AD HOC COMMITTEE ON MEMBER RETENTION

Committee Meeting Minutes

Wednesday, August 11, 2010
IRMA Office
10:00 a.m.

PRESENT:	Art Malinowski, Chair	Ingrid Velkme
	Mary Hatton	DeSha Kalmar
	Greg Van Dahm	Scott Coren
	Curt Barrett	Phil DePaolo
	Diane McNulty	Don Lay
ALSO PRESENT:	Larry Bush	Laura Vesecky
	Mary Henzler	Dan LeTourneau
	Jackie Streid	Doug Nishimura
	Richard Frese	
ABSENT:	Blaine Wing	Doug Petroshius
	Ron Pfeiffer	Bruce Morris
	Maria Lasday	Tom Durkin
	Jennifer Milewski	

I. CALL TO ORDER

Chair Malinowski called the meeting to order at 10:05 a.m. Roll was taken and a quorum declared.

It was decided to discuss agenda items V through VIII prior to reviewing the results of the actuarial review.

V. QUICK GUIDE TO IRMA FOR PUBLIC OFFICIALS

Bush explained that the Quick Guide to IRMA for Public Officials was an existing document that staff has updated. Streid noted that it has been on the IRMA website. Hatton asked whether this was something that could be given out to explain what coverage is provided by IRMA. Bush noted that we actually have three different documents, this Guide for Public Officials, a piece for Employees and a marketing piece for non-members. Bush explained that because of the other two documents, we have not been using this document for public officials, but have resurrected it.

VI. LIQUIDATED DAMAGES CLAUSE

Bush explained that at a previous meeting, the committee discussed the possibility of adding a liquidated damage clause to the IRMA Contract and Bylaws, if a member breached the contract with regard to the one year notice of withdrawal. Bush stated that after reviewing all the laws, to try and make it enforceable it became so complicated that staff feels it is not worth it. We are still confident that our Bylaws are completely enforceable. If someone tries to leave without a one year notice, they are in breach of contract and we would pursue litigation if we thought we could win. What the exact damages would be would have to be worked out by the court. If we try to pre-determine damages with so many variables, we are afraid that the interpretation of the court would be that it is a penalty and not actual damages which makes it unenforceable.

Malinowski asked what the biggest hindrance was. Bush noted that perhaps the biggest hindrance is that we would have to have one set of rules that would apply to all members and there could be an argument that with a member who has had historically bad experience, the pool is not as damaged when they leave.

VII. POLICY REGARDING IRMA MEMBER ATTORNEYS

Bush explained that there has been discussion by this committee as well as by the Coverage, Claims & Litigation Committee that we only use our panel attorneys. There are circumstances where in using our panel attorneys that a member's corporate counsel has to spend a lot of time bringing our panel attorney up to speed, particularly in zoning type cases. While we don't want to change the basic nature of who is defending, we were asked to look into whether it is fair to make the member pay for bringing our panel attorney up to speed. Bush explained that one exception had been made and it was agreed that IRMA would pay up to 15 hours at IRMA's rate to bring our panel attorney up to speed on a particular case. The question is, where do we draw the line on paying for bringing our attorney up to date and what the member should be paying for? Bush explained that staff is planning to have a meeting with the members' general and labor counsel on October 11th and this will be discussed at the meeting. Following that meeting, proposed changes will be brought back to the Ad Hoc Committee, if it is still active, or to the Coverage, Claims & Litigation Committee.

VII. CLAIMS COMMUNICATIONS

Bush stated that there have been questions raised regarding claims communications at times when claims go into limbo for a while. There has been a request for some kind of a report that will keep the claims coordinators up to date without having to call. Staff is proposing generating a quarterly Member Open Claim Report similar to the report included in the meeting packet. Bush noted that in the last column of the report would be a current status on the claim. Bush noted that we need to have a new field added to our claims system. The committee agreed that they liked the report.

IV. RESULTS OF ACTUARIAL REVIEW – IRMA'S CONTRIBUTION FORMULAS

IRMA's actuary, Doug Nishimura, introduced himself and Richard Frese of Milliman, stating that they were at the meeting to discuss the actuarial analysis of the allocation system.

Bush commented that in regards to the proposed formula changes, we had talked about trying to implement something this year; however, he felt the implementation was more about getting approval this year, commenting that he didn't feel it was proper to make any changes to the formula for 2011. Bush indicated that he would still like to see the approval during this year, but we aren't talking about any changes to the contributions until 2012. Vesecky noted that things that don't affect the contribution could be implemented sooner.

Nishimura started out by stating that IRMA's allocation system is working. It may just need some modifications to make it work better. Nishimura commented that from the actuary's point of view, they just want to make sure that there is enough money to run off claims. How you allocate that, is entirely up to you.

Nishimura stated that they had reviewed nine issues:

1. Review of experience by size.
2. Review of the current cap of $50,000 for allocation.
3. Review of the credibility factor.
4. Review of the experience modifier as it relates to the deductible credit.
5. Review of the deductible credit.
6. Feasibility of an aggregate cap for individual members.
7. Feasibility of a $250,000 deductible.
8. Review of current allocation and alternatives.
9. Provide other thoughts/comments on IRMA's membership.

Nishimura stated that any allocation system should consider the following:

1. Loss Control Incentive – allocation should encourage loss control.
2. Stability – absent significant changes in exposure, allocation percentages should remain somewhat stable.
3. Equitable – the allocation should be fair to all members.
4. Understandable – be easy to understand and be accepted by members.

Nishimura stated that IRMA's current loss fund allocation is based on:

1. A $50,000 per claim cap.
2. Full credibility standard is based on the revenue of the largest IRMA member.
3. Credibility for each member = (Revenue/Largest Member Revenue)^.5
4. The minimum and maximum credibility is 0 and 80% respectively.
5. Five years of losses are used as a base.
6. Five years of revenue are used as exposure base.
7. No cap is set on the change in contribution from year to year.

Review of Experience by Size

Nishimura reported that the first thing they did was to look at the revenue experience by size. They performed regression analysis on this. What regression does is compare the relationship between variables. Nishimura explained that they looked at the data unbucketed versus bucketed. They first did the regression analysis based on each member having the same weight. The problem with that is that the smaller members have a lot of variability because they are just not credible. One way to eliminate that "noise" is to bucket members into groups. Nishimura stated that they did a second analysis putting members into different groups. We ran four different types of curves – a linear curve (shows that the relationship between revenue and losses goes up in a proportional manner), a logarithmic curve (shows that losses go up non-linearly), an expediential curve (shows that losses are increasing at an increasing rate), and a power curve (shows that losses are increasing but at a decreasing rate). If losses are linear that means that as size increases, losses increase and there is no relationship between size and revenue. But if it is not linear, as with a power curve, then it means that losses are plateauing and there is a relationship between size and losses.

Nishimura reviewed the several graphs that were prepared for the committee. In regards to the relationship between member revenue size and losses, Nishimura stated that they concluded that member size (revenue) is not a significant factor in relative losses per member when measured across the full range of IRMA members.

Nishimura stated that they evaluated loss ratios by size and based on their tests, they concluded that across the full range of member sizes, the allocation methodology does not favor large or small members. However, the average loss ratio for the smallest revenue group was higher than the average IRMA loss ratio and the average loss ratio for the largest group was lower. All other groups did not show a relationship between loss ratio and revenue size.

Hatton asked how many members were in each bucket. Frese indicated that they included all historical IRMA members. The largest bucket #1 contained about 7-8 members. The same is true of buckets #2 - #6. Buckets # 7 and #8 each contain about 15 members apiece. Hatton asked how many in bucket #1 are no longer members of IRMA? Frese stated that Palatine and Highland Park are included in bucket #1. Hatton asked if the numbers would significantly change if those two were removed from the analysis. Frese answered that the loss ratio is still the same.

Review of the Current Cap of $50,000 for Allocation

Nishimura reported that they checked to see if there is a correlation between size and loss ratio based on the cap, and they didn't find any correlation at that number. This implies that the $50,000 cap is appropriate by size. Nishimura stated that they then tested it at different level -- $75,000, $100,000, etc. There was no increase in the correlation, which implies that the cap is appropriate; you could increase it slightly, and it wouldn't make a difference. Nishimura stated that they would recommend that you increase it slightly just for inflation. Inflation will eventually catch up, although it hasn't yet. Nishimura noted that they would recommend that it be moved up to $75,000 because that is what the trend factor is over the years.

Vesecky clarified that this cap is what we count in the experience modifier. Hatton asked how long the cap has been at $50,000. Vesecky stated that it has been at $50,000 for about 3-4 years. Vesecky noted that this is one item that wouldn't be implemented until 2012, and by that time it would be 4-5 years.

Frese stated that one of the other options that they did look at was the sliding scale. This is actually splitting the losses by a layer. If you have losses over $75,000, then the member themselves would keep a certain percentage. Nishimura explained that they have done this in other pools and they really like it. What happens is that as a loss gets bigger and bigger, it gets pooled more and more. The percentage that you choose is up to you. Nishimura noted that they would talk about this later in the presentation. Hatton noted that if we were going to go to something like this it would be important to show what the actual history would be; i.e., your 2009 contribution was this; if we had these changes in place, your 2010 contribution would be "x." Vesecky pointed out that page 24 of 26 of Milliman's report showed this.

Review of the Credibility Factor

Nishimura commented that the way IRMA calculates its credibility factor, there is a significant change each time in the experience modifier. The experience modifier varies from -44% to 103%. However, because of the way the system works on the averages, your contribution hasn't changed that much. Even though the experience modifier goes up and down based on the credibility factor, when you apply that to the contributions, the historical contributions have not changed that significantly. The credibility factor is being applied to the experience modifier, but is really not affecting the overall contribution. There is stability based on the contributions, but not in the experience modifier. For that reason, you may want to think about changing the credibility factor so the experience modifier doesn't change that much. However, if this is not an issue, then don't worry about. Vesecky added that we are between 0 and 80%, so if we increased it to 100%, at the top end we would get more volatility and if we decreased it lower, we would get less volatility, but less equity too.

Nishimura stated that one way to reduce volatility is to apply a higher credibility base. This would reduce the credibility on the experience modifier. Another way would be to cap the rate change. It was suggested that it could be a cap at both ends – small and large.

A third way to reduce volatility is to change the formula for partial credibility.

Review of Experience Modifier As It Relates to the Deductible Credit

Nishimura noted that members are questioning the application of the deductible credit after the application of the experience modifier. Nishimura explained that if a member has poor experience, the experience modifier will result in an increased application. The deductible credit, in turn, will be applied to a higher contribution resulting in a higher deductible credit. Nishimura commented that this is not an incorrect application of the formula, as the deductible credit is higher because the expected losses (prior to the deductible) are higher.

Review of the Deductible Credit

Nishimura reported that they reviewed the deductible credits and the assumption is that the IRMA group is homogeneous. If the members are not homogeneous, then IRMA would need to adapt its rating plan. Nishimura stated that the deductible credits are based on credible data and are appropriate at this time.

Feasibility of an Aggregate Cap for Individual Members

Nishimura stated that they looked at an aggregate cap per member to see if that is feasible. Nishimura noted that they used IRMA's history to project that and then used some fancy statistics. Typically, an annual aggregate per member should be set so it is not hit. Nishimura stated that, minimally, they recommend the 75^{th} percentile. What that says is that one out of every four years, it is going to go over the aggregate. The 90^{th} percentile says that one out of ten years will go over the aggregate. Nishimura stated that they recommend minimally the 75^{th} percentile, but you probably want to go to the 90^{th} percentile.

Vesecky noted that this came up at an earlier meeting of the Ad Hoc Committee, when someone said they would have been interested in increasing their deductible, but they and their board were concerned about the unlimited nature of that. So we brought up setting an aggregate cap.

Nishimura pointed out that Frese had set up a chart to give examples, based on bucket size, of where a member's aggregate cap could be set at the 75^{th} percentile and at the 90^{th} percentile base. For example, if you took a $25,000 deductible and you were in bucket #1, the annual aggregate at the 90^{th} percentile would be $415,000. Nishimura noted that Vesecky and Bush had asked if a member could pick their aggregate. Nishimura stated that he had never had a pool do that. This could create a systems nightmare and Nishimura stated that they wouldn't recommend it.

Nishimura stated that this needs further discussion. It is definitely feasible to do the annual aggregate; however, how to do it needs to be talked about.

Vesecky commented that if we were to pick a level, staff thought maybe at the $250,000 level because that would be something new. Also, some of the members who have left IRMA have gone to that level. Vesecky asked the committee what they thought a lower level should be – $25,000, $50,000. Kalmar stated she thought $100,000 - $150,000. Vesecky stated that for the pool in general, should we be offering aggregates for members who want to take a $25,000 deductible, a $50,000. The idea is to offer a few aggregates. The committee discussed this and decided that maybe at the lower level it should be $25,000. Nishimura noted that they could run some scenarios to help with this decision. Vesecky noted that maybe we could offer the aggregate cap at $25,000, $100,000 or $150,000 and then at $250,000.

Feasibility of $250,000 deductible

Nishimura reported that they also looked at the feasibility of higher limits per claim. They looked at taking a deductible up to $250,000 per claim. Nishimura reported that only 1% of the IRMA claims are over $250,000. What that does is diminishes the pooling effect across membership. Nishimura commented that it's not necessarily a bad thing, but what the pool wants to do. If you take this to the extreme and everyone goes to a higher deductible, the pool becomes an excess pool rather than a working layer pool. Nishimura noted that the report included a table showing what the rate credits would be up to $250,000.

Review of Current Allocation and Alternatives

Nishimura stated that IRMA uses five years of losses and five years of revenue and those are reasonable and there is no reason to change that now. Nishimura stated that the one thing you may want to consider is putting caps on changes. Right now, there are no caps and common caps on changes are 10% to 25%. If you implement changes, you probably don't want your contribution jumping around like crazy and the easiest solution is to put some caps on it.

Nishimura reviewed some alternative allocation methods that could enhance IRMA's objectives. One method would be to add a system of schedule credits/debits. Nishimura explained that IRMA's system right now is based on revenue. You could use other factors such as payroll, auto, etc. This would be in addition to what you use right now. Vesecky noted that we have already looked at this and have decided that revenue base is as good as anything. Nishimura stated that you could also give credits for risk management as well as give credit for years in the IRMA program.

Nishimura stated that another method would be to use the quota share system. This is a sliding scale where the losses being pooled get more pooled the bigger the loss is. Nishimura commented that it would be good to think about because then there is an incentive for controlling the big losses. It's one way where you don't have a set deductible, but an automatic change based on the size of the loss. Nishimura noted that page 11 of the report gave an example of this sliding scale based on IRMA's historical loss distribution.

Frese noted that Vesecky had distributed a report to the membership showing members what they would have paid if they chose a certain deductible. Frese indicated that he performed this exercise applying the bucketed groups. Frese reported that what they found was that for the higher deductibles, if a $250,000 would have been available, for bucket #1—the larger members would have had a savings on average of $70,000 per member.

Bush commented that one of the reasons he wanted to bring this up was that when we had a consultant look at this several years ago, one of the solutions to correct the disparity for large members was the large deductible. At the time, they suggested that if that was available and taken, it would correct the disparity for large members. This is showing that it would have.

LeTourneau noted that when members go out for commercial insurance, they are quoting on these larger deductibles. Malinowski commented that the aggregate cap would encourage members to go for the larger deductibles.

Frese noted that the other thing that they looked at was whether they would be able to offer some kind of credit based upon member size. Frese stated that they looked at how the loss ratios varied by bucket. From there they created some surcharges as well as some discounts that could be offered based on the relativity of that loss ratio. Nishimura stated that they tried to just surcharge the high and low group, but that created too much of a pain on the small group. It comes out 5% for the big group and 2% for the low side and an average of about 4%. It was determined that with this scenario there is an anomaly in the small bucket group. The average shows a surcharge, but there are many small members with good loss experience that would be surcharged. A second scenario was developed, where a 2% credit was given to the large members and the rest of the pool would need to be raised by .006%. This is less than 1%. Vesecky noted that staff had looked at what everyone would have to pay if the largest members left and that came out to 6%.

Bush commented that when Towers Perrin did their study several years ago, size credits was one of the things that they recommended, but it didn't go anywhere at that time. Bush noted that this is an alternative to the sliding scale. In the sliding scale, the good thing is that the very smallest member is helped by that, too. The sliding scale allocates more to each members, so if you are doing better, you are going to get the benefit. Bush stated that he didn't know whether it would make sense to do both the sliding scale and the sized credits. Nishimura commented that you could do both.

Nishimura stated in conclusion that as shown on all of their correlation tests; frequency, losses and loss costs do not statistically vary be a member's size when evaluated over the full range of member sizes, but do statistically vary when analyzed in revenue groups. The variation is due primarily to the very large and very small member's experience departing from the IRMA average. Again, the allocation system is good. It may need some tweaking at the high and the low.

Malinowski commented that the high and low is actually what this committee was charged with looking at.

Vesecky asked everyone to look at the first page of the memo and discuss what if any changes we are interested in. Are we interested in the sliding scale? Are we interested in size credits? Vesecky commented that she thought everyone was interested in the aggregate credits and adding a higher deductible.

Vesecky stated that the current cap is $50,000. Do we want to raise it to $75,000 in two more years just to keep up with inflation? Hatton objected that she didn't feel that going up $25,000 in four years was the actual rate of inflation. Vesecky commented that maybe we raise it to $60,000 or $65,000 and approve that we will raise it again in three years – phasing it in. Hatton noted that she wouldn't be opposed to $75,000 as long as it wasn't justified that it is because of inflation, since it will only have been six years since we set it at $25,000. Hatton noted that if there is a guarantee that this will stay at $75,000 for another ten years and not go up again, she would be for it. Vesecky stated that this could be part of the motion that it would stay at $75,000 until a certain date and then it will be looked at again. Nishimura commented that the net results are minimal, so if the pool wants to leave it at $50,000 that would be okay.

Vesecky stated that we also have the sliding scale and the sized credits that will affect individual contributions. Bush questioned whether we needed to decide on anything now or bring it all to the whole membership at the forum. Bush stated that what the committee should decide on is what should be brought to the forum. Bush commented that in his mind the size surcharge and putting all the benefit to the large members on the small members is not worth bringing forward. It would be better to just present Scenario 2 that would credit the large group and surcharge across all other members.

Velkme asked Nishimura whether he would be at the forum to present his report. Nishimura stated that he would be there.

Bush asked whether the sliding scale should be presented at the forum. Nishimura noted that he thought the apprehension was that members don't know how it will affect them. Vesecky pointed out that there was a chart in his packet that outlined that. Vesecky asked whether Nishimura could run the sliding scale with caps. Nishimura noted that at this time, he felt that the only cap for allocation that should be presented is the $75,000.

Nishimura stated that they could run different sliding scales and show how they would affect the individual members. Vesecky stated that staff would talk to Nishimura about coming up with a few different aggregates.

It was decided that Nishimura would streamline their report and put together something to present at the forum.

III. SPECIAL DISTRICTS' VOTING

Bush reported that the Executive Board discussed the Ad Hoc Committee's recommendation on Special District Voting at their June 14th meeting. There was opposition to the concept of allowing special districts to continue with full voting with new members past a certain percentage having no vote. Bush noted that he spoke to several delegates of many of the IRMA special districts to obtain their view of this issue. There was only one special district that stated they would most likely leave IRMA if they didn't have a vote. Bush pointed out that in some instances the small member's contribution was over 4% of their budget, which is much larger than a lot of the IRMA larger members that are raising the issue. Bush noted that there was a very negative feeling among the special districts about not having a vote on issues like the budget.

Malinowski stated that inherently he felt that all current members should have some kind of vote.

Hatton and Velkme stated that they felt each member should have a vote. Velkme pointed out that we have very specific guidelines for bringing in special districts.

Malinowski noted that maybe we should put a cap on the number of special districts allowed in the pool, so as to not change the homogeneous makeup of the pool. Vesecky noted that right now we are at about 10%. Maybe we should move to a cap of 15%. Bush explained that there was a misconception regarding the vote on zoning several years ago that even he had before he checked the roll calls and found out that the zoning vote was not that close of a vote.

Vesecky noted that if the committee still wanted to present their initial recommendation of limiting the special districts to 15%, they could still go with that even though the Executive Board disagreed.

The committee also discussed the special districts getting a percentage of a vote. The committee didn't think this was a good idea.

Velkme noted that the Board votes on accepting a special district into the pool. There is already a cap in place in that IRMA decides each and every time a special district applies for membership whether they would be a good member. Malinowski commented that maybe this is all the checks and balances we need. Bush noted that there are different criteria for special districts. Maybe ~~neing~~being consistent with the nature of IRMA as a municipal pool is a criterion that would be addressed when a special district applies for membership.

Malinowski summed up that the committee would like to focus on the initial point of intake of a special district's application and the analysis that goes into their actual membership.

II. APPROVAL OF MEETING MINUTES OF MAY 24, 2010

A motion was made by Lay and seconded by McNulty to approve the meeting minutes of May 24, 2010. A voice vote was taken and the motion carried.

IX. ADDITIONS TO THE AGENDA

Bush reminded everyone of the forum being held on August 24th, and noted that not everyone on the committee had registered. Bush stated that he was somewhat disappointed with the response and indicated that he would be sending out an agenda to the membership to try to increase the attendance at the forum. Bush stated that Milliman's report would be sent out to the membership prior to the forum on the 24th. Malinowski stated that it should be stressed that if the Delegate and/or Alternate are not the Finance Director, a member may want to encourage their Finance Director to attend.

X. CONFIRMATION OF NEXT MEETING

None.

XI. ADJOURNMENT

A motion was made by McNulty and seconded by Van Dahm to adjourn the meeting. A voice vote was taken and the motion carried.

Submitted by:	Approved by:
Larry Bush, Executive Board	Art Malinowski, Chair Ad Hoc Committee on Member Retention