



## AD HOC COMMITTEE ON MEMBER RETENTION

### Meeting Minutes

**Monday, April 19, 2010**

**Westbrook Corporate Center Conference Room**

**11:00 a.m.**

**PRESENT:**

Art Malinowski, Chair	DeSha Kalmar
Doug Petroschius	Ronald Pfeiffer
Ingrid Velkme	Maria Lasday
Curt Barrett	Tom Durkin
Jennifer Milewski	Phil DePaolo
Diane McNulty	Donald Lay

**ALSO PRESENT:**

Larry Bush	Mary Henzler
Laura Vesecky	Dan LeTourneau
Susan Garvey	Jackie Streid
Jim Corcoran	

**ABSENT:**

Mary Hatton	Greg Van Dahm
Blaine Wing	Peggy Halik
Scott Coren	Bruce Morris

#### I. CALL TO ORDER

Malinowski called the meeting to order, introduced himself as the Chair of the Ad Hoc Committee, and thanked everyone for participating. Malinowski commented that he thought it was extremely important that we respond to the needs and concerns of our current members so they remain as members. For the benefit of the group, Malinowski asked that everyone introduce themselves.

Malinowski stated that a packet of information supporting the issues outlined in the memo that had been emailed to the committee was in front of everyone along with another copy of the memo on Issues for Discussion.

Bush explained that as far as what was to be accomplished at the meeting, there are a lot of issues outlined in the memo; as member retention is really a very broad topic. Bush stated that we certainly didn't expect to resolve the issues today, but wanted to discuss them and get some idea as to what we want to pursue and what data or information we need to gather.

Bush went over the packet of information that was distributed in support of the Issues for Discussion. The first piece of information was a committee roster that was divided into five size groups of 20%. Bush explained that staff decided that it wasn't appropriate to only have small and large member groups and added a mid-sized group. Bush noted that one needs to keep in mind that depending on what period of time you look at, a member could fluctuate from one group to another. Bush commented that a lot of members look at the membership in terms of size. There are very large members who think they are overpaying and very small members who think they are overpaying.

Another item in the packet of supplemental information was a listing of the members who have withdrawn from IRMA. Bush commented that this list is dominated somewhat by the very large members and there are several reasons why. One is that very large members have more of a choice in that they are capable of self-insuring a large portion of their risks. For example, most of the large members who have left IRMA have gone to very large deductibles -- usually at least \$250,000. If you are a very small member, you have no alternative but to buy commercial insurance.

The next item in the information packet was the Five-Year Ratio of Claims to Loss Fund Contribution by Member. Bush explained claims to contribution as the amount that is paid out in claims for a member divided by the amount collected from that member. Bush stated that one can look at this document in several ways. The very large member would look at this and say that they are not getting back the return on their investment. Bush pointed out that the very last column on this document shows how each group compares to the IRMA average. Bush explained that when we do the experience modifier, that portion of the formula is based on the losses within the experience modifier level (\$50,000) of each member compared to the IRMA average.

Bush indicated that another financial issue is the fact that small members that perform well do not receive adequate credit because of the credibility factor.

Bush noted that the memo included the most recent five year period showing the impact of size upon the financial performance of members. A separate page was distributed showing the five year period prior to the most recent and then a table showing the 10 year period. Bush commented that at the bottom of each table was the Income Interest Credit for that period. Bush noted that those figures are not in the tables and part of the problem is that it isn't clear where those numbers should be. Even though they are paid out in a certain year, they are really earned from prior years. They are a very important factor and the Interest Income Credit in the past was totally based on size, so the large members have received a larger portion of Interest Income Credit.

Lasday asked if the category of revenue base could be added to the analysis. Malinowski stated that it could be added, as the memo on Discussion Issues was just a starting point for the committee. Bush commented that revenue base is one of the key factors that cause the contribution to be what it is.

Bush explained that the City of Lake Forest had an independent consultant study done and copies of the study would be made available to the committee following the meeting. Bush indicated that the author of the report, Peter Wright, would be at the next ad hoc committee meeting to present the findings of the report and answer questions.

Bush reviewed the Issues for Discussion memo noting that some of the items included in the Issues for Discussion memo were taken from the consultant's report and some issues were added from discussions between staff and members who were considering leaving IRMA last year. Bush did add that none of the members who went out to market last year actually left IRMA.

## **Governance**

Bush explained that many of the members, regardless of size, have raised questions regarding special districts. IRMA was created as a municipal pool. As time went by, there were some special districts that provided services to those municipalities and those municipalities wanted to

extend the benefits of the pool to their special districts. Bush noted, however, that the municipality and the special district do have somewhat different interests. This difference has been raised at various times, but was specifically raised in regard to the zoning issue. Bush commented that the perception of some members is that when a special district is aligned with a member, it basically gives the member two votes. In regards to the zoning issue, the vote was very narrow to continue to provide coverage for zoning and some special districts voted to cover it, even though they have no zoning exposures. However, in speaking with one of the special districts at that time, they indicated that they voted to continue the coverage because it was for the benefit of the pool, even though they did not get the benefit. Bush also noted that he had a call from a special district who anonymously stated that they were called by the municipal member and told how to vote.

McNulty stated that she had heard some other special district discussion at another ad hoc committee she had been on a couple of years ago where a larger village thought that a special district should not be able to vote. McNulty agreed that there are some things that don't necessarily concern a special district all of the time, so a two tier system isn't something she would be adverse to. However, there are a lot of things she wouldn't want to lose a vote on. Malinowski commented that it could work both ways, if a village doesn't have a fire department, should they be voting on fire department issues? So where do we find the common ground or strike the balance?

Bush mentioned another element that came out during the Lake Forest study is that a larger member's financial stake is much larger, yet they have the same vote as a smaller member or a special district. Bush commented that there are some pools whose vote is proportionate to the amount a member contributes. Bush stated that it takes a 2/3 vote for us to change our bylaws and he didn't think there was any realistic likelihood that the membership would vote to go to a proportionate type of vote.

McNulty explained that the Library District covers most of Cary and a portion of Crystal Lake and, in effect, she could be influenced by two members. However, McNulty stated that she doesn't always vote with the Village; she votes on what the Library District wants.

Lasday commented that she felt that if you were going to accept special districts, they should have a vote. Lasday noted that her community belongs to cooperatives with several school districts and they have one vote and the municipality has one vote.

Vesecky questioned what we want to do with special districts going forward, noting that we just brought in NIPSTA, another special district. Do we want to put a cap on the number of special districts allowed into the pool? If we continue to bring them in, it could eventually change the entire makeup of the pool.

Bush stated that there could be different proposals regarding special districts, if we decide to make a change. One could be that any new special districts coming into the pool not be eligible for voting. Another could be that every three special districts get one vote. Lasday stated that she didn't like the idea of a special district voting on an issue such as zoning, so maybe they should just abstain. Bush indicated that abstaining could have a negative impact on bylaw votes.

McNulty noted that if she didn't have a vote, there would be no reason to come to a Board meeting. Velkme stated that she has never heard of entering into a cooperative and not having a vote. Malinowski indicated that he wouldn't want to join a group and have no input into the governance of the group.

LeTourneau commented that even special districts are new member growth. If the concern from the entire membership is that the special districts could change the entire makeup of the pool by controlling board votes, we could have a percentage cap for special districts and don't offer membership to a special district if the percentage cap is reached, unless that percentage drops.

Velkme asked if other pools have this dilemma. Bush noted that IRMA is unusual in that every member has a vote. Typically, other pools have proportionate votes and/or their Board would be a smaller Board elected by the members. Bush commented that he thought it was great that we have each member represented on the Board of Directors. We get a lot better participation than other pools do and our pool performs better for it.

Durkin stated that if Bush thinks the makeup of the pool works, then he feels the question is answered in that we shouldn't be dividing up the votes. It should remain one vote for each member. Bush stated that he still felt there was an issue with the special districts.

Kalmar indicated that the zoning issue and that whole vote was a big concern of Lake Forest and it is raised in the Peter Wright report. Bush stated that perhaps the discussion on this should be deferred until the next meeting when Peter Wright would be in attendance to answer questions.

Vesecky provided a little history on special districts, stating that, originally, the pool did not have special districts in their membership. We started allowing special districts to join as members because some members indicated that these special districts are providing services to our municipality and we want them to get the benefit of the IRMA coverage and loss control services. Originally, they did not have a vote, but as more of them joined the pool, they were given a vote.

Bush brought up the issue under Governance of the smaller members not having the staff to be able to participate. Malinowski commented that he did like the idea of allowing a second alternate. Several members concurred. Malinowski stated that he didn't know if there was a downside to allowing a second alternate. Bush commented that if there was a downside it would be that the second alternate has not participated as much as the first alternate. However, presumably they would be getting briefed by the delegate and/or first alternate.

Bush noted that this also ties into the fact that right now we do not allow proxy or absentee voting. We really want people at the meetings to hear the discussions. Malinowski also stated that he was a proponent of physically being at a meeting to be a part of the discussions and debates. However, he liked the idea of being allowed to appoint a second alternate. How a member briefs that person in anticipation of a meeting is up to that member. Bush concluded that there seemed to be a consensus that allowing a second alternate was a good thing to do.

Bush explained that another issue that comes up from time to time is allowing emergency voting remotely. Bush noted that this came out of a December Board meeting where there was a huge storm forecast and it ended up being fine and we had enough people in attendance. At one of our committee meetings, someone brought up the idea of remote participation even in non-emergency situations. The committee discussed this and didn't feel IRMA should move in this direction.

## Financial

Bush noted that especially right now with the finances of our members, financial issues are probably at the top of everyone's list. An issue brought up in the Lake Forest report is that the credit for \$100,000 deductible is inadequate for the very large members. Bush reported that in 2003 we had Towers Perrin conduct a study and in relationship to claims to contribution, it showed that the very large members were paying a little bit more than their share. At that time, there was only one deductible offered and one of the solutions Towers Perrin suggested was to offer deductibles up to \$100,000, which we did. However, very few of our largest members have taken advantage of this. Bush stated that he has been puzzled by some of the larger members who have left IRMA and never took the larger deductible, but have left and are now at a \$250,000 or greater deductible.

Kalmar commented that she thought some of the reason for that could be the way the information is presented to the members. Kalmar stated that she looked at it and her Finance Director looked at it and felt that it didn't make sense for Lake Forest to go to the higher deductible. However, in a meeting where Bush came out and presented the numbers, it did make sense. Kalmar commented that she thought something is being lost in translation.

Bush noted that there are individual years when it wouldn't work out to take the higher deductible. Aside from the dollars, there is value in stability in budgeting. If you take the \$100,000 deductible and you have a really bad year, you may have to come up with some funds that you wouldn't have had to if you took the lower deductible. There is no question that there is increased risk.

Lasday commented that they had looked at increasing their deductible; however, the exposure was too high because it is based on per occurrence. If there would have been an aggregate cap, her community would have increased their deductible. Bush stated that we could certainly have an actuary look at an aggregate deductible cap. The committee agreed that this should be looked at by an actuary.

Pfeiffer commented that when he first read about the Ad Hoc Committee being formed, he thought we would be looking at outside factors rather than the inside factors being discussed. Rather than looking at special districts or deductibles that affect us on an individual basis, he thought we would be looking at IRMA as a whole trying to attract new members or retain current members. His concern was whether we are really focusing on that area right now. Pfeiffer asked when was the last time IRMA hired an actuary to really look at the pool. Pfeiffer asked what the reasons were that members have left the pool. For instance, did Highland Park leave because they sold a large piece of property which caused their revenue base to go way up? How many other members have left for this same reason? LeTourneau indicated that we have exit interview information on the members who have left the pool. Barrett asked if the committee could have a summary of that for the next meeting.

Lasday said that if a number of members have left because of their revenue base, this is a really big issue. Bush said that when you say revenue base, it's actually the contribution – how much they pay. The revenue base is part of that as well as the experience modifier. You could make the claims to contribution part of that also. Bush commented on Palatine who left primarily because of the cost. It just so happened that they had a five year period of time with lots of cases up to \$50,000 and that is what is covered in the experience modifier. They had virtually nothing substantial above that. Bush noted that one of the things you get absolutely no credit for now is not having a really big loss.

Vesecky noted that we did make a change to address having a really bad spike in one year. That change was to use average revenue base over a five-year period. So if you sold a really big piece of property you wouldn't get hit with that in the following year, it would be averaged over the next five-year period.

Bush commented that the revenue base is something that has been discussed at IRMA many times, and the consensus he has heard from most of the members is that we are not going to go over that again. However, there are things that modify the revenue base such as experience modifier. If we were to bring in something similar to the experience modifier for the claims to contribution, this would offset the impact of the revenue base.

Vesecky commented that from a pragmatic approach, revenue base is a bylaw and it takes a 2/3 vote to change it. Because of that it has been very difficult to change. However, the experience modifier is a policy and only takes a simple majority vote to change. So if we can affect a similar change by changing the experience modifier, we would have a better chance of having it approved.

Pfeiffer asked how the experience modifier is physically calculated. Vesecky stated that all your losses over \$2500 and capped at \$50,000 are added up for a five-year period and divided by your revenue base for the same five-year period. If you are higher than the IRMA average then you pay more, if you are lower than you pay less. This is also modified by a credibility factor.

Pfeiffer asked if this is an acceptable way of doing it, or is it just a calculation that has been done in IRMA since IRMA has been in existence. Vesecky stated that the last time we looked at this it was in 2003 and we tweaked things. We instituted most of the recommendations that came out of the 2003 study. Pfeiffer commented that the study was seven years ago and maybe it is time to do another study.

Durkin commented that perhaps we should just have a consultant or an actuary look at everything we are talking about – the strengths and weaknesses and the options that we have, rather than the committee holding four meetings to discuss all of this. Durkin asked whether there is someone out there that could do a study and then we could discuss the findings in the report. Vesecky indicated that our insurance broker works with a lot of pools and we have talked to them and other pools; however, there isn't a norm. Malinowski stated that he thought some of that might come out at our next meeting when we have Peter Wright in attendance. Malinowski indicated that it appears we are leaning toward an actuary, but we may want to continue on past the numbers. An actuary isn't going to talk about governance.

Lasday asked LeTourneau and Bush what they learned when they went out to talk to the members who were seriously thinking about leaving. What were some of the concerns? Bush stated that the number one concern was dollars – the smaller the better. Lasday questioned what the purpose of the ad hoc committee was. Lasday asked Bush whether he felt there is a real threat out there of IRMA losing members. Is our product strong enough that we should just leave it the way it is?

Bush expressed concern that there is some danger of losing some of our larger members. Bush commented that back in 2003, we hired Towers Perrin to look at the whole picture and they did come up with the fact that our very largest members are being overcharged. They came up with the higher deductible to help with that. Bush noted that Towers Perrin had also suggested a size credit that we didn't implement at the time. It basically gave a credit based on size. For the very large members that credit was going to be 15%, for middle size members 6% and the very small members 0%. It showed how it would affect the various sized members.

Bush noted that we can distribute the results of that study to the ad hoc committee. The real question is that it didn't go anywhere at the time because it showed various sized groups having to pay more. Since that time, Highland Park and Palatine have left and that has had a negative cost impact as well. Has losing those large members had a larger negative impact on the very smallest members, even more than Towers Perrin's proposal would have had? This proposal would have increased the cost for the very smallest members by about 6%, but the departure of the two large members may have affected the smallest members more than 6%.

Malinowski noted that in today's economy, members have to look at other options and what can we do to make IRMA be the most attractive option out there no matter whether we are large or small or in between. Malinowski noted that earlier someone had asked what the purpose of the ad hoc committee is. Primarily, it's what we are doing well and what we could do better to keep IRMA as the most attractive option that we all have. It's not a matter of whether a member will look at the external market, but whether they will be looking next year or every year. We do have a good product in IRMA, but what modifications could be made to make it better for every size member in IRMA. If a byproduct of that is attracting new members, then that is great. It's really to adapt to the changing market to retain our current members.

Vesecky commented that one item that makes IRMA unique is that when a member leaves, they get back their surplus. Towers Perrin has told us that in it doesn't work that way in most other pools. If you leave the pool, you leave your surplus behind. With IRMA, not only can a member leave the pool, but after a few years they start getting back their surplus.

Pfeiffer commented that most members are going to lose a chunk of revenue this year, not only because of the economy, but because of what they is going on in Springfield; however, he doesn't see the cost of IRMA changing much. Pfeiffer asked whether the costs of policies, insurance, and administration were going to remain relatively the same. Vesecky stated that the overhead is less than 10% and the excess insurance is about another 10%, so 80% of our budget goes to the loss fund. The loss fund is calculated by the 2011 revenue base, so if that goes down 5% then our loss fund goes down 5% and our budget will go down almost 5%. Vesecky noted that we already have a preliminary rate from the actuary. The actuary recommends the selected rate and right now the selected rate is flat. Vesecky noted that staff is not convinced that the actuary is correct, but the actuary looks at it again in September. Vesecky stated that staff will be talking to the Finance Committee as to whether we should go with the selected rate or with something lower. Vesecky explained that it would be cumulative, so if the revenue base went down 5% and the rate went down 3%, we would have an 8% savings. There is a direct relationship between the members' revenue and IRMA's budget.

Bush stated that there are several things we can have the actuary look at, such as the aggregate cap, possible ways of changing the formulas, etc.

Bush brought up the issue of the one year notice of withdrawal and what the damages would be if the contract is breached by a member leaving before the one-year notice. Bush noted that we had a couple of members last year, at the urging of their brokers, suggested that our one year notice for withdrawal was unenforceable. Bush indicated that staff doesn't think this at all. We believe that it is clearly a breach of the contract. The question is what are the damages? If a member leaves without paying their contribution, they are not going to get coverage. It would be helpful if we could set out in advance what the damages are if a member leaves early. What we could do if a member leaves without the one year notice, is to keep their reserves and call that liquidated damages. Bush noted that you can't have penalties in contracts, but you can determine ahead of time what the damages would be if the contract were breached. Lasday stated that she thought then you were giving the members an option. Bush agreed with this, but

felt that the member would be leaving the pool whole. The committee discussed this and thought a better idea would be to charge the member leaving the pool without the one year notice the amount of one year's contribution taken from their members' reserve. Bush stated that staff would look into what the better idea would be. Lasday asked that staff get a legal opinion on whether liquidated damages would be enforceable when a member left without a one year notice of withdrawal. Bush indicated that staff would get a legal opinion.

Bush stated that we can have the actuary look at the item of larger members being capable of assuming larger retentions/deductibles.

Bush also indicated that the actuary could look into whether the revenue base formula allocates more costs to growing entities compared to members with stable or declining economies.

Bush brought up another issue for discussion – IRMA's conservative approach to funding, which has resulted in higher costs. Even though excess funds are returned, the member does not have the use of those funds for five years. Possibilities for change are to take a less conservative approach to funding, such as discounting reserves or going with the lower loss pick. Bush mentioned that some pools during economic crisis have loaned funds to members at low or no interest with reserves as collateral.

Bush noted that the actuary could also review data to determine if costs are not allocated appropriately to any particular sized group.

## **Claims**

Bush noted that the consultant who did the study for Lake Forest had talked to some of the other members and they had talked about having more control over their claims. Bush noted that he wasn't sure where this was coming from as each member has to approve any settlement recommendation coming from IRMA. It was determined that this may have something to do with attorney selection. Bush commented that the organization has discussed this and as individual member's, some members would like to appoint their own attorneys, but understand that they are a part of a pool that has come up with the policy we have.

Bush stated that the issues in the memo were issues that the staff had come up with and asked if anyone had any other issues they thought the committee should look at.

Velkme asked if we have thought of any other services that we can provide, since one of the advantages we have is the services that IRMA provides.

Pfeiffer asked what reasons prospective members who have applied to IRMA over the past five years have given for not joining the pool. Bush noted that it was price. One thing that we recently learned was that even though we are competitively priced overall, the one year contribution to the members' reserve is an extra cash draw. Also, sometimes there are local politics that come into play.

Lasday mentioned that IRMA should have better materials for a member to give to their Boards that summarizes with bullets exactly what IRMA provides. Lasday commented that her municipality was ready to leave, until IRMA staff reviewed the policy with her municipality's Finance Director and pointed out the benefits of IRMA and why they should remain in the pool.

Bush mentioned that one thing staff was considering this year was hiring an intern for the summer and sending them out to the members on the Watchlist to help in the work needed to

implement policies. We have had a lot of small members ask if we could send someone out to help them, because they just do not have the available staff. Bush noted, unfortunately, the several interns we have interviewed have taken other jobs. LeTourneau indicated he still had one additional interview to conduct. Velkme noted that it is not just the small members having difficulty – even larger members have cut back on staffing. Velkme commented that IRMA staff needs to be cognizant of the amount of work and time it takes to get ready to have an IMAP or Hazard Survey Visit.

Bush stated that IRMA has kept its staff incredibly lean compared to staff at comparable sized pools. PDRMA is about the same size as IRMA and they have double the staff. They do have risk management staff that can go out to help out their members. Bush commented that it was his impression that IRMA's membership has wanted to keep the IRMA staff lean. Malinowski commented that he would say go ahead and double the IRMA staff, however that would impact the budget and that would not be tolerated at all by the membership.

Kalmar stated that she used to complain about all the work in putting policies in place, but if you ever had the state come out and audit you, it is because of IRMA that we have all our policies in place and do well in inspections.

Bush concluded that the time allotted for the meeting had come to an end, and indicated that Peter Wright would be invited to attend the next meeting. Bush asked that the committee members take a copy of Peter Wright's report for Lake Forest on their way out.

Bush also indicated that staff would ask the actuary what would be involved in looking at the aggregate cap and some of the formula changes.

#### **CONFIRMATION OF NEXT MEETING**

Bush asked if Monday was a reasonably good day for these meetings and suggested May 10<sup>th</sup>, if that was a good day for Peter Wright. Bush indicated that staff would check that date out and email the committee.

Submitted by:

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Larry Bush, Executive Director

Approved by:

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Art Malinowski, Chair  
Ad Hoc Committee on Member Retention