benefits with respect to direct health insurance claims. That is the role of Anthem/Blue Cross Blue Shield. Alera Group is acting as an *insurance broker* in its relationship with Ulster County as per the NYS Department of Financial Services.

<b>Name</b> <b><u>ALERA GROUP INC</u></b>	<b>Business Type</b> Corporation
<b>License#</b> 1481934	
<b>Class</b>	
Property and Casualty Broker (07/01/2023 - 06/30/2025)	<b>Status</b> - Active <b>Status Date</b> - 04/05/2018
EXCESS LINE BROKER (07/01/2023 - 06/30/2025)	<b>Status</b> - Active <b>Status Date</b> - 12/18/2020
Life/Accident & Health Agent (07/01/2023 - 06/30/2025)	<b>Status</b> - Active <b>Status Date</b> - 06/05/2019
Life/Accident & Health Broker (07/01/2023 - 06/30/2025)	<b>Status</b> - Active <b>Status Date</b> - 05/15/2018
Property and Casualty Agent (07/01/2023 - 06/30/2025)	<b>Status</b> - Active <b>Status Date</b> - 05/25/2019

If Alera were considered a duly qualified contract administrator or service provider under General Municipal Law § 92-a, the contract between Ulster County and the Alera Group would be failing to meet the requirements of state law in the following ways:

- 1) No hold harmless agreement
- 2) No surety bond/letter of credit requirement acceptable *to the governing body*
- 3) No quarterly and annual reports acceptable *to the governing body*
- 4) No requirement for annual audit by a CPA

In summary, the Comptroller’s Office stands by our recommendation that the County should be following competitive bidding practices for the services provided by the third-party administrator of the County’s self-insurance plan (Blue Cross Blue Shield) as well as the stop loss insurance contracts with Berkley and MHFC. Ensuring transparency and cost-effectiveness in these contracts is essential to responsible financial management.