



**AD HOC COMMITTEE ON MEMBER RETENTION**  
**Committee Meeting Minutes**

**Monday, May 24, 2010**  
**IRMA Office**  
**10:00 a.m.**

**PRESENT:** Art Malinowski, Chair  
Doug Petroschius  
Maria Lasday  
Jennifer Milewski  
Donald Lay  
Scott Coren  
Ingrid Velkme  
Tom Durkin  
Diane McNulty

**ALSO PRESENT:** Larry Bush  
Mary Henzler  
Susan Garvey  
Laura Vesecky  
Dan LeTourneau  
Jackie Streid

**ABSENT:** Mary Hatton  
Greg Van Dahm  
Ron Pfeiffer  
Curt Barrett  
DeSha Kalmar  
Blaine Wing  
Bruce Morris  
Phil DePaolo

**I. CALL TO ORDER**

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

**II. APPROVAL OF MEETING MINUTES**

A motion was made by Lay and seconded by Velkme to approve the Ad Hoc Committee on Member Retention Meeting Minutes of May 10, 2010. A voice vote was taken and the motion carried.

**III. GENERAL**

Malinowski stated that before discussing the items under this agenda topic, he wanted to address item D – Committee Focus and Desired Outcomes. Malinowski noted that after the last meeting where the majority of the meeting was taken up by Peter Wright, he wanted to take a step back and discuss with the committee what the focus and desired outcomes of the committee are. Malinowski commented that what we want to accomplish is subject to the discussion of this group. There isn't a pre-determined focus or outcomes. The broad brush is member retention and it is up to this committee to determine how best to address member retention.

Malinowski stated that we would start with the contribution formulas that will aid us in understanding how we determine the premium and then he wanted to discuss the focus and desired outcomes of the committee.

Bush stated that he thought it is a good idea to talk about the focus and outcomes; however, he wanted to provide some background information to help with that. Bush also suggested that agenda item B-Towers Perrin Study should be moved after the discussion on the committee focus and outcomes. Items A & C are historical information that might help with discussing the focus and desired outcomes.

## **A. IRMA's Contribution Formula**

Bush reviewed the handout material that was distributed to the committee.

IRMA Funding Requirement – points out that the lion's share of the cost of IRMA is the loss fund. This is the fund out of which we pay all of our claims.

IRMA Losses – based on the 2010 actuarial study, shows where expenditures are occurring. Workers' compensation claims are over 60% of total cost.

2003-2007 Average Loss Ratio by Revenue Group – History of the claims to contribution over the past five years.

Loss Fund – Determined by the actuary and based on three areas: Loss triangles and loss development (past loss history of entire membership); Trends (severity and frequency, industry and IRMA); and Exposure (rate determined from past losses and trend is applied to projected year exposure base).

Exposure base has minimal impact on total IRMA contribution - the only impact of exposure base upon the loss fund is increase expected in projection year. Bush explained that if payroll increased 4% from 2009 to 2010, and revenues rose 5% from 2009 to 2010, the 2010 loss fund for WC would be 1% higher in 2010 using revenue base compared to payroll.

Contribution formulas have no impact upon the loss fund – contribution formulas are used only to allocate funding requirements between members. For every dollar removed from the contribution of a member, a dollar is added to another member's contribution.

Change Funding Requirements – lowering the total amount collected for the loss fund requires reducing coverage or altering actuarial assumptions and approach (i.e. discounted vs. undiscounted reserves; loss pick). Bush noted that the actuary will be attending the upcoming Administration & Finance Committee meeting and will be discussing the pick that we will be using. Bush asked that since the Administration & Finance Committee is looking at this, does the Ad Hoc Committee also want to look at this.

Also, correcting any inequities in the distribution of costs among members requires altering contribution formulas. When you get down to the individual member where revenue base is not the greatest predictor on an individual basis, it's the experience modifier formulas that are used to try and correct that. This is also one of the areas that we can look at and possibly tweak.

Malinowski asked what would be the alternative to the experience modifier. Vesecky stated that you want to do some kind of modifier. In past studies, on an individual basis, the actuary has come back and stated that revenue is about as good as payroll because the experience modifier does work. There are a couple of components that may be limiting. One is the credibility factor that says that small members are not very credible as far as being predictive. We could increase that and give more credibility to small members. This would benefit small members who have good loss experience, but hurt small members with adverse claims experience.

Lasday asked for an explanation of credibility. Vesecky stated that credibility determines how much of a member's loss experience we use. For instance, in Bannockburn, we might use only 20% of their loss experience. You may have very good loss experience, but we are only going to use 20%. Buffalo Grove gets 80% of their loss experience. It's the law of large numbers. We could look at increasing the minimum.

Vesecky also noted that another thing we don't do in our formula is take any consideration for claims over \$50,000. Maybe we want to put another component in the formula for this. If you are a community who has a lot of \$50,000 workers' compensation claims, as was the situation in Palatine, you will not have a very favorable experience modifier. Palatine had practically nothing in the top layer, so they did not get any recognition for that.

Vesecky noted that the experience modifier is supposed to be predictive. It's not to penalize a member for their past history, but based on past history it is supposed to be predictive of future losses, so a larger member's past history is more predictive.

Bush stated that he wasn't going to go over the Revenue Base Bylaw on page 13 of the packet, but commented on exclusion viii of the Bylaw. This refers to members who contract for services. In many cases, right now there is no credit given if a member contracts something out. What is credited is if there is a fee collected (not a tax), such as with refuse collection, and a member contracts out and is being indemnified, it can be deducted from the revenue base. However, if it is a tax, even if that member contracts with a hauler, it is not deducted.

Vesecky stated that this was brought up at the last member retention ad hoc committee and revenue base was discussed. An example of the problem is one member who pays for their garbage hauling half through fees and half through taxes. They can only deduct the half raised through fees. At the time, the committee said that if you open it up to anything, there is going to be all sorts of things that are going to come into play that could be potential deductions. Lasday noted that the Administration and Finance Committee looked at this intensely last year and decided against it. There are too many variables and every community would have something to throw in. Bush noted that the consensus on this issue is that it isn't right, but there really is no effective way to correct it.

Bush mentioned that one of the solutions that came up about five years ago was the optional deductibles. Unfortunately, they haven't been taken as much as we expected. One great idea that came out of this committee at their first meeting was looking at a stop loss. Bush noted that he has talked to several members about optional deductibles, and even though they understand it and they really want to do it, the fact that it is unlimited risk has stopped them from doing it. What if they have a really horrible year the next year and their losses could be completely through the roof? This affects everyone – the smaller member and the larger member can take a larger deductible.

Bush noted that in the deductible credits procedure, it is multiplied times the experience modifier, which means that if you have a favorable experience modifier, your credit is actually reduced. If you have a bad experience modifier, your credit is actually larger. This also needs to be looked at. Bush stated that this is where we really need an actuary, because if we change these things they may have an impact you can't logically deduce, so you have to run all the numbers. That's why we thought we could have the actuary run the numbers. Bush stated that we really want to help the members who are

overpaying and if they get more credit for the deductible, that's another way of doing that.

Vesecky pointed out that with the credibility factor it is a zero sum game. If a Bannockburn gets more credibility and they pay less, another member will be paying more. It all has to even out in the end.

Vesecky commented that there are about twenty members who have taken a higher deductible. Right now no one is at \$100,000 and a few members are at \$50,000. Most of those taking the higher deductible are at \$10,000. Lasday commented that Bannockburn would have taken a \$100,000 deductible this year if there had been a stop loss. Malinowski commented that he really did like the idea of a stop loss and thought that this might get a lot of people off the fence in taking a higher deductible. Lasday noted that we have to make sure having a stop loss doesn't put the pool under too much risk. Bush stated that is why we would have the actuary look at it.

### **C. Summary of Withdrawn IRMA Members' Exit Interviews**

Bush reviewed the summary of exit interviews of the withdrawn members. Bush commented that for a pool that has been in existence since 1979 and has had up to 77 members, this is a remarkably small list of withdrawn members. We work with both Towers Perrin and Milliman and they have both stated that IRMA is one of the most stable pools in the entire country that they have ever worked with.

In going through the reasons for withdrawal, a number of members mention control. A few of these situations involved personalities who had disputes with IRMA.

Malinowski explained that control is a recurring theme, particular when it comes to counsel for zoning issues. Malinowski indicated that this is something he would like to discuss because it does have a lot to do with member retention and recruitment as well. It is a fine line, because you do lose some of your autonomy when you join a pool. If you want a complete say in the way you do things, then stay on your own.

Vesecky also noted that some of the smaller members that left didn't want to have to implement loss control procedures. As a pool, do we want them if they are not practicing good risk management?

Lasday noted that there is going to be a real problem come 2012 when grants start being counted as revenue. Bush stated that this, again, is where the formulas come in.

Bush commented that he was hoping that out of today's meeting we would be able to come up with the issues to be focused on and identify what information we need. Bush stated that as far as needing a contract to get some of this started, he felt some hesitation from the committee here. However, approving contracts is not the focus of this committee, so if there is information needed through contracting, we need to take that recommendation to the Executive Board, which does authorize contracts. Bush commented that as far as using an actuary, Milliman is our actuary who was selected through a RFP process. There are certain things that we would like our actuary to do, whether our actuary is PriceWaterhouse or Milliman, it would be appropriate for our actuary to do. This will be brought to the Executive Board for approval.

Bush stated that to do anything that would be effective in 2011, it would have to go to the October Board meeting. Because we like to present these types of things prior to voting on them at a board meeting, we are looking at holding some kind of a workshop in early September. This committee would have to meet before then, after we get back information from the actuary. Velkme asked whether there was a golf outing scheduled, noting that we used to hold informational forums before the golf portion of an outing. Bush noted that the golf outing is scheduled for August 24<sup>th</sup> and noted that this is something to consider.

Velkme noted that in getting back to the earlier discussion regarding loss prevention and risk management policies and procedures and members' reluctance in putting those in place, we need to put a much more positive spin on this. We have to market this. This is IRMA's forte' and we haven't done enough to promote this.

Malinowski agreed that it is more than what we pay for contribution that goes toward member retention. We should never lose sight of the value added through this organization and maybe temper that with education.

Malinowski noted that we have done a great job over the last year or so with the 2-page brochure that explains the value of IRMA and we need to keep revising this with "did you know...." Lasday stated that this needs to be geared toward the members' boards. Concentrate on putting down bullets – the top ten list of benefits of IRMA.

Vesecky asked the committee members how they distribute information such as the brochure that was developed. Is it put in as an agenda item and attached to their meeting packets? Lasday stated that she would rather have it in an email so she can cut and paste it into her manager's report that goes to her board. Lasday noted that from her standpoint, it would be nice to disseminate to her board some of the issues that this committee is discussing in bullet format. She felt that her board would be interested in knowing that we are discussing some of these issues.

Bush noted that in looking at the current 2-page brochure we have, there are probably other issues that are of more interest to trustees, such as IRMA's public officials' coverage vs. commercial insurance.

#### **D. Committee Focus and Desired Outcomes (Discussion)**

Velkme asked how many requests are made by members requesting to use their own attorneys. Is this a big issue? Garvey stated that it is not as big an issue as it was. Garvey noted that it's the same corporate counsels and law firms that do it. Bush stated that he didn't feel it was much of an issue with current members, but is an issue with prospective members. Bush also noted that with our current members there is more satisfaction with our attorneys. Bush commented that he had just received a letter from a non-IRMA attorney praising one of our attorneys.

Bush noted that the problem with using non-IRMA attorneys is that we don't want to turn the pool funds over to a non-pool attorney. There are circumstances where our members are not too happy about that even if they accept it, especially in zoning cases or land use cases, where there is a lot of information that their corporate counsel has. Right now, the member has to pay for that attorney's cooperation. Bush stated that we could consider paying for, at IRMA's rates, corporate counsel's work providing information to and working with our attorneys.

Bush stated that we just made an exception in a case where we paid a member's counsel at IRMA's rate, capped at 15 hours, to provide information to our attorney on the case. Bush stated that this is something to possibly look at.

Bush recapped the items under focus and desired outcomes that had been discussed to this point:

- Looking at stop loss
- Reviewing the deductible credits
- Looking at component above \$50,000
- Establishing a minimum credibility
- Marketing materials

Lay asked whether we have a problem with member retention. Bush noted that we have had some larger members leave. Bush stated that it sounds like we are focusing on the larger members, but we want to keep every single member. Bush stated that staff did an analysis over the last five years and if the three smallest members had left, the contribution of the other members would have gone up one quarter of one percent. If the three largest members had left, the average increase for all the members would have been 6%. Even the smallest member would have gone up 6%. Bush stated that it's the largest members that have the options. Lay asked whether members realized that. Bush stated that he didn't know.

Bush stated that it goes the other way, if we could bring in three or four large members, everyone's rate would go down.

Lay asked whether IRMA does any marketing. Bush indicated that we do, but the same issues brought up by Lake Forest are being brought up by prospective large members.

Lasday asked whether the pool would be able to pay its expenses if a lot of members start taking a \$100,000 deductible because there is a stop loss. Bush noted that we would have to look at this very carefully.

Vesecky stated that when we calculate the credits, the calculation is just off the loss fund. We are collecting the full amount for excess insurance and administrative expenses, so really the discount is just off the loss fund. We back into it to give you a credit off of your whole contribution, but it is just off the loss fund.

Velkme mentioned that this committee was formed at the suggestion of the Executive Board because last year we heard from quite a few communities that were starting to look at other options from IRMA.

Bush commented that nothing would do more to reassure members than if the Administration & Finance Committee meets in a few weeks and decided to accept a 5% rate reduction as the actuarial projection.

Malinowski stated that this all goes back to the earlier discussion about information on IRMA getting to our elected officials and staff. When competition comes knocking on your door, be aware of all the great things that IRMA does for you. We need to keep information on IRMA updated. It does not necessarily have to be three pages, but a few bullets that are kept in front of the elected officials and staff.

Lay agreed that that is where IRMA's benefits come into it. Every board member today is going to be looking at the budget. It is a serious problem in today's economy and board members are looking at everything to cut whatever they can. Why not compare and give a benefit analysis to the IRMA members for that purpose.

Lay asked whether IRMA has ever done a cost comparison between an IRMA member and commercial insurance. Bush stated that we have done this several times, including two years ago. Malinowski stated that this may not be a bad idea to take a small, mid-size and large member and do this. LeTourneau stated that if we are going to make any changes, we should probably wait and do it after next year.

## **V. GOVERNANCE**

Bush noted that the items under this agenda item were discussed at the first committee meeting.

### **A. Limit on Special District Voting**

Bush stated that he didn't know whether there was a consensus on this from the discussion at the first meeting. Bush noted that we expect more requests from special districts in the near future. We know that dispatching and fire departments are talking about consolidating services. There has been concern raised as to whether we are a municipal pool or not. There was discussion last time about limiting special districts to 10% of the membership.

The committee discussed several alternatives including having a shared vote with the special district's sponsoring member; having a representative vote of all special districts; or limiting the special districts to 10% of the membership.

Lay asked whether IRMA markets to special districts. Bush noted that IRMA does not market to them; however, special districts have been brought in as a favor to municipalities who utilize services from these districts and wanted them to be able to share in the benefits of IRMA.

Coren asked where the 10% number came from and whether there was some significance to keeping it at 10%. Bush noted that it was just a number that came up and there was no significance in it.

Lay asked whether it would be okay to increase the percentage to 15% and if it becomes a problem we could revisit it. Bush noted that in the suggested revision to the Membership Guidelines, we could change the 10% to 15%. Bush also suggested that we define special districts in the bylaw.

A motion was made by Lay and seconded by Coren to limit special districts voting members to 15% of IRMA. After that is reached, special districts could be accepted without a vote. A voice vote was taken and the motion carried.

The committee also discussed that even though a special district wasn't in the 15% of voting members, they were still obligated to attend the Board meetings.

### **B. Proxy or Second Alternate**

The committee had discussed at their initial meeting allowing a member to have a second alternate. Another option is to allow for a proxy to attend a specific meeting and vote for the member when the delegate and alternate were unable to attend. This would enable a member to exercise their right to participate in the governance of the pool, without expanding the number of delegates/alternates that represent the member at Board members.

The committee discussed this and a motion was made by Malinowski and seconded by Lasday to recommend proxy voting for a specific Board of Directors meeting that will count toward participation as well. A voice vote was taken and the motion carried.

Bush noted that staff will have to develop a bylaw revision for a vote.

**C. Materials for Members' Governing Boards Summarizing Benefits of IRMA**

Bush noted that this item was discussed earlier in the meeting and consensus was that we need to develop something a little more member trustee oriented. Petroschius stated that he felt it would help to have a simple bulleted list of the different services. Maybe this could be added to the bottom of the marketing piece in the packet. LeTourneau noted that we do have a listing of IRMA coverages in table form on the website and maybe this could be reduced and sent out as a public officials' newsletter.

**VI. ADDITIONS TO AGENDA**

None.

**VII. CONFIRMATION OF NEXT MEETING**

Bush noted that we will have to bring the actuarial contract to the Executive Board for approval and then allow time for the actuarial review to take place. It would be at least the end of July or early August before we have anything to bring back to the committee. Bush noted that staff would be in touch with the committee regarding the date of the next meeting. If we are planning on having a presentation before the golf outing on August 24<sup>th</sup>, the committee will need to meet no later than early August.

**VIII. ADJOURNMENT**

A motion was made by Lasday and seconded by Coren to adjourn the meeting. A voice vote was taken and the motion carried.

Submitted by:

Approved by:

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Larry Bush, Executive Director

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Art Malinowski, Chair  
Ad Hoc Committee on Member Retention