



**ADMINISTRATION & FINANCE COMMITTEE**  
**Meeting Minutes**

**Thursday, September 19, 2013**  
**IRMA Office**  
**9:30 a.m.**

**PRESENT:** David Clark, Chair  
Dan Nisavic  
Andrianna Peterson  
Scott Anderson  
Janet Gorman  
Spencer Parker

**ALSO PRESENT:** Rita Boserup  
Mary Henzler  
Larry Bush  
Brian Goding, Marquette Associates

**ABSENT:** John Prejzner  
Gerald Sagona  
Kelly Amidei  
Katy Rush

**I. CALL TO ORDER**

Chair Clark called the meeting to order. Roll was taken and a quorum declared.

**II. APPROVAL OF MINUTES – June 10, 2013**

A motion was made by Anderson and seconded by Parker to approve the June 10, 2013 Administration and Finance Committee meeting minutes. A voice vote was called and the motion carried.

**III. FINANCIAL REPORTS**

- A. IRMA Financial Statements as of July 31, 2013
- B. IRMA Investment Portfolio as of July 31, 2013
- C. IRMA Payables for the period 5/24/13 – 8/31/13

Clark asked if anyone had any questions on the reports. Hearing none, a motion was made by Anderson and seconded by Binder to approve the Financial Reports. A voice vote was taken and the motion carried.

**IV. 2<sup>nd</sup> QUARTER INVESTMENT PERFORMANCE REPORT**

Goding noted that if anyone was interested in receiving Chart of the Week Posts, Newsletters, Webinars and White Papers from Marquette Associates, they can go to the Marquette website at [www.MarquetteAssociates.com](http://www.MarquetteAssociates.com) and sign up to receive them.

Goding briefly reviewed the first part of the report that gives an overview of the Market Environment during the 2<sup>nd</sup> Quarter 2013.

Goding reviewed the information in Exhibit 1 that deals with IRMA's Fund. Goding reported that we have had a couple managers that have been on watch, Legg Mason International Equity and Mainstream. Mainstream has decided to close, so the decision for IRMA to terminate them has been made for us. Goding stated that he would discuss

the rebalancing of our total fund a little later in the meeting, including the suggestion of what to do with the Mainstream assets.

Goding reported that IRMA's total fund reached \$143,743,015.15 as of the end of June 2013. The total fund was down 1.9% for the month of June and down 1.1% for the quarter. Goding commented that a lot of the underperformance has been with the fixed income. On the equity side, we have quite a bit of money in the equity index fund and that is performing like the index, which is what we expect over time.

As was noted earlier, Mainstream has decided to close its doors and will be wiring money out at the end of the month. Right now, Goding stated his suggestion is putting this money back in and distributing it to current managers.

Goding distributed a sheet that brings the fund up to date as of September 17, 2013. The total fund is \$148,607,046. The current allocation is 58.8% Equity, 6.7% Alternatives and 36.5% Fixed Income.

Goding suggested pulling some money out of the S&P 500 Index Fund and Chicago Equity Partners and put \$5,000,000 into Western Asset Management and the \$5,000,000 plus the money from Mainstream into PIMCO. This will rebalance the Equity allocation back closer to our target of 50%.

Goding stated he wanted to talk a little bit about what he was thinking as to where to place the money we will be receiving from Mainstream. Mainstream was a fairly unique strategy. We selected Mainstream in the beginning because they were pretty vanilla alternative manager. Goding stated that he doesn't think it would be worthwhile to go out and try to find another manager to duplicate Mainstream's unique strategy. Goding stated it may better serve the fund to go with a fund to funds approach and have Mainstream's allocation moved to a fund to funds that invests in a number of different strategies and diversifies across a broad spectrum of hedge fund investments. Goding stated that he wanted to be sure that this is something that the Administration & Finance Committee would be comfortable with. The committee discussed this approach and Goding stated that he would come back to next meeting with two or three alternatives.

A motion was made by Nisavic and seconded by Gorman to rebalance the fund to 52.4% Equity, 4.3% Alternatives and 43.3% Fixed Income. A voice vote was taken and the motion carried.

For the committee's information, Goding distributed an update on the fund as of August 31, 2013.

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Bush stated he wanted to move ahead to agenda item IX – Investment Newsletters, stating that we have been posting our investment managers' news on the IRMA website and we want to discuss that. Bush asked whether the committee wanted to continue to have the investment letters posted and if they actually read them. After a brief discussion, the committee decided that the investment letters do not need to continue to be posted. Bush stated that they would be removed from the website.

Clark asked Goding what universe was used in the 2013 Marquette Associates Investment Management Fee Study – referenced on page 95 of the quarterly report. Goding stated that he would have to research that and would bring something back to the next meeting.

**V. IRMA'S PERSONNEL HANDBOOK – VACATION FOR PART-TIME EMPLOYEES**

Bush reported that this was a revision to what was approved at the last Board of Directors meeting, which was a correction to an error in that we were over providing vacation time to part-time employees -- equivalent to what a full time employee is provided.

Bush noted that we currently use part-time employees as part of our basic workforce. Going forward, we are recommending that regular part-time employees earn two weeks of part-time vacation three months after employment begins. A motion was made by Anderson and seconded by Parker to approve the recommendation of regular part-time employees earning two weeks of part-time vacation three months after employment begins. A voice vote was taken and the motion carried.

**VI. 2014 PERSONNEL REPORT**

Bush stated that there is no recommendation for an increase in the staffing levels. Based on reports from the Hay group on the general industry salary report and the insurance industry salary report, we are requesting a 1.75% increase in the salary ranges for 2014. This is lower than it has typically been. We are also recommending a 3% merit increase budget for 2014. Bush noted that merit increases are the only increased provided to IRMA employees. Bush stated that we are recommending one promotion for our Administration Assistant to a Senior Administration Assistant, whose job responsibilities have changed dramatically over the years.

After a brief discussion, a motion was made by Gorman and seconded by Anderson to approve the 2014 Personnel Report.

**VII. VILLAGE OF BARRINGTON REQUEST FOR REVISION OF REVENUE BASE CALCULATION**

Bush reported that for many years, Barrington has been providing fire protection services outside their own boundaries that were being paid for by the Barrington Countryside Fire Protection District. This goes all the way back to the 1940s. For various reasons, the FPD has decided to go with a private fire service. Since this function will no longer be provided by Barrington, there will be a substantial reduction in the exposure to Barrington. It just so happens that a disproportionate share of Barrington's losses has come from the Fire Department. Since this exposure is disappearing, they are asking that their contribution calculation be impacted.

Bush noted that this is very close (not identical) to the concept that we have been discussing that if someone outsources a function that there should be a revenue base reduction. It is a somewhat different situation in that Barrington has losses that will be disappearing. Barrington wanted all revenues to be dropped out of the calculation, but

we have open claims and we could be getting claims for two years from Barrington. Staff thought that there are a number of concepts that are included in the memo that was emailed to the committee that should be taken into consideration. Bush apologized for sending this memo so late, but was hoping that the actuary would have gotten back to us with their analysis, but wasn't able to do so.

Bush noted that the other members are not going to want to see their rate go up because of this, so the reduction to the member's contribution should be matched by a reduction in the contribution to the loss fund. The amount of the reduction should be based on actuarial analysis that considers both exposures and prior losses. Bush stated that we had talked about when a function is outsourced that the revenue base would be deducted. However, this doesn't really affect the contribution rate for two years because not until the 2016 contribution does the 2014 revenue base get considered. If a village is eliminating an entire function, their governing board isn't going to want to wait 2 years to see a reduction in their IRMA contribution. We are proposing that this process also be used if this type of outsourcing situation arises.

Nisavic asked about giving some kind of credit after we establish the numbers. Bush stated that going forward the revenue base really does work. So this would only be for the transition period. Once the revenue base kicks in, we no longer will need to do an analysis. Bush stated that we need to do some work on the exact wording that will describe this. There is one other thing that we have to do and that is that it is conceivable that one of our members is a recipient of an outsourced function. For example, what if a non-member contracts with an IRMA member for services? We would need a similar immediate increase because our exposure is going up right away. Nisavic suggested having some kind of factor to plug into the formula for this type of situation -- something less than what it might end up being. Bush stated that what we are proposing that the actuary look at all the data, because it really does vary.

Bush also brought up the situation with the Village of Lincolnwood that has used the same private company for many years and has asked for relief for many years, but was never granted it. Bush stated that if we are going to do this for Barrington that we also need to do this for Lincolnwood. Bush did note that Lincolnwood is a different case, as there are no losses as they have not had the employees for many years. So in their case this could be done by just reducing their revenue base. This would affect the other members. We ran the numbers and if we gave Lincolnwood credit for the five years of revenue base, it's \$2.6 million per year that they have been paying this private contractor. It would save Lincolnwood about \$24,000 in 2014 and the most it would impact any other IRMA member is about \$700. Bush stated that he felt that Lincolnwood deserves this and commented that the average impact on other IRMA members would be about \$350

Bush noted that the outsourcing hasn't been voted on by the Board, but was going to be voted on at the December meeting. What he was looking for today was consensus of the Administration and Finance Committee that if the outsourcing is approved in December to immediately give credit to Lincolnwood.

Bush stated that for those who choose to outsource and have losses, we would need to rely on an actuarial review to determine a credit until the revenue base kicks in. An analysis would have to be done every year until the revenue base is in full effect. Parker asked how much an actuarial study costs. Bush replied that it should not be significant if

done with the annual analysis. Bush stated that he would suggest that the member pay the fee for the analysis.

Peterson asked if there is any value in their being any kind of language in these outsourcing scenarios in making sure that the insurance we have on file for those contracted situations meet certain standards and transfer the risk. Bush noted that this is very important and when we talked about the outsourcing they either have to use the language that we provide on the indemnification or we need to approve it in advance and we will be reviewing the contracts. If the contract doesn't effectively transfer the risk, then it isn't any good. We have made this part of the procedure.

Clark suggested that the members entering into outsourcing functions need to report this in their underwriting every year or have some kind of a license. Bush stated that he felt that reporting this in their underwriting every year should be enough.

Peterson noted that what they have a problem with is getting a contract from a contractor that is great, but when they get the certificate of insurance from the contractor it doesn't match the contract. Bush stated that we have talked about this in the past and the way we are planning on implementing this is giving a 90% reduction, not 100%, because we will not be able to totally eliminate any possibility of getting hit with something.

Parker stated that with the outsourcing, what we discussed at the last meeting and came to a consensus on was that if a member outsourced a function in 2014, does that get a credit immediately or does it get a credit when the 2014 revenues are reported?

Bush stated that what we are now talking about is giving a member something the first full year based on the actuarial study. In our earlier discussions, they wouldn't get something until later. It wasn't until Barrington brought this up that we realized this was an important issue and we needed to look at giving members who outsource some kind of credit now and not wait a few years. The intent was that we were going to bring back the language for outsourcing to this meeting. However, because this came up with Barrington, we realized that the language would need to be revised. We will bring this wording back to the next meeting. Bush stated he just wanted a consensus that this approach made sense before moving forward and going into it in detail.

Bush stated that we need to make sure that these are when members stop providing a function, not when they decrease staff members. This is something that is known and planned for. This is not automatic. IRMA staff will have to approve it. We have to have a methodology that there is a requirement that the member reports the new function to IRMA. We will need to come up with a definition for this.

Bush stated that additions are really a problem. We had not considered additions until this whole thing came up with Barrington. Bush stated he didn't know whether we will get this done before the next meeting.

Parker noted that this could be an administrative nightmare. Bush stated that this is a valid concern. Bush stated that it is a nightmare if there are 11 per year; however, if it happens once every two years, it should be okay.

Bush noted that IRMA is expecting increased competition from the commercial insurance market. We are somewhat concerned that if someone is outsourcing and is

no longer providing a function that caused 40% of their losses and receives no reduction from IRMA, it could be a problem. With the new legislation, a member can withdraw in 120 days. Maybe IRMA has to start being a little more flexible than in the past.

After further discussion regarding IRMA staying competitive, Bush stated that there is a lot of work that needs to be done on this. Staff will look at all the details and bring this back to the next meeting.

#### **VIII. 2014 PRELIMINARY BUDGET**

Boserup stated that on page 55 and 56 there is an overall summary of the different items in the budget. Boserup noted that under Personnel – the salary budget increased by \$32,469 or 1.97%. Boserup reported that under Other Personnel Expenses, the budget is being increased 19.5% mainly for increased training for her on the accounting system, business objects, Riskmaster, etc. Under Information Technology the budget is listed right now as being unchanged. We have had discussions with our Information Technology people and we don't believe there will be any changes needed to server or physical equipment. We will take another look at this before the final budget. Capital Outlay is being increased by \$20,000 to accommodate the purchase of a replacement main office copier. We will get some pricing to get a better number for this. The Commercial Insurance budget has decreased by 2.73%. It looks like we have a loss fund decrease of 5.28%. We don't have a final number on the revenue base as there are still five members who have not sent in their revenue base worksheets. Boserup stated that she isn't expecting a change in the estimate she has provided on page 56.

Nisavic asked about the increase in Health Insurance under Personnel Services. Boserup stated that our policy is up for renewal January 1<sup>st</sup>. However, because of the Affordable Care Act, we have the option with Blue Cross Blue Shield to renew it December 1<sup>st</sup>. Nisavic asked about the 8% increase and whether the new quote came in at that. Boserup explained that we haven't received the new quote. Our broker is talking about 40% increases for people who renew January 1<sup>st</sup>. On January 1<sup>st</sup>, it goes to age bracketing. Bush noted that by the time of the final budget, we will have the actual number.

A motion was made by Nisavic and seconded by Anderson to approve the 2014 Preliminary Budget. A voice vote was taken and the motion carried.

#### **IX. INVESTMENT NEWSLETTERS – Discussion**

This item was discussed earlier in the meeting.

#### **X. ADDITIONS TO AGENDA**

Clark asked about the Interest Income Credit. Bush stated that this item would be on the next Administration & Finance Committee for a vote.

**XI. CONFIRMATION OF NEXT MEETING**

Clark stated that the next meeting of the committee is scheduled for Thursday, November 14, 2013 at 9:30 a.m. at the IRMA office.

**XII. ADJOURNMENT**

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

Submitted by:

Accepted by:

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Rita Boserup  
Director of Financial Services & Administration

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David Clark  
Chair, Administration & Finance Committee