



**EXECUTIVE BOARD  
Committee Meeting Minutes**

**Tuesday, August 9, 2016  
IRMA Office  
1:30 p.m.**

**PRESENT:** Kathleen Gargano, Chair  
Dave Clark  
Jessica Frances  
Julia Cedillo  
Steve Stricker  
Peggy Halik  
Bridget Wachtel  
Eileen Donahue  
Drew Irvin

**ALSO  
PRESENT:** Margo Ely  
Rita Boserup  
Mary Henzler  
Dan LeTourneau  
Susan Garvey

**ABSENT:** None

**I. CALL TO ORDER**

Chair Gargano called the meeting to order at 1:35 p.m. Roll was taken and a quorum declared.

**ISSUES FOR DISCUSSION ARISING OUT OF BUFFALO GROVE'S DECISION TO  
WITHDRAW**

Gargano explained that Ely, Irvin and she have been in communication with one another during the process of Buffalo Grove deciding whether to withdraw from IRMA. Gargano stated that they were concerned on several fronts. First, the information being reported in the newspaper didn't accurately state the situation and the financial issues. Ely attended Board meetings to correct the misstatements and ensure that the right information was provided. One of the over arching concerns was the fact that we don't want our membership getting the misinformation and relying on Buffalo Grove to make decisions as to whether they stay in the cooperative or not.

Gargano reported that Buffalo Grove has a significant number of civil rights cases and when you look at our reserve policy when members withdraw, while it may not be able to be changed for the situation we are in with Buffalo Grove, it is significant enough for the other members of IRMA that we look at the bylaws and policy now to make sure there aren't other members out there with these types of claims that may leave the IRMA membership on the hook for paying their legal fees and defending them on cases after they have withdrawn and are contributing nothing.

Ely stated that from a financial perspective, she made it pretty clear to the Buffalo Grove Board that their staff's numbers were inaccurate. What their finance director did was front load new revenues, which were not going to come in within one year. When he front loaded them, it spikes the projected IRMA premium that he calculated without considering the experience modifier. It was totally inaccurate. LeTourneau and Boserup came to the second Board meeting. Boserup crunched the numbers and gave them the accurate information about the

pricing that showed IRMA was going to be less than what their broker had projected they would be paying in the private marketplace. They do not have solid numbers for private insurance yet. Gallagher is their broker and is basically promising that they will get lower pricing than what we said our pricing would be. Ely stated that she explained to them that private insurance is always going to be for profit and that for the last fifteen years Buffalo Grove actually cost us more than they paid us. Ely reported that she had lunch with Dane Bragg last week and Bragg said that the statement Ely made that they have cost us more than they paid us, pushed the Board to go ahead and withdraw so they could leave while the numbers benefited them. He said that the Board thought they should leave while they are up and before the pool catches up with them. Bragg also made it very clear that he is leading an effort to create an excess pool with some large members. He didn't say that he was soliciting any of IRMA's members. He didn't preclude the possibility that the new pool could be part of IRMA at some point in the future. He made it very clear that he was leading this exit and that it was based on the soft insurance market and he believes that IRMA is not flexible and our services and products haven't changed significantly to accommodate what he is looking for.

LeTourneau asked whether consultant Mike Nugent will be helping with the pool setup. Ely stated that she thought he would be, mentioning that Nugent runs the HELP pool that has about 12-13 members. We have had discussions with one of the HELP members, Arlington Heights, and they are finishing their application to consider IRMA as an option. We recently met with Deerfield and they didn't seem too concerned about staying in HELP. The way that we understand it is that HELP kept their rates flat for about ten years and then Mount Prospect got hit with a \$6.5 million verdict a few years ago and now their rates are going up, so some of the members are going to leave. Glenview, in particular, is definitely going to leave and Glenview's Manager, Todd Hileman, is working pretty closely with Bragg on an excess pool. Ely stated that from her perspective she doesn't think there is anything we could have done to change Buffalo Grove's decision. Ely commented that none of the Buffalo Grove documents were made available on their website. The night that the Board voted to withdraw, the staff had provided their Board with additional information, which was not shared with IRMA. They didn't share that information with us until afterward and in response to our request. The staff did not share any information with IRMA prior to the board agenda item being issued. As such, the financial information was incorrect and was corrected by Rita subsequent to the first Board discussion. Ely stated that she really believed that they had made the decision to leave IRMA and their staff manipulated some of the information to achieve that end.

Ely stated that since she has been here at IRMA, we have had a very positive relationship with Buffalo Grove. On the workers' compensation side, we worked very cooperatively with them on some career ending injuries to get good settlements. Ely stated that she has been to Buffalo Grove for closed session discussions more than she has been to any other member. Ely stated that she worked with them very closely on the Rivera case and the Engel case. They weren't happy with attorney Laura Scarry on the Rivera case and Ely stated that she provided information to the Executive Board at that time. Scarry wasn't responsive and she is no longer on our attorney panel in part because of her performance during the Rivera case.

Ely commented that Bragg made it very clear that there wasn't anything wrong with our services. He was interested in playing the market. They had increased their revenues and this excess pool is something that Bragg is interested in tackling, creating and leading.

Ely noted that she wanted to bring the situation to the attention of the Executive Board and asked if anyone had any questions.

Stricker noted that it was a 4 to 3 vote, which is very close. Ely stated that the vote was 3 to 3 and then the mayor voted to break the tie. Stricker asked what Buffalo Grove's deductible was - Margo stated that it was at \$50,000 for 2016, but has fluctuated. They were at \$25,000 last year. Ely noted that they are going with a \$50,000 deductible in the private market as well. They are going with IPRF for their workers' compensation coverage. IPRF is strictly a workers' compensation pool that has about 700 customers. Some of the things that the Buffalo Grove staff said was baffling -- like they will get better service with IPRF. They never expressed any concern with our service. Ely stated that she asked Bragg how he could possibly think that you are going to get better service from a pool that has 700 customers compared to a pool with 69 members.

Stricker asked whether they were in a debit situation because of their bad experience. Ely stated that they received an Advisory letter this year, but they were trending better. For purposes of their 2017 contribution, their experience modifier was much improved because one of their worst years was coming off. As a result of the bad years falling off their 2017 contribution was going to decrease by 8.12%.

Their plan is to move to more of a self-insured model with an excess pool. Stricker noted that this is what a lot of the larger communities have done over time. Ely stated that she thought it was relevant in this conversation that the private insurance market is very soft and it has been for a longer period of time than anyone had anticipated. This is more on the general liability side rather than the workers' compensation side. Workers' compensation is not as soft as general liability. Ely stated that one of the reasons that Bragg started looking at the private market, is that Buffalo Grove has big general liability claims. When they go out and shop the general liability insurance market what they are finding is that there is higher coverage limits and it is a lower premium, and that is something that we can't necessarily compete with. There is a belief that private insurance is cherry picking clients and possibly giving deflated prices.

Irvin stated that statistically, high general liability claims are the exception. Ely agreed. General liability is more volatile and less predictable. Workers' compensation is much more predictable. The other thing is that in workers' compensation, you have to file your claim within 45 days. For general liability in the false conviction cases, we never know when those are going to be filed since exonerations occur many years after the conviction.

Garvey noted that with the Buffalo Grove false conviction cases, the new insurance company isn't going to be hit with them. IRMA is on the hook for them because of our occurrence based coverage.

Gargano noted that there are a whole host of things that you can't solve in a day. There are concerns about being able to pick trial attorneys; there is concerns about the revenue and when you generate more revenue, it increases your contribution. We had a committee that reviewed that and apparently didn't have a lot to say about it at the time. Gargano stated that when she spoke with Ely about the Reserve Policy and the hold back by IRMA of \$250,000 or whatever it may be, it was probably set in the day when a bumper was \$250 and it was a big deal. That number is nothing in terms of the attorneys' costs and the fees and the liability associated with these civil rights claims and this particular entity.

Gargano stated that sooner rather than later, we really need to look at the Reserve Policy and how members receive refunds when they withdraw from the pool. A determination needs to be made as to what the actual liability is to the pool for the defense of these claims that are left after a member exits. We have to make sure that whatever we are holding back is enough to cover the defense.

Clark stated that in their conversation with the actuary, we may want to look at modifying the Reserve Policy, but discarding the claims all together. We'll pay you your reserve, but you take your claims with you. LeTourneau stated that a member would have to want to do that. They would have to hire their own actuaries and the actuaries would have to agree on a price and it is highly unlikely that anyone would agree to take on all their claims. Especially with the unknown of those types of claims now. LeTourneau stated that we are getting some samples in from other pools around the country as to what they do with members' reserves when someone is leaving. From the research that is being done, which is not complete, it is showing that a lot of pools do not return money to exiting members.

Irvin mentioned the way Ely handled what he would call a delicate situation trying to represent IRMA but trying to be transparent and trying to tell a good story, he thought she did an exceptional job and wanted to congratulate her on that. It was not easy to do and it was very sensitive. Irvin told Ely that she did a great job.

Irvin asked if there was a way to read the current bylaws that would benefit the organization that may be contrary to what we already told Buffalo Grove? Irvin stated that he was just curious to know all the options. Garvey stated that she did look at the bylaws when Gargano had a question about whether we could keep Buffalo Grove's reserve fund, and didn't see anything that could help us.

Ely stated that with respect to the reserve policy that we are talking about, the currently policy reads like a pool, because we are a pool. But, when a member withdraws from a pool, they are no longer a pool member. Ely stated that she thought we should revise the policy saying that since you are not going to contribute going forward, here are all your current claims and we are going to keep a reserve to pay for your future claims when you were in IRMA. Ely stated that she thought that was a pretty logical revision to our reserve policy for purposes of withdrawn members. It is also not overly complicated. The problem is that we may not have enough money. Buffalo Grove has \$720,000 in reserves since December 31, 2015. We will be in deficit for them. They are going to get \$500,000 back from IRMA.

Ely stated that she wasn't saying that we would collect from them in a manner inconsistent with the coverage documents. What she was saying is that we would hold back their reserve and they wouldn't be able to get that back if their current pending claims exceeded or was equal to their reserve. Their reserve refund would be more tied to what their existing claims are. They should not get their reserve back if they are leaving IRMA with claims that exceed their reserve. For example, if a good member decides to leave IRMA and they only have 3 claims worth \$20,000. Give them their reserve and keep \$20,000. So the pool is somewhat made whole by the reserve fund of the withdrawing member.

Stricker noted that this is the policy that we have always had and we have had other members leave the pool. Ely stated that it hasn't served the pool very well. For example, Palatine left in 2008 and after they left we got the DPPA lawsuit which was a class action. The claim year for us was 2006. At one point in the litigation, we had the reserves set at \$6 million for a whole lot of reasons. When you went to the 2006 claim year, we did not have \$6 million dollars in it. Palatine had been refunded all of their reserves. Boserup stated that there had been an error in calculation back in 2012 and we don't even have the 25%. Ely stated that at the time she thought there was something wrong with this. A withdrawn member has a pending case and we have none of their money left to contribute to that case and we could have had it. Ely stated that this is a policy issue. We can keep it the way it is or we can look at the reserve policy with

an eye toward treating withdrawn members more as individuals rather than being entitled to be subsidized by the pool.

Irvin asked if Gargano was looking for a simple recommendation for the CCLC to explore this with whatever research is going on. Irvin stated that this made sense to him. Gargano stated that this is the recommendation she is looking for, and asked if anyone felt differently. Stricker stated that this seems like it will be controversial and you are going to have to show some examples. Stricker asked if there were others? Ely replied, yes. Stricker stated then you are going to have to point out that we are not trying to be punitive, we are just trying to look out for the pool. Ely stated that we have to remember that any lawsuit that Buffalo Grove gets that relates back to anytime between 1979 and 2016 is IRMA's because we provide occurrence based coverage. They will get a better deal in the private insurance market, because their proposal includes claims-based coverage which is always going to be cheaper.

Frances asked if we could look at it this under another lens and say that Buffalo Grove has to keep more in their reserves because of this philosophy that they have to pay for other members' within the timeframe they were a member. If we are looking at pooling philosophy then they should also be providing the buffer for any claims through 2016 as well -- not just their own. Ely stated that was true, but you have to pick one or the other. Either you are going to stick with the pooling philosophy and not ding them for their individual claims or tell them that they are leaving the pool, so they are responsible for their own claims. We will continue to get lawsuits for Buffalo Grove that we will have to cover for many, many years.

Clark asked if we could switch it? Right now we treat members on an occurrence basis. When you are no longer a member, we're going to flip that switch and now you are on claims-made basis. Ely stated that you can't retro change the coverage and that's the issue. If they get a lawsuit that comes out of the 2000 year, the 2000 policy says it's occurrence based. Stricker asked if that happens, would they have to pay their \$50,000 deductible. Ely replied, yes. For clarification, Irvin asked how long their deductible has been \$50,000. Boserup stated that it was for 2015 and 2016. So a claim in 2000 probably would be a \$2,500 deductible.

Ely stated that there is an end to workers' compensation for Buffalo Grove. They will have workers' compensation coverage only through the end of this year. Seventy percent of our cost is workers' compensation, so the majority of this is pretty well contained. They have a \$50,000 deductible for every one of their workers' compensation cases.

Ely commented that this is not like the sky is falling and we are going to go broke because of Buffalo Grove. We are not. From a financial perspective, Boserup has run the numbers. Buffalo Grove will have a .05% impact on members' administrative contributions, but the loss fund deduction with the actuaries (which we won't get until September) might make that a wash.

Wachtel commented that she hoped we weren't being reactive to the fact that it is a large member leaving and that we need to make sure that we are looking at this from a policy standpoint. Just because it is a large member with some large claims and a large exposure, that we are keeping our pool hat on.

Gargano stated that from a policy perspective, this policy was written in 1979 and updated over the years, but we didn't have these civil rights cases coming in and the attorney fees that rack up with these cases that might exceed \$50,000 easily.

Ely stated that she and Garvey had discussed just keeping a withdrawing member's reserve for 5 years and then work out some kind of formula to return the reserve. Ely stated that she didn't

want to send a signal to the membership that we are decreasing coverage or doing anything to diminish the benefits. Should a member have to pay more after they withdraw because they continue to cost the pool and the experience modifier isn't in place because they are no longer a member?

Irvin asked Stricker whether he thought it was a bad idea and unhealthy for us having the CCLC looking at this and the research that is being done. Stricker stated that he didn't mind looking into all of this. Stricker stated that all he is saying is that they are on the hook and they are obligated for what they are obligated for and that's it. This notion that we can take their members' reserve and pay actual claims over their deductible, we just can't do that. Stricker stated that he didn't really know what the difference is whether they are holding the money or IRMA is holding the money, they are still on the hook.

Ely stated that she agreed with Stricker. Because their deductible is at \$50,000, it is going to cover most of the claims. One of the big concerns that we have in the context of Buffalo Grove is the false conviction case. Our biggest threat from a financial perspective is the unknown of the false conviction cases.

Ely stated that staff is thinking about creating a false conviction contingency fund, so everybody would be protected. It would not be on a claim year basis and it would cover for those circumstances. All of us as municipalities face that threat. You never know when one of your convicted murderers are going to get exonerated because of DNA. This may take care of the reserve issue.

To reaffirm what she said when the meeting started, Gargano stated that it is not really about Buffalo Grove leaving. It is these civil rights cases that are out there that you don't know what the number is going to be at the end of the day.

Ely stated that one component is the false conviction cases. The other component that is important is to have a discussion on is member recruitment and member retention in the context of large members. Our actuaries have told us that it is important that we retain large members. Ely stated that she thought it would be helpful to get some direction from the Executive Board about what they want to do about member recruitment. We already have something going to the next Membership Relations Committee on revisions to the Growth Policy and thought it would be good to have the Executive Board to give some input on this.

Gargano stated that we already had a recommendation on the table. A motion was made by Irvin and seconded by Frances to recommend that the Coverage, Claims & Litigation Committee review and possibly revise the Members' Reserve Policy. A voice vote was called and the motion carried. Gargano added that she wanted the committee to be sensitive to the fact that we are not reacting to Buffalo Grove withdrawing.

Gargano stated that the next item to discuss is recruitment. Gargano asked Ely if she was looking for direction. Ely asked the Executive Board if they thought we should create a task force or involve the whole board in discussion, or is this a strategic planning type issue that should also incorporate whether we should be looking expenditures rather than revenues.

Irvin stated that he liked the way Ely laid it out in her memo. We covered the reserve fund issue. Going back to the revenue "penalty" in marketing, should we be looking at that even if we change the name of it -- whatever the analysis that we do to make the determination of what your premiums are - we should look at it. What other options are there that are really predictive of risk? Ely stated that staff is thinking about expenditures. However, depending on what line of

coverage you pick, payroll is the best predictor of workers' compensation. Gargano noted that this conversation is cyclical. Ely agreed that we have had this conversation for years and nothing has ever changed. We are not able to get new members that are large saying that we base our charges on revenue. Ely stated that there is a new approach in municipal governance and it is to increase revenues and decrease expenditures and decrease headcount. With that extra revenue, municipalities are decreasing their bonds and decreasing their pension debt and it is not going into expenditures. That revenue is less correlated to risk, you are raising revenue to decrease your financial obligations and bond ratings. It's time to look at it again and it's time to make a change. Ely stated that when she goes to Arlington Heights and says come to IRMA, they ask how we calculate our contributions and she tells them that it's based on their revenue. Why would you buy anything anywhere based on how much money you make.

Gargano asked if there was a way to do a blended rate based on 70% workers' compensation and have that determined by payroll. Clark suggested that if you do it on an expenditure basis, that you do it as easy as it is now with revenue evidenced by the CAFR. If we base it on expenditure and your expenditures go down, then your contribution is going to go down.

Irvin suggested that we have Ely investigate a blended rate and come back to the Executive Board rather than have a separate task force. Ely can also check into how the commercial market comes up with their rates. Stricker also stated that he would like to see how other pools do this.

Gargano stated that the last item to discuss was voting and selection of attorneys. The impetus behind that panel selection was that nobody knew where these attorneys came from and at least from Wilmette at the time, there was a feeling of why are certain attorneys not used. Gargano commented that it was an eye opening experience to be able to go through and select the one group and then the other group. As you know you run into situations where a municipality really wants somebody on a lawsuit. Why wouldn't we offer an opportunity, if they don't have a problem with the ARDC and they would be paid at the IRMA rate for panel counsel with the municipality paying above that if they so choose.

Ely explained that when she first started with IRMA she was of the mindset that let's just let that happen. Ely stated that now she totally understands why we need to have panel attorneys and that they need to handle our cases. They understand our approach and are responsive to us. The members are paying us to manage your claims. If your attorney is handling the claim and doesn't have a financial commitment to IRMA, they are less responsive to us, they don't follow our guidelines for purposes of billing and they don't keep us up-to-date on what's going on with the case. We totally lose control. Ely stated that she has seen this happen in a very slight amount of cases where we have used non-panel attorneys in the last two years. They don't care at all about IRMA's adjuster or talking about the case and we are the one who is paying for it.

Ely stated that our Early Intervention Program is one of the ways that we respond to employment issues. We have our panel attorneys available to consult with those issues. For the most part, the employment cases are not as complex. They are more personal, but not as complex. If the Executive Board wants us to look at opening this up again, staff is recommending that we don't touch it. We think that we should look at a high deductible package. If any of our members or prospective members want to go to \$100,000 or \$250,000 deductible, then they can pick their own attorneys as long as they are qualified. Another enticement might be that they don't have to give us a year and a half contribution to join - just pay us what you owe us for that year. Another benefit would be if their contribution where they get the optional deductible credit is \$1.5 million and their credit is \$500,000, they could give us

the \$1.5 million and we will invest it and keep in a fund for them called a High Deductible Fund and they can pay their contribution out of the fund.

Ely stated that we need to be more responsive to marketing to the large members, because we are not getting anyone. Irvin suggested that Ely should make recommendations and bring this back to the Executive Board. Then if the Executive Board thinks it needs to go back to the CCLC or MRC they will refer it.

Stricker asked how aggressive we are with recruitment. Ely stated that she wouldn't say we are being aggressive. The current policy says that we really don't need any more members. This will be brought forward in a more segregated fashion than the strategic discussion we are having right here. The MRC will discuss this.

Wachtel asked what would happen if we lost all the large members and became a pool of mid-size members. Ely stated that our actuary has said that there would be a large increase in the allocation of administrative costs that could potentially lead to even mid to small members getting better deals in the private insurance market.

Ely reported on the initial results regarding recruitment from the recent membership survey. The question on the survey was, "Should IRMA more aggressively pursue new members." Twenty-seven said, yes, and eleven said, no. There were three comments on Buffalo Grove withdrawing.

Ely asked what the full Board should be talking about at their October meeting. Gargano stated that we should revisit the fact that Buffalo Grove is leaving and here is what the impact will be. We cannot be overly concerned, but we should be able to lay out the facts. It's actually good news on the administrative side and we are still working through the details on the other end of it. Clark stated that we should also reinforce that this is a members' pool and one of the things that we are getting out of the Buffalo Grove message is that they are citing concerns that were never expressed. If members have concerns, they should express those concerns. Gargano noted that there may be some 20 - 25 year members that still remember how things used to be, and there is a new direction and energy in IRMA. We need to continue to impress upon the membership that just because things were handled one way in the past, doesn't mean you should assume they will be moving forward.

Wachtel asked how we were going to frame the discussion on Growth. Gargano commented that part of Ely's goals is that she was going to work with the Membership Relations Committee to see how we might be able to enhance recruitment, but we didn't define it. LeTourneau stated that we don't do mass mailings anymore as the only responses we received in the past was from small entities with losses above our target. How long do you market to a perspective member? We are marketing to North Aurora, but it could be years before they come in. The pricing is close, but they have a new manager with other things to do. We get other ones that we think are a good fit and we continue to visit with them. However, if pricing is close and they have a lot on their plate, they typically don't want to bring it up because it is not a quick and easy change-up. Ely stated that they really have to not like their current carrier.

Gargano said we are in a soft market and need to be competitive. Ely stated that this is going to the MRC because we haven't looked at our Growth Policy since 2003. We need to start looking at things a little more often.

LeTourneau also said we could hire a broker to bring members in, such as we did with Mack & Parker (now HUB International) when we brought in Highland Park. LeTourneau stated that he

received a phone call from a HUB branch office out of Westmont who had been contacted by Hazel Crest. This is another option to think about.

Ely commented that when we look at recruitment, we will look at whether we should be doing marketing and, if so, what kind of marketing. We will look at public relations and can also look at the use of brokers. Ely stated that personally she thought we should be a little more aggressive in recruitment.

Donahue asked if it would be inappropriate to have a list of people that you want to bring into IRMA. LeTourneau noted that he does have a list. LeTourneau noted that there are several HELP members that would be a good fit for IRMA. Donahue suggested that perhaps IRMA members could help by talking to managers of non-IRMA municipalities that they might know.

Ely stated that she wants to have a booth at the ILCMA, IGFOA, IPELRA, or to advertize in their newsletters.

Ely concluded that the direction is to bring something back to the Executive Board, except for the recruitment/growth policy that will go to the Membership Relations Committee and the reserve policy that will go to the Coverage, Claims & Litigation Committee. Ely stated that she would rather bring something back to the October 5th Executive Board meeting on the reserve policy before it goes to the CCL Committee. The Executive Board agreed with her. Therefore, the CCL Committee will see this at their November meeting.

An amended motion was made by Irvin and seconded by Frances to recommend that the Executive Board review and revise the Members' Reserve Policy prior to it going to the Coverage, Claims & Litigation Committee's November 2016 meeting for review. A voice vote was called and the motion carried.

## **II. ADDITIONS TO AGENDA**

None.

## **III. CONFIRMATION OF NEXT MEETING**

Gargano stated that the next Executive Board meeting would be held on Wednesday, October 5, 2016 at 9:30 a.m. at the IRMA office.

## **IV. ADJOURNMENT**

A motion was made by Irvin and seconded by Frances to adjourn the meeting. A voice vote was called and the motion carried.

Submitted by:

Approved by:

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Margo Ely  
Executive Director

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Kathleen Gargano  
IRMA Chair